US$15,000,000,000
Programme for the Issuance of Loan Participation Notes
to be issued by, but with limited recourse to,
RSHB CAPITAL S.A.
for the purpose of financing loans to
Russian Agricultural Bank

Under the Programme for the Issuance of Loan Participation Notes (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), RSHB Capital S.A. (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Loan Participation Notes (the "**Notes**") on the terms set out herein and in the final terms (each such final terms, "**Final Terms**") setting out the specific terms of each issue. Notes will be issued in Series (as defined under "*Overview of the Programme*") and the sole purpose of issuing each Series will be to finance either a senior loan (a "**Senior Loan**") or a subordinated loan (a "**Subordinated Loan**" and together with a Senior Loan, the "**Loans**" and each a "**Loan**") to Russian Agricultural Bank ("**RAB**") as borrower, on the terms of either: (i) in relation to a Senior Loan, an amended and restated facility agreement between the Issuer and RAB dated 11 May 2012 (the "**Facility Agreement**"), as amended and supplemented by a loan supplement (each a "**Loan Supplement**" and, together with the Facility Agreement, the "**Senior Loan Agreement**") to be entered into in respect of each Senior Loan on each Trade Date or Issue Date (each as defined in the amended and restated Principal Trust Deed dated 11 May 2012 (the "**Principal Trust Deed**") between the Issuer and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**"); or (ii) in relation to a Subordinated Loan, a subordinated loan agreement between the Issuer and RAB, to be entered into on each Trade Date or Issue Date of the relevant series, as the case may be (the "**Subordinated Loan Agreement**"). In this Base Prospectus, "**Loan Agreement**" shall mean either (i) a Senior Loan Agreement (in respect of a Senior Loan) or (ii) a Subordinated Loan Agreement (in respect of a Subordinated Loan), as applicable. The relevant Final Terms in respect of the issue of any Series of Notes will specify whether a Loan being financed by such Series of Notes is a Senior Loan (such Series of Notes being a "**Senior Series**") or a Subordinated Loan (such Series of Notes being a "**Subordinated Series**"). Subject as provided in the Trust Deed, the Issuer will (a) charge, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed, certain of its rights and interests under the relevant Loan Agreement and the relevant Account (as defined in the relevant Loan Supplement), and (b) assign, in favour of the Trustee, certain of its other rights under the relevant Loan Agreement but excluding any Reserved Rights (as defined in the Terms and Conditions of the Notes), in each case for the benefit of the holders of the corresponding Series of Notes (the "**Noteholders**"), all as more fully described under "*Overview of the Programme*".

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of a Series of Notes, the obligation of the Issuer to make any such payment constitutes 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 such Series of Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received from RAB by or for the account of the Issuer pursuant to the relevant Loan Agreement. The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely on the credit and financial standing of RAB in respect of the payment obligations of the Issuer under the Notes**.

Each Loan will rank *pari passu* in right of payment with RAB's other outstanding unsecured and unsubordinated indebtedness. Other than as described in this Base Prospectus and the Trust Deed, the Noteholders have no proprietary or other direct interest in the Issuer's rights under or in respect of the relevant Loan Agreement or the relevant Loan. Subject to the terms of the Trust Deed, no Noteholder will have any rights to enforce any of the provisions in the relevant Loan Agreement or have direct recourse to RAB except through action by the Trustee.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "*RISK FACTORS*" BEGINNING ON PAGE 27 BEFORE INVESTING.

THE NOTES AND THE CORRESPONDING LOANS HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")) AND NOTES IN BEARER FORM ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE NOTES MAY BE OFFERED AND SOLD (A) IN BEARER FORM OR REGISTERED FORM OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN RELIANCE ON REGULATION S AND (B) IN REGISTERED FORM. THE NOTES MAY BE OFFERED AND SOLD (I) WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS ("QIBS"), AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"), THAT ARE ALSO QUALIFIED PURCHASERS ("QPS"), AS DEFINED IN SECTION 2(A)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT") IN RELIANCE ON THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144A (THE "RULE 144A NOTES") AND (II) TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S (THE "REGULATION S NOTES"). THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE RULE 144A 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 FURTHER RESTRICTIONS, SEE "*SUBSCRIPTION AND SALE*" AND "*TRANSFER RESTRICTIONS*".

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

The Notes may be issued in bearer form ("**Bearer Notes**") or registered form ("**Registered Notes**"). Each Series of Bearer Notes will initially be in the form of either a temporary global note (each a "**Temporary Global Note**") or a permanent global note (each a "**Permanent Global Note**" and, together with the Temporary Global Notes, the "**Bearer Global Notes**"), in each case as specified in the relevant Final Terms. Each Bearer Global Note will be deposited on or around the relevant issue date with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Notes in definitive form ("**Definitive Notes**"). If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have interest coupons attached and, if appropriate, a talon for further interest coupons. Regulation S Notes which are sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by interests in a global unrestricted Note in registered form (each a "**Regulation S Global Note Certificate**"), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg on its Issue Date. Beneficial interests in a Regulation S Note, as represented by the Regulation S Global Note Certificate, will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes of each Series sold to QIBs that are also QPs, as referred to in, and subject to the transfer restrictions described in, "*Subscription and Sale*" and "*Transfer Restrictions*", will initially be represented by a global restricted Note in registered form (each a "**Rule 144A Global Note Certificate**" and together with any Regulation S Global Note Certificates, the "**Global Note Certificates**"), without interest coupons, which will be deposited with a custodian for, and registered in the name of Cede & Co as nominee of, The Depository Trust Company ("**DTC**") on its Issue Date. Beneficial interests in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Summary of the Provisions Relating to the Notes in Global Form*". Individual note certificates ("**Individual Note Certificates**") in registered form will only be available in certain limited circumstances as described herein.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations.

Arranger

J.P. Morgan

Permanent Dealers

Citigroup **J.P. Morgan** **VTB Capital**

The date of this Base Prospectus is 11 May 2012

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and for the purpose of giving information with regard to the Issuer, RAB and RAB and its subsidiaries and associates taken as a whole (the "**RAB Group**") which, according to the particular nature of the Issuer, RAB, the RAB Group, the Notes and the Loans, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses or prospects of the Issuer, RAB and the RAB Group.

Each of the Issuer and RAB accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of each of the Issuer and RAB (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

RAB's legal name is Russian Agricultural Bank, and its registered address is 3 Gagarinsky Lane, 119034 Moscow, Russian Federation. The phone number of RAB is +7 (495) 363 0653.

The Issuer's legal name is RSHB Capital S.A. and the Issuer is registered with the Register of Commerce and Companies of Luxembourg under number B.111.968, and its registered office is 46 A, Avenue J.F. Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg. The Issuer may be reached by telephone at +352 42 71 71 1.

Each of RAB and the Issuer has derived certain information in this Base Prospectus, including certain information concerning the Russian banking market and its competitors which in each case may include estimates or approximations, from publicly available information, including industry publications, market research, press releases, filings under various securities laws and official data published by certain Russian Government agencies, such as the Central Bank of the Russian Federation (the "**CBR**") and the Russian Committee for State Statistics. Each of RAB and the Issuer has accurately reproduced such information. As far as each of RAB and the Issuer is aware, no facts have been omitted that would render the reproduced information inaccurate or misleading. However, RAB and the Issuer have relied on the accuracy of such information without carrying out an independent verification and do not accept responsibility for the accuracy of such information. The official data published by Russian federal, regional and local governments may be substantially less complete or researched than data published by governmental agencies of member countries of the Organisation for Economic Co-Operation and Development (the "**OECD**"). Official statistics may also be compiled on different bases than those used in the OECD countries. Any discussion of matters relating to the Russian Federation in this Base Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. See "*Risk Factors — Economic Risks — RAB has not independently verified official data from Russian Government agencies, nor has it independently verified information regarding the banking sector*".

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

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

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

No person is authorised to provide any information or make any representation not contained in this Base Prospectus and any information or representation not contained in this Base Prospectus must not be relied upon as having been authorised by or on behalf of the Issuer, RAB, the RAB Group, the Trustee (as defined under "*Overview of the Programme*"), any of the Dealers or the Arranger. The delivery of this

Base Prospectus at any time does not imply that the information contained in it is correct as at any time subsequent to its date. The websites of RAB and its subsidiaries and associates do not form any part of the contents of this Base Prospectus.

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

None of the Issuer, RAB, the RAB Group, the Trustee, the Dealers, the Arranger or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

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

This Base Prospectus may only be provided to persons in the United Kingdom in circumstances where Section 21(1) of the Financial Services and Markets Act 2000 does not apply to RAB and the Issuer. Accordingly, this Base Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), (iii) high net worth entities, and other persons falling within Article 49(2)(a) to (d) of the Order, and (iv) persons to whom it may otherwise be lawfully distributed in accordance with 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 Base Prospectus or any of its contents.

The language of this Base Prospectus is English. Certain legislation 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.

The price and amount of Notes to be issued under the Programme will be determined by the Issuer, RAB and the relevant Dealer at the time of issue in accordance with prevailing market conditions. The Notes will be in denominations, for Rule 144A Notes, of at least US$200,000 (or the equivalent in other currencies) and integral multiples of US$1,000 (or the equivalent in other currencies) in excess thereof, and for Regulation S Notes, of at least €100,000 (or the equivalent in other currencies) and integral multiples of €1,000 (or the equivalent in other currencies) in excess thereof, save that unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise would constitute a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies).

This Base Prospectus contains ratings of RAB, as well as ratings of securities or issuers of securities held by RAB, that are provided by rating agencies. 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 agency. 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 Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council dated 16 September 2009 on credit rating agencies (as amended) (the "**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Fitch Ratings CIS Limited ("**Fitch**") is a credit rating agency established in the European Community and is registered under the CRA Regulation. Each of Moody's Investors Service, Inc. ("**Moody's**") and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**") is a credit rating agency established outside the European Community and is not registered under the CRA Regulation. The ratings issued by Moody's and S&P are endorsed in accordance with the CRA regulation by Moody's Investors Service Ltd. and Standard & Poor's Credit Market Services Europe Limited, respectively, each of which is established in the European Union and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs).

In connection with the issue of any Series of Notes, the Dealer or Dealers, if any, named as the stabilising manager(s) (the "Stabilising Manager(s)") in the relevant Final Terms (or persons acting on behalf of any Stabilising Manager(s)) 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(s) (or persons acting on behalf of a 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 a Series of 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 such Series of Notes and 60 days after the date of allotment of such Series of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager (or person(s) acting on behalf of any Stabilising Manager) in accordance with all applicable laws and rules.

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

EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN ANY NOTES ISSUED UNDER THIS PROGRAMME FROM TIME TO TIME MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF RAB AND THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

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

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE 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 OF NEW HAMPSHIRE 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 A 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.

ADDITIONAL INFORMATION

Neither the Issuer nor RAB is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**"). For so long as either the Issuer or RAB is not a reporting company under Section 13 or 15(d) of the Exchange Act, or exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Issuer or RAB, as the case may be, will, upon request, furnish to each holder or beneficial owner of Notes that are "restricted securities" (within the meaning of Rule 144(a)(3) under the Securities Act) and to each prospective purchaser thereof designated by such holder or beneficial owner upon request of such holder, beneficial owner or prospective purchaser, in connection with a transfer or proposed transfer of any such Notes pursuant to Rule 144A under the Securities Act or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

CONTENTS

Page

ENFORCEABILITY OF JUDGMENTS ... 2
SUPPLEMENTAL PROSPECTUS ... 4
PRESENTATION OF FINANCIAL AND OTHER INFORMATION ... 5
FORWARD LOOKING STATEMENTS ... 9
SUMMARY OF THE RAB GROUP ... 11
OVERVIEW OF THE PROGRAMME ... 17
RISK FACTORS ... 26
USE OF PROCEEDS ... 61
CAPITALISATION OF THE RAB GROUP ... 62
SELECTED CONSOLIDATED FINANCIAL INFORMATION ... 63
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ... 66
BUSINESS ... 116
ASSET, LIABILITY AND RISK MANAGEMENT ... 136
MANAGEMENT ... 157
SHAREHOLDING ... 163
RELATED PARTY TRANSACTIONS ... 164
THE ISSUER ... 166
SENIOR FACILITY AGREEMENT ... 169
TERMS AND CONDITIONS OF THE NOTES ... 208
SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM ... 225
SUBSCRIPTION AND SALE ... 233
TAXATION ... 239
CERTAIN ERISA CONSIDERATIONS ... 253
TRANSFER RESTRICTIONS ... 255
FORM OF FINAL TERMS ... 259
GENERAL INFORMATION ... 267
INDEX TO FINANCIAL STATEMENTS ... F-1
APPENDIX A OVERVIEW OF THE RUSSIAN BANKING SECTOR AND REGULATION IN THE RUSSIAN FEDERATION ... A-1

ENFORCEABILITY OF JUDGMENTS

RAB is an open joint stock company incorporated under the laws of the Russian Federation and most of its assets and the assets of its subsidiaries and associates are currently located in the Russian Federation. In addition, all of RAB's directors and executive officers are residents of the Russian Federation. As a result, it may not be possible for Noteholders to:

- effect service of process within the United Kingdom or the United States upon any of the RAB's directors or executive officers named in this Base Prospectus; or

- enforce against RAB or any such persons judgments obtained in English or U.S. courts.

Foreign court judgments may be recognised and enforced by Russian courts only if (i) an international treaty providing for the recognition and enforcement of judgments in civil cases exists between Russia and the country where the judgment is rendered, and/or (ii) a federal law of Russia provides for the recognition and enforcement of foreign court judgments.

RAB is not aware of any treaty or convention directly providing for the recognition and enforcement of judgments in civil and commercial matters between most Western jurisdictions and the Russian Federation. However, RAB is also aware of at least two instances in which Russian courts have recognised and enforced foreign court judgments (including a judgment of an English court), on the basis of the principle of reciprocity and (in the case of enforcement of an English court judgment) and the existence of a number of bilateral and multilateral treaties to which both the United Kingdom and the Russian Federation are parties. The Russian courts decided that such treaties constituted grounds for the recognition and enforcement of the relevant English court judgment in Russia. In the absence of established court practice, however, it is difficult to predict whether a Russian court will be inclined in any particular instance to recognise and enforce an English or U.S. court judgment on these grounds.

The limitations described above, as well as the limited experience of Russian courts in enforcement of foreign judgments generally, may significantly delay the enforcement of such judgment, or completely deprive the claimant of effective legal recourse.

In September 2002, the new Arbitration Procedural Code of the Russian Federation entered into force, setting forth procedures for the recognition and enforcement of judgments and grounds for refusal of such recognition and enforcement in the event that such a treaty or federal law were adopted. However, Russian procedural law may change further, and other grounds for refusal of the recognition and enforcement of foreign court judgments could arise in the future. See "*Risk Factors — Risks Relating to the Programme, Notes and the Trading Market — Foreign judgments and arbitral awards may not be enforceable against RAB*".

The Facility Agreement will be governed by English law and will provide that all disputes, controversies and causes of action brought by any party thereto shall be settled by arbitration in accordance with the Rules of the LCIA (formerly the London Court of International Arbitration) although the Issuer has the right to have disputes settled in the courts of England. 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.

In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability to the process of enforcing any foreign court judgment or arbitral award in the Russian Federation. The possible need to re-litigate a judgment obtained in a foreign court on the merits may also significantly delay the enforcement of such judgment in the Russian Federation. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the LCIA and the application of English law to the Facility 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. See "*Risk Factors — Risks Relating to the Programme, Notes and the Trading Market — Foreign judgments and arbitral awards may not be enforceable against RAB*".

SUPPLEMENTAL PROSPECTUS

RAB will, in connection with the admission of the Notes to the Official List of the Irish Stock Exchange and to trading on the Market, and in accordance with Article 16 of the Prospectus Directive, in the event that, since the date of this Base Prospectus and prior to the final closing of the offer of any Notes or, as the case may be, the admission to trading of such Notes on the Market, there arises or is noted any significant new factor, material mistake or inaccuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of such Notes, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on the Market.

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

The Issuer and RAB may agree with any Dealer the form of any future Subordinated Loan Agreement, in which event a supplemental prospectus will be published for use in connection with any subsequent issue of any Subordinated Series to be listed on the Irish Stock Exchange.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The financial information set forth herein has, unless otherwise indicated, been derived, subject to rounding, from the audited consolidated financial statements of the RAB Group as of and for the year ended 31 December 2011 (the "**2011 Financial Statements**"), as of and for the year ended 31 December 2010 (the "**2010 Financial Statements**") and as of and for the year ended 31 December 2009 (the "**2009 Financial Statements**", together with the 2011 Financial Statements and 2010 Financial Statements, herein referred to as the "**RAB Group Financial Statements**"). The RAB Group Financial Statements have been prepared in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**").

The RAB Group Financial Statements, together with the related auditor's reports, are set out between pages F-2 and F-271 of this Base Prospectus.

The financial information in respect of the Issuer set forth herein has been derived from the Issuer's audited financial statements as of and for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, which have been prepared in accordance with IFRS (collectively, the "**Issuer Financial Statements**"). The Issuer Financial Statements shall be deemed to be incorporated in, and to form part of, this Base Prospectus and have been filed with the register of commerce and companies of Luxembourg on 11 May 2012.

Voluntary Changes in Presentation

The 2009 Financial Statements and 2010 Financial Statements presented in this Base Prospectus have not been adjusted to take into account the changes described below that were effected in 2011.

In order to present financial information as of and for the years ended 31 December 2009 and 31 December 2010 included in this Base Prospectus on a basis comparable with the financial information as of and for the year ended 31 December 2011, the balances and transactions as of and for the years ended 31 December 2009 and 2010 have been adjusted. Consequently, they are not directly comparable with the 2009 Financial Statements and the 2010 Financial Statements.

Change in classification of administrative and other operating expenses

In 2011, the RAB Group voluntarily changed the presentation of certain administrative and other operating expenses (staff costs, other costs of premises and equipment, communications and information services, payments to the Deposit Insurance Fund, and other) to provide more detailed financial disclosure.

Maturity analysis of undiscounted financial liabilities

In 2011, the RAB Group voluntarily changed the classification of off-balance sheet financial liabilities (guarantees issued, letters of credit, and other credit related commitments) within the maturity analysis of undiscounted financial liabilities to align the nature and contractual maturity of these liabilities. As a result, these liabilities were reclassified to demand and less than 30 days category.

Derivative Financial Instruments

In 2011, the RAB Group voluntarily changed the presentation of derivative financial instruments contractual maturity categories, as a result of the change in the method of calculation of the number of days until settlement date from "calendar" days to "working" days, in line with generally accepted business practice.

Restatement of Statutory Financial Statements

In 2012 RAB restated its financial statements prepared in accordance with RAS as of and for the year ended 31 December 2009 with regard to the 17.7 billion rouble provision for loan impairment. The adjustment related to loans granted to agricultural producers affected by the severe drought in 2009. Other than Note 34 in each of the 2009 and 2010 Financial Statements, the restatement does not affect any other disclosure in this Base Prospectus.

Other

The Russian rouble is the functional and reporting currency of the RAB Group.

In this Base Prospectus, unless otherwise specified herein, (i) references to the RAB Group's loan portfolio are references to the RAB Group's loans and advances to customers, which do not include interbank loans and off-balance sheet credit-related commitments, (ii) references to the RAB Group's gross loan portfolio and gross loans and advances to customers, respectively, are references to the RAB Group's loan portfolio and the RAB Group's loans and advances to customers, respectively, before provisions for loan impairment, (iii) references to the RAB Group's net loan portfolio and net loans and advances to customers, respectively, are references to the RAB Group's loan portfolio and the RAB Group's loans and advances to customers, respectively, after provisions for loan impairment and (iv) references to "**Eurobonds**" issued by RAB, the RAB Group or the Issuer are references to loan participation notes, issued by the Issuer, the proceeds of which were used to fund loans or subordinated debts to RAB.

Past Due Instalments

In this Base Prospectus, unless otherwise specified herein, the term past due instalments refers to individual instalments that are past due one day or more.

Current Portion of Past Due Loans

In this Base Prospectus, unless otherwise specified herein, the term current portion of past due loans refers to the outstanding portion of overdue loans that are not yet due.

Overdue Loans or Past Due Loans

In this Base Prospectus, unless otherwise specified herein, the term overdue loans or past due loans refers to any loan that is one day or more overdue, represented by the sum of past due instalments and current portion of past due loans.

Auditors

The RAB Group Financial Statements have been audited by ZAO PricewaterhouseCoopers Audit ("**PwC**"), of Butyrsky Val 10, Moscow 125047, Russian Federation, independent auditor as stated in their reports appearing herein. PwC is a member of the Audit Chamber of the Russian Federation ("*Auditorskaya Palata Rossii*").

The Issuer Financial Statements have been audited by L'Alliance Révision SARL, with its registered office at 1, rue des Glacis, L-1628 Luxembourg, Grand Duchy of Luxembourg and trade register number RCS Luxembourg B46 498, independent auditor. The Issuer's independent auditor is a member of the *Institut des Réviseurs d'Entreprises* and is *a cabinet de révision agree* that is subject to the supervision of the *Commission de Surveillance du Secteur Financier*.

Currency

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

- "**Russian roubles**" or "**roubles**" means the lawful currency of the Russian Federation;
- "**U.S. dollars**" or "**US$**" means the lawful currency of the United States;
- "**euro**" or "**€**" means the currency introduced at the start of the third stage of European economic and monetary union and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro;
- "**Swiss franc**" means the lawful currency of Switzerland; and
- "**£**" means the lawful currency of the United Kingdom.

Exchange Rates

The table below sets forth, for the periods indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rate between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

RAB prepares its consolidated financial statements in accordance with IFRS in Russian roubles. Solely for the convenience of the reader, certain of the RAB Group's consolidated historical financial information included in "*Selected Consolidated Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and elsewhere in this Base Prospectus has been translated from roubles into U.S. dollars at the rate of 32.20 roubles per U.S.$1.00, the official exchange rate as published by the CBR on 31 December 2011 (the "**Financial Information in U.S. dollars**"). The Financial Information in U.S. dollars is not presented in line with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, and has not been audited or reviewed. The reader should not rely on the Financial Information in U.S. dollars as being indicative of RAB's historical financial results, had RAB's reporting or functional currency been the U.S. dollar. The amounts translated in U.S. dollars should not be construed as representations that the rouble amounts have been or could be converted to U.S. dollars at that or any other rate.

	Rouble/U.S. dollar			
Year ended 31 December	**High**	**Low**	**Average**	**Period end**
2007	26.58	24.26	25.42	24.55
2008	29.38	23.13	24.87	29.38
2009	36.43	28.67	31.77	30.24
2010	31.78	28.93	30.38	30.48
2011	32.68	27.76	29.39	32.20
2012 (up to and including 5 May 2012)	31.93	28.95	29.87	29.59

Source: www.cbr.ru

The official rouble/U.S. dollar exchange rate quoted by the CBR on 31 December 2011 and 5 May 2012 was 32.20 roubles per US$1.00 and 29.59 roubles per US$1.00, respectively.

Rounding

Some numerical figures included in this Base Prospectus have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of one per cent.

Average Balances, Average Interest Rates and Effective Interest Rates

This Base Prospectus includes information on the average balances of interest-earning assets and interest-bearing liabilities of the RAB Group for the years ended 31 December 2009, 2010 and 2011 as well as the average rate of interest income or expense for such assets and liabilities. These average balances would likely be different if alternative or more frequent averaging methods were used and such differences could be material.

Prospective investors are cautioned that the average balances and related data presented in this Base Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions, including some banks in the Russian Federation, in connection with similar offers of securities. In particular, banks conducting a registered offering of securities in the United States are generally required to present average balances on the basis of daily data complied through the financial year, in accordance with Industry Guide 3, *Statistical disclosure by bank holding companies,* under the Securities Act. In comparison with banks using more frequent average methods, the average balances presented in this Base Prospectus are materially less likely to be indicative of RAB's actual volumes of assets and liabilities for any given day, and of its liquidity and overall financial condition through a financial year.

The average interest rates disclosed in this Base Prospectus are calculated by dividing aggregate interest income or expense for the relevant line item by the average balance for the same item for the applicable year. Average interest rates are distinct from the effective interest rates presented in the consolidated financial statements of the RAB Group. The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate. See "*Notes to the Consolidated Financial Statements — Summary of Significant Accounting Policies*" in the 2011 Financial Statements.

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

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

FORWARD LOOKING STATEMENTS

Certain statements in this Base Prospectus as well as written and oral statements that RAB and its officers make from time to time in reports, filings, news releases, conferences, telephone conferences, web postings or otherwise are not historical facts and constitute "forward-looking statements". Forward-looking statements are identified by words such as "believes", "anticipates", "expects", "estimates", "intends", "plans", "will", "may" and similar expressions, but these expressions are not the exclusive means of identifying such statements. Forward-looking statements appear, without limitation, under the headings "*Summary of the RAB Group*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Business*". RAB or the RAB Group may from time to time make written or oral forward-looking statements in reports to security holders and in other communications. Examples of such forward-looking statements include, but are not limited to:

- statements of RAB's or the RAB Group's plans, objectives or goals, including those related to its strategy, products or services;
- statements of future economic performance; and
- statements of assumptions underlying such statements.

Forward-looking statements that may be made by RAB or the RAB Group from time to time (but that are not included in this document) may also include projections or expectations of revenues, income (or loss), earnings (or loss) per share, dividends, capital structure or other financial items or ratios.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Prospective investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- inflation, interest rate and exchange rate fluctuations in Russia;
- the ability of the RAB Group to refinance its indebtedness on reasonable terms or at all;
- the levels of overdue loans and non-performing loans in the RAB Group's loan portfolio;
- the RAB Group's ability to maintain its collection rate on overdue loans;
- prices for securities issued by Russian entities;
- the health of the Russian economy, including the Russian banking sector and the Russian agricultural sector;
- the RAB Group's ability to maintain its liquidity levels;
- the effects of, and changes in, the policy of the federal government of Russia (the "**Russian Government**" or the "**Government**") and regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which the RAB Group conducts its operations;
- the effects of changes in laws, regulations, taxation or accounting standards or practices in the jurisdictions where the RAB Group conducts its operations;
- RAB's or the RAB Group's ability to increase market share for its products and services and control expenses;
- the success of the RAB Group's information technology upgrade;
- future changes in tariff rates;
- acquisitions or divestitures; and

- RAB's or the RAB Group's success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When considering forward-looking statements, prospective investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which RAB and the RAB Group operate. Such forward-looking statements speak only as of the date on which they are made, and are not subject to any continuing obligations under the listing guidelines of the Irish Stock Exchange. Accordingly, RAB and the RAB Group do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. RAB and the RAB Group do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

SUMMARY OF THE RAB GROUP

Russian Agricultural Bank, or RAB, is a state-owned bank organised as an open joint stock company under the laws of the Russian Federation. RAB provides a wide range of banking services mainly to small businesses and individuals operating in the Russian agricultural sector. According to Interfax Centre for Macroeconomic Analysis, a division of Interfax International Information Group, RAB was ranked as the fourth largest Russian bank in terms of total assets as of 1 April 2012. As of 1 April 2012, RAB's banking branch network consisted of the head office in Moscow, 78 regional branches and 1,518 additional offices throughout the Russian Federation.

Profit maximisation is not the only or even the most significant goal for RAB. RAB's business focus and strategic objectives are determined by its role as the principal financial agent of the Russian Government in the implementation of state credit and finance policy in the agricultural sector. See "— *Strategy*" below.

The RAB Group operates both as a commercial bank providing banking services to companies and individuals operating in the agricultural sector and as an agent of the Russian Government participating in the implementation of state programmes of support of the agricultural sector. RAB's principal activities are corporate and retail banking operations conducted in the Russian Federation, with an emphasis on lending to companies and individuals operating in the agricultural sector.

The RAB Group has prepared its consolidated financial statements in accordance with IFRS since 2001. As of 31 December 2011, the RAB Group had total assets of 1,284,426 million roubles. In the year ended 31 December 2011, the RAB Group generated net interest income of 53,615 million roubles and profit for the year of 58 million roubles.

The Federal Agency for State Property Management, formerly the Federal Agency for Federal Property Management ("**SPMA**"), which is the Russian federal government agency responsible for management of state property, holds 100 per cent. of the share capital of RAB.

RAB has been a member of the system of mandatory insurance of retail deposits in the Russian Federation since 14 March 2005.

RAB currently has a Baa1 long-term foreign currency deposits rating (outlook stable), Prime-2 short-term foreign currency deposits rating (outlook stable), and E+ financial strength rating (outlook stable) from Moody's and a national long-term rating of Aaa.ru, from Moody's Interfax Rating Agency (a Russian subsidiary of Moody's). RAB has long-term BBB (outlook stable), short-term F3, national long-term AAA (RUS) (outlook stable), 2 support and B+ viability ratings from Fitch. 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 agency. 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 Community and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Fitch is a credit rating agency established in the European Community and is registered under the CRA Regulation. Moody's is a credit rating agency established outside the European Community and is not registered under the CRA Regulation. The ratings issued by Moody's and Moody's Interfax Rating Agency are endorsed in accordance with the CRA regulation by Moody’s Investors Service Ltd., which is established in the European Union and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs).

RAB is recorded in the Unified State Registry of Legal Entities of the Russian Federation under the registration number 1027700342890. RAB's legal address is 3 Gagarinsky Lane, 119034 Moscow, Russian Federation, its principal office is located at 1 Arbat, 119019 Moscow, Russian Federation and its telephone number is + 7 (495) 662 1599. The current charter of RAB, as amended, was approved by SPMA's resolution on 2 December 2011.

Competitive Strengths

RAB believes that it has a number of competitive strengths, including:

State Ownership and Financial Support from the Russian Government

Since RAB's formation in 2000, the Russian Government has increased RAB's share capital 15 times to a total amount of 148,048 million roubles as of 31 December 2011. These equity contributions have enabled the RAB Group to increase rapidly the size of its loan portfolio despite RAB's relatively low level of profitability.

In addition to direct capital contributions, the Russian Government provides other forms of support to RAB, which were particularly important during the global financial crisis. As of 1 April 2012, the total limit for unsecured borrowings RAB had with the Ministry of Finance of the Russian Federation was 190.4 billion roubles. Such borrowings are provided on an auction basis. Moreover, the Russian Government adopted the Federal Law No. 173-FZ "On Supplementary Measures to Support the Financial System of the Russian Federation" (the "**Federal Law No. 173-FZ**") dated 13 October 2008, which allowed the Russian Government (through the state-owned Vnesheconombank) to make a subordinated debt to RAB in October 2008 in the amount of 25 billion roubles, which currently has a 6.5 per cent. interest rate and a maturity date in December 2019.

The Russian Government also provides critical support to the growth of the RAB Group's lending operations through its assistance to borrowers participating in subsidised lending programmes. Subsidised lending involves the compensation by federal authorities (frequently combined with additional compensation by regional authorities) of a portion of the interest expenses incurred by borrowers. The amount of the federal-level subsidy for corporate entities is limited to 80 per cent. of the refinancing rate of the CBR, which refinancing rate as of 1 April 2012 was 8.0 per cent., with a subsidy of up to 100 per cent. available for corporate entities involved in livestock and dairy industries. The amount of the federal-level subsidy for farmers and individuals involved in producing agricultural products on household land plots is currently 95 per cent. of the refinancing rate of the CBR. The loans may be further subsidised by regional authorities. RAB's management believes that the RAB Group's loans to borrowers who participate in these subsidised loan programmes permit the RAB Group to increase its loan portfolio and also to improve the quality of its loan portfolio, as punctual payments on subsidised loans are a condition to the compensation of the borrower's interest expenses by the federal authorities.

Although the Russian Government does not guarantee any obligations of RAB, management believes the RAB Group benefits from the perception of the Russian population that state-owned banks are more reliable than private banks. This belief is largely due, in management's view, to the consequences of the Russian financial crisis in 1998, in which many of the largest Russian private banks collapsed. During the recent global financial crisis, many privately-owned Russian banks experienced a large number of deposit withdrawals. RAB, however, was one of the very few Russian banks in which the aggregate balance of all customer accounts of individuals increased every month during 2009 when the Russian financial system was particularly adversely affected by the global financial crisis.

Expertise in Lending to the Agricultural Sector

RAB's credit policy provides that at least 70 per cent. of its loan portfolio must consist of loans to borrowers in the agricultural sector and related sub-sectors. RAB estimates that as of 31 December 2011, the share of loans to borrowers in the agricultural sector and related sub sectors stood at 75.9 per cent. of its total loan portfolio (based on statutory accounting records). This high degree of specialisation has enabled the RAB Group to develop considerable expertise in lending to agricultural producers, agricultural commodity traders, food processing enterprises and other companies that produce goods for, or provide services to, the agricultural sector. Many of its managers in regional branches and additional offices came to RAB with a background in agricultural lending and a network of relationships with local clients and were able to further develop their skills and strengthen their client relationships while working for RAB. RAB believes that the quality of its assets demonstrates the RAB Group's commitment to managing its credit risk effectively.

Relatively Low Level of Competition

The RAB Group operates in an environment in which there is relatively little competition from other banks. Profit margins achievable from operations in rural areas of the Russian Federation are generally much lower than from operations in urban areas. In addition, to be able to compete effectively with RAB everywhere in the Russian Federation, any competitor would have to create a very large network of regional and local offices to be able to reach the Russian rural population effectively, which RAB believes would be expensive given the relatively low profit margins from operations in such areas. Therefore, RAB believes the barriers to entry in this business are high. RAB's management believes that the only current significant competitor of RAB in lending to the Russian agricultural sector and related sub-sectors is state-owned savings bank Sberbank.

Wide Territorial Coverage

As of 1 April 2012, RAB had the second largest network of branches and offices in the Russian Federation with 78 regional branches and 1,518 additional offices located in substantially all of the federal districts of the Russian Federation, including all major agricultural regions. This territorial coverage allows RAB to maintain competitive levels of accessibility to its services for its target customers located in different regions of the Russian Federation. The size of the RAB Group's network, and the decision-making autonomy of its regional branches, which generated 94.5 per cent. of the RAB Group's loan portfolio that was outstanding as of 31 December 2011 (based on statutory accounting records) allows the RAB Group to maintain close relationships with its customers and therefore better understand their needs and address their concerns.

Network of Regional Branches and Additional Offices

RAB has developed its network of regional branches and additional offices with a view to providing banking services to small businesses and individuals operating in the agricultural sector across the Russian Federation. These include both regional branches offering a wide range of banking services, as well as additional offices, which offer a more limited range of banking services.

RAB currently plans to open approximately 27 additional offices and close 18 additional offices in 2012. See "*Risk Factors — Risks Related to RAB's Business and the Banking Sector — The RAB Group's loan portfolio and/or network of regional branches and additional offices may not continue to grow, or may grow more slowly, which may have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects*". The development of its network of regional branches and additional offices should allow RAB to increase further the volume of its operations by expanding its customer base in regions in which demand for banking services has been traditionally unsatisfied. RAB does not plan to significantly increase the volume of operations performed by its head office located in Moscow.

When RAB opens a new branch in a new region, RAB enters into cooperation agreements with regional governmental authorities. These agreements represent non-binding commitments of the relevant governmental authorities and RAB to co-operate with a view to providing affordable credit to borrowers operating in the agricultural sector and related sub-sectors, as well as to develop joint support programmes of the agricultural sector. As of 31 December 2011, RAB had such agreements with governmental authorities of 78 regions of the Russian Federation in which it conducts its operations.

In July 2007, the CBR granted RAB general banking licence No. 3349, which superseded the previously issued licences. In addition to the banking operations RAB had the right to perform under its previous licences, this general banking licence allows RAB to open offices outside Russia and purchase shares of foreign banks.

In March 2009, RAB opened a representative office in Minsk, the capital of the Republic of Belarus. The main purpose of this representative office is to facilitate business contacts established between Russian and Belarusian companies. This representative office is also expected to support RAB's initiatives in Belarus, including investment projects, the assistance of clients in Belarus, identification of partners for joint projects both in Belarus and in the Russian Federation and assistance with performance of obligations under bilateral and multilateral agreements to which RAB is a party.

In May and June 2009, RAB opened representative offices in Tajikistan and Kazakhstan, respectively. In March 2010, RAB opened a representative office in Azerbaijan. In March 2012, the Supervisory Board of RAB approved the opening of a representative office in Armenia.

Strategy

Profit maximisation is not the only or the most significant goal for RAB. RAB's business focus and strategic objectives are determined by its role as the principal financial agent of the Russian Government in the implementation of the Russian Government's credit and finance policy in the agricultural sector. RAB's principal goal is to increase the availability of affordable credit to companies and individuals operating in the agricultural sector and related sub-sectors in order to support the development of this sector of the Russian economy, which the Russian Government views as strategically significant. To achieve this goal, RAB plans in the medium term to maintain its position as one of the leading financial institutions in the Russian Federation as measured by both total assets and share capital, to expand its banking services to small businesses and individuals operating in the agricultural sector and related sub-sectors, to maintain an extensive network of regional branches and additional offices and to develop new products and lines of business tailored to the specific requirements of its target customers. At the same time, RAB intends to maintain prudent policies in respect of management of operational costs and continue to improve its risk management standards, allowing it to manage the development of its operations efficiently and without incurring undue risk.

Strengthen Market Position

RAB plans to strengthen its market position and increase its market share in agri-lending. RAB plans to achieve this by increasing lending to those sub-sectors of the Russian agricultural sector and regions in which the demand for banking products remains largely unsatisfied by using its extensive network of regional branches and additional offices, as well as by improving the quality of its banking services and broadening the range of products and services provided to its customers. In particular, RAB seeks to increase its share in the subsidised lending market, including subsidised lending to farmers and individuals involved in producing agricultural products on household land plots. RAB's management believes that more active participation in subsidised lending programmes will allow it to increase its loan portfolio and improve the quality of its assets. See "— *Principal Activities — Lending — Subsidised lending*". RAB also plans to participate in other state programmes that support the development of the agricultural sector, including increased lending to livestock and dairy industries and trade finance.

Implement Policies for Management of Growth of Operations

As part of RAB's strategy of implementing and maintaining prudent policies to efficiently manage the expansion of its operations, RAB plans to introduce more stringent controls over its costs. RAB also intends to continue to invest in its information technology systems to improve the effectiveness of its controls over existing operations and to support further growth of its network of additional offices and the introduction of additional products and new lines of business. See "— *Information Technology*". RAB also expects to improve existing and to launch new educational and training programmes for its employees to support the expansion of its operations. See "— *Employees*".

Develop New Products and Lines of Business

RAB plans to continue to develop new products and business lines tailored to the specific requirements of its target customers, including the following:

Lending to agricultural consumer and credit cooperatives

As part of its participation in the State Programme on Agribusiness Development, RAB plans to increase lending to existing and newly-created agricultural consumer and credit cooperatives. RAB believes that by increasing lending to agricultural consumer and credit cooperatives, it will improve the availability of affordable credit to small businesses and individuals operating in the agricultural sector and related sub-sectors. See "— *Principal Activities — Lending — State Programme on Agribusiness Development (formerly the AID National Project) — Lending to Agricultural Cooperatives*".

Lending secured by mortgages on agricultural land

Due to the limited market for agricultural land in the Russian Federation, lending secured by mortgages on agricultural land is relatively rare. However, as part of the State Programme on Agribusiness Development, RAB has started to offer loans to agricultural producers secured by their agricultural land. RAB has also conducted extensive analysis and prepared draft amendments to existing legislation aimed at facilitating the development of the agricultural land mortgage system. See "*— Principal Activities — Lending — State Programme on Agribusiness Development (formerly the AID National Project) — Mortgage Lending*". Due to the important role of RAB in the development of the agricultural land mortgage system, management believes this new line of business may become a significant part of RAB's loan portfolio in the future.

Developing retail deposit-taking operations

RAB entered the retail deposit-taking market in 2004. Because of the adverse impact of the turmoil in the global financial markets on many of its other sources of funding, RAB has made the development of this activity one of its priorities. Customer accounts of individuals increased from 81,347 million roubles as of 31 December 2009 to 127,691 million roubles as of 31 December 2010 and to 151,253 million roubles as of 31 December 2011. This high rate of growth was achieved, to a large extent, due to the state-owned status of RAB, which management believes benefits from the perception by the Russian population that state-owned banks are more reliable than private banks.

Issuing cards and related Internet services

In October 2007, RAB became a principal member of VISA™ International and, in March 2008, of MasterCard™ Europe. At the beginning of 2008, RAB started issuing its own debit cards and, from September 2008, it started issuing VISA™ branded debit cards and, from July 2009, RAB started issuing MasterCard™ branded debit cards. RAB started issuing its own credit cards from February 2009. With a view to providing high quality payment card services, RAB established a network of ATMs in its regional branches and additional offices, with 2,687 ATMs and 3,916 point-of-sale terminals installed as of 31 December 2011. RAB currently plans to increase the number of its ATMs by approximately 298 and the number of point-of-sale terminals by approximately 918 by the end of 2012. In addition, RAB is also considering cooperation agreements with some large Russian banks with developed ATM networks aimed at offering RAB's clients beneficial terms of service when performing transactions through ATMs of such banks.

In April 2009, RAB introduced the "Internet-office" service for its debit card customers. The service allows customers to receive monthly bank statements electronically, sign up for new services (such as SMS text notifications), make payments to providers of various services (such as mobile phones, Internet, cable television and security systems), and reduce or expand the geographic area in which payment cards can be used (for example in cases of foreign travel). In 2010, RAB extended the functionality of the Internet-office and customers can now perform most operations directly from their mobile phone via "Mobile Banking". Moreover, in 2010, RAB implemented the Verified by Visa certification program, which provides RAB's customers with the ability to make payments on the Internet safely.

Finally, in 2010, RAB received certification of its compliance with international standards of information security in the Payment Card Industry ("**PCI DSS**"). Demonstration of PCI DSS compliance creates an additional competitive advantage due to the positive assessment by international payment systems, and shows that RAB is working to minimize operational and reputational risks relating to the payment cards service.

Increased participation in financing of infrastructure development projects and other large-scale investment projects in rural areas of the Russian Federation

Russia's physical infrastructure is currently in very poor condition and largely dates back to Soviet times. Particularly affected are pipeline, rail and road networks, power generation and transmission systems and communication systems. The Russian Government has launched a number of infrastructure modernisation programmes, such as a large-scale reform of the electricity sector, and large capital investment will be needed to implement these programmes. RAB views existing and proposed infrastructure development projects as an opportunity to expand into a new area of business and intends to more actively participate in financing of those projects that affect rural areas of the Russian Federation.

The Russian Government also intends to implement other measures improving the quality of life of the Russian rural population such as, for instance, the development of social services and improving retail trade in rural areas. RAB currently expects to actively participate in financing of large-scale state programmes targeting the development of rural territories.

Development of Retail Business

In addition to its core business of lending to the Russian agricultural sector, the RAB Group has increased its focus on the development of retail business and fee and commission-based products and services.

As of 31 December 2011, the consumer loan portfolio amounted to 15.0 per cent. of the RAB Group's gross loan portfolio (before provision for loan impairment). The RAB Group's loans and advances to individuals before provision for loan impairment increased by 18,504 million roubles, or 27.8 per cent., to 85,031 million roubles as at 31 December 2010 from 66,527 million roubles as at 31 December 2009 and by 62,372 million roubles, or 73.4 per cent., to 147,403 million roubles as at 31 December 2011 from 85,031 million roubles as at 31 December 2010. RAB plans to increase the volumes of its consumer lending to individuals residing in small towns and rural areas who are involved in agricultural production by offering various types of consumer loans.

Total fee and commission income increased by 1,423 million roubles, or 41.7 per cent., to 4,834 million roubles in 2011 from 3,411 million roubles in 2010 as compared to 3,244 million roubles in 2009. The increase in 2011 compared to 2010, was primarily due to increases in commission on cash transactions and agency fees for sale of insurance contracts. See "— *Principal Activities — Lending — Consumer lending programmes*".

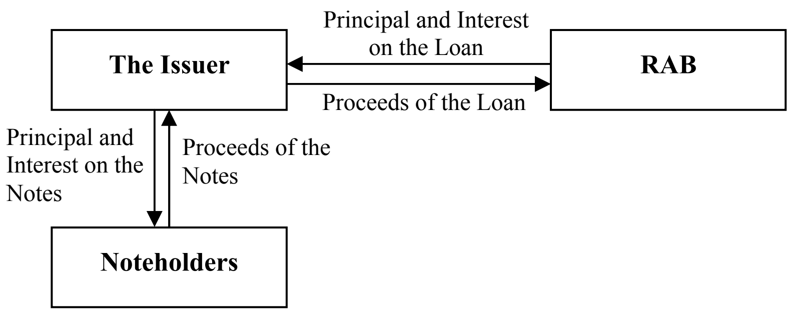
OVERVIEW OF THE PROGRAMME

The following overview contains basic information about the Notes and Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under "Terms and Conditions of the Notes" and "Senior Facility Agreement", as applicable, appearing elsewhere in this Base Prospectus.

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

RAB will be obliged to make payments under each Loan to the Issuer in accordance with the terms of the relevant Loan Agreement to the Account or as otherwise instructed following a Relevant Event (as defined in the Trust Deed). The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of any relevant Loan Agreement, unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to each Loan Agreement. Any material amendments, modifications, waivers or authorisations made with the Trustee's consent shall be notified to the Noteholders in accordance with, and as more fully described in, Condition 14 (*Notices*) in "*Terms and Conditions of the Notes*" and shall be binding on the Noteholders. Formal notice of the security interests created by any Trust Deed will be given to the Principal Paying Agent and Transfer Agent who will be required to acknowledge the same.

Each Series of Notes will be limited recourse obligations, and the Issuer will not have any obligation to the Noteholders other than the obligation to account to Noteholders for payments of principal, interest and additional amounts, if any, received by it or for its account under the relevant Loan. Set out below is a diagrammatic representation of the structure:



Notes to be issued under the Programme

Issuer	RSHB Capital S.A.
Borrower under the corresponding Loan	Russian Agricultural Bank.
Description	Programme for the issuance of loan participation notes pursuant to which the Issuer may issue Notes.
Programme Size	Up to US$15,000,000,000 (or its equivalent in other currencies at the Issue Date or Trade Date, as the case may be) aggregate principal amount of Notes outstanding at any one time. RAB may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein).
Arranger and Permanent Dealer	J.P. Morgan Securities Ltd.
Permanent Dealers	Citigroup Global Markets Limited and VTB Capital plc.
	Pursuant to the terms of the Dealer Agreement, the Issuer or RAB may from time to time terminate the appointment of any dealer under the Programme or appoint any additional dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to "**Permanent Dealers**" are to the entities listed above and to such additional entities that are appointed as dealers in respect of the Programme (and whose appointment has not been terminated) and to "**Dealers**" are to all Permanent Dealers and all entities appointed as dealers in respect of one or more Series of Notes.
Trustee	BNY Mellon Corporate Trustee Services Limited.
Principal Paying Agent and Transfer Agent	The Bank of New York Mellon, unless it is specified in the relevant Final Terms relating to a Series of Notes that another principal paying agent is appointed in respect of that Series. References in this Base Prospectus to "*Principal Paying Agent and Transfer Agent*" are to The Bank of New York Mellon or such alternative principal paying agent or agents, as the case may be.
Registrar	The Bank of New York Mellon (Luxembourg) S.A., unless it is specified in the relevant Final Terms relating to a Series of Notes that an alternative registrar is appointed in respect of that Series. References in this Base Prospectus to "**Registrar**" are to The Bank of New York Mellon (Luxembourg) S.A. or such alternative registrar, as the case may be.
Paying Agents	The Bank of New York Mellon (Luxembourg) S.A., The Bank of New York Mellon and The Bank of New York Mellon (Ireland) Limited unless it is specified in the relevant Final Terms relating to a Series of Notes that another paying agent or agents are appointed in respect of that Series. References in this Base Prospectus to "**Paying Agents**" are to The Bank of New York Mellon (Luxembourg) S.A., The Bank of New York Mellon and The Bank of New York Mellon (Ireland) Limited or such alternative paying agent or agents, as the case may be.
Transfer Agents	The Bank of New York Mellon (Luxembourg) S.A. or, in relation to Notes sold pursuant to Rule 144A, The Bank of New York Mellon, unless it is specified in the relevant Final Terms relating to a Series of Notes that another transfer agent or agents are appointed in respect of that Series. References in this Base

Prospectus to "**Transfer Agent**" are to The Bank of New York Mellon (Luxembourg) S.A. and The Bank of New York Mellon or such alternative transfer agent or agents, as the case may be.

Calculation Agent

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

Method of Issue

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

Issue Price of Notes

Notes will be issued at their principal amount or at a discount or premium to their principal amount as specified in the Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the Trade Date or Issue Date, as the case may be, in accordance with prevailing market conditions.

Status

Each Series of Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of such Series of Notes solely for financing the corresponding Loan and to account to the Noteholders of such Series for amounts equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to such Loan, all as more fully described in Condition 1 (*Status*) in "*Terms and Conditions of the Notes.*"

Security

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

- all of the Issuer's rights to principal, interest and other amounts paid and payable under the relevant Loan Agreement and its right to receive all sums paid and payable under any claim, award or judgment relating to such Loan Agreement (save for any Reserved Rights); and

- all the rights, title and interest in and to all sums of money held on deposit from time to time in an account specified in the relevant Final Terms, together with the debt represented thereby (including interest from time to time) pursuant to the Trust Deed.

Assignment of Rights

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

Limited Recourse

The Notes will constitute the obligation of the Issuer to apply an amount equal to the gross proceeds from the issue of the Notes solely for the purpose of financing the corresponding Loan to RAB pursuant to the terms of the Loan Agreement. The Issuer will only account to the holders of the Notes for all amounts equivalent to those (if any) received from RAB in respect of principal, interest or any additional amounts, if any, under the relevant Loan Agreement less amounts in respect of the Reserved Rights (as defined under "*Terms and Conditions of the Notes*").

Form

Notes may be issued in bearer form or in registered form. Bearer Notes will not be exchangeable for Registered Notes and Registered Notes will not be exchangeable for Bearer Notes. No single Series may comprise both Bearer Notes and Registered Notes.

Each Series of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Bearer Global Note will be deposited on or around the relevant issue date with a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. See "*Summary of the Provisions Relating to the Notes in Global Form*".

Regulation S Notes of each Series of Registered Notes will initially be represented by interests in a Regulation S Global Note Certificate, without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg on its Issue Date. Beneficial interests in a Regulation S Note, as represented by the Regulation S Global Note Certificate, will be shown on, and transfers thereof will be effected only through records maintained by, Euroclear or Clearstream, Luxembourg. Rule 144A Notes will initially be represented by a Rule 144A Global Note Certificate, without interest coupons, which will be deposited with a custodian for, and registered in the name of Cede & Co as nominee of, DTC on its Issue Date. Beneficial interests in a Rule 144A Note, as represented by one or more Rule 144A Global Note Certificates, will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Summary of the Provisions Relating to the Notes in Global Form*". Individual Note Certificates in registered form will only be available in certain limited circumstances as described herein.

Bearer Global Notes and Global Note Certificates (together, the "**Global Notes**") may also be deposited with any other clearing system or may be delivered outside any clearing system **provided that** the method of such delivery has been agreed in advance by the Issuer, RAB, the Principal Paying Agent, the Trustee and the relevant Dealer(s).

Currency Payments in respect of rouble-denominated Notes

If Condition 7(g) (*U.S. Dollar Payment Election*) is specified in the relevant Final Terms as being applicable, payments of principal and interest in respect of a rouble-denominated Rule 144A Global Note Certificate will be made, or procured to be made, by the Currency Agent in accordance with a supplemental paying agency agreement (i) in roubles, in the case of a DTC participant who has irrevocably elected to receive payments on the Notes in roubles and has so notified DTC on or prior to the time required by DTC for payments on the Notes to be made in roubles, by transfer of same day funds to the rouble bank account designated by such DTC participant, and (ii) in U.S. dollars, in the case of all other DTC participants, by the U.S. Paying Agent crediting the participant's U.S. dollar account at DTC with the participant's pro-rata portion of the U.S. dollars purchased with the applicable Rouble Amount (as defined in "*Summary of the Provisions Relating to the Notes in Global Form — Book Entry Ownership — Rouble-denominated Notes*") by the Currency Agent pursuant to a supplemental paying agency agreement. To the extent the Currency Agent receives notification from or on behalf of DTC participants of their election to receive roubles in accordance with the Conditions and the Rule 144A Global Note Certificate, the Currency Agent shall arrange for payment in accordance with the wire instructions received from such DTC participant.

Payments of principal and interest in respect of a rouble-denominated Regulation S Global Note Certificate will be made, or procured to be made, by the Currency Agent on the date on which a payment becomes due on the Notes in accordance with a supplemental paying agency agreement (i) in U.S. dollars, to the extent the Currency Agent receives notification from or on behalf of accountholders in Euroclear and/or Clearstream, Luxembourg of their irrevocable election to receive payment in U.S. dollars and (ii) for all other accountholders in Euroclear and/or Clearstream, Luxembourg, in roubles, in each case through the facilities of Euroclear and Clearstream, Luxembourg.

Noteholders whose interests in Notes are represented by Individual Note Certificates (as defined in "*Summary of the Provisions Relating to the Notes in Global Form — The Global Note Certificate*") shall receive all payments in roubles unless such Noteholders irrevocably elect to receive payments on the Notes in U.S. dollars in accordance with Condition 7.

Clearing Systems

The Depository Trust Company (in the case of Rule 144A Notes), Euroclear and Clearstream, Luxembourg (in the case of Bearer Notes or Regulation S Notes), or such other clearing system(s) as may be agreed between the Issuer, RAB, the Principal Paying Agent and Transfer Agent, the Trustee and the relevant Dealer(s).

Currencies

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

Maturities

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

Denomination

Notes will be in such denominations as may be specified in the relevant Final Terms, save that unless otherwise permitted by then current laws and regulations: (i) Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 will have a minimum denomination of £100,000 (or its equivalent in other currencies), (ii) Notes resold pursuant to Rule 144A will be issued in denominations of US$200,000 (or its equivalent in other currencies) and integral multiples of US$1,000 (or its equivalent in other currencies) in excess thereof and (iii) the minimum denomination of Regulation S Notes shall be €100,000 (or the equivalent in other currencies as at the issue date of the relevant Notes) and integral multiples of €1,000 in excess thereof (or the equivalent in other currencies).

Rate of Interest

The Notes may be issued on a fixed rate or floating rate basis.

Fixed Rate Notes

Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.

Floating Rate Notes

Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows:

(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc.; or

(ii) by reference to LIBOR, LIBID, LIMEAN or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.

Interest Periods and Interest Rates

The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.

Redemption

The relevant Final Terms will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).

Issuer's Restrictions and Covenants

So long as any Note remains outstanding, the Issuer will not, without the consent of the Trustee, *inter alia*, incur any other indebtedness for borrowed moneys (other than issuing any Series of Notes), engage in any business (other than transactions contemplated by this Base Prospectus), declare any dividends or have any subsidiaries or employees. See Condition 4 (*Restrictive Covenants*) in "*Terms and Conditions of the Notes.*" Furthermore, the Issuer will agree in the Trust Deed not to make or consent to any amendment or modification or waiver of, or authorise any breach or proposed breach of, any Loan Agreement unless the Trustee has given consent.

Redemption by the Issuer at the Option of RAB	The Issuer will redeem the Notes in whole, but not in part, at 100 per cent. of their aggregate principal amount plus accrued and unpaid interest and all additional amounts, if any, if RAB elects to repay any Loan in the event RAB is required to pay additional amounts on account of Russian or Luxembourg withholding taxes in respect of certain payments under the corresponding Loan or payments under the corresponding Notes or in the event that RAB is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the relevant Loan Agreement.
Optional Redemption by the Noteholders upon a Change of Control	Upon the occurrence of a Change of Control as defined in Condition 6 (*Redemption and Purchase*) in "*Terms and Conditions of the Notes*", the Notes may be redeemed at the option of a Noteholder, in whole or in part, at their principal amount, together with accrued interest, if any, all as more fully described in Condition 6 (Redemption and Purchase) in "*Terms and Conditions of the Notes.*"
Mandatory Redemption	In limited circumstances as more fully described in the relevant Loan Agreement, the Notes may be redeemed by the Issuer in whole, but not in part, on any Interest Payment Date in the case of Floating Rate Notes, or at any time, in the case of Fixed Rate Notes, upon giving notice to the Trustee, at the principal amount thereof, together with accrued and unpaid interest and all additional amounts, if any, to the date of redemption in the event that it becomes unlawful for (i) the Issuer to allow the relevant Notes to remain outstanding or (ii) the Issuer or RAB to allow the relevant Loan to remain outstanding under the Loan Agreement. In either case, the Loan would be required to be repaid in full.
Relevant Events	In the case of a Relevant Event (as defined in the Trust Deed), the Trustee may, subject as provided in the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.
Withholding Tax	All payments of principal and interest in respect of each Series of Notes will be made in full without set off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg, other than as required by law. If any such taxes, duties or other charges are payable, the sum payable by RAB to the Issuer will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding, had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from RAB.
Use of Proceeds of the Notes	The Issuer will apply the gross proceeds of the offering of each Series of Notes to fund the corresponding Loan to RAB.

Further Issues	The Issuer may from time to time issue further Notes of any Series on the same terms as existing Notes and such further Notes shall be consolidated and form a single Series with such existing Notes of the same Series. In the event of such further issuance, the relevant Loan will be correspondingly increased. See "*Taxation — Certain U.S. Federal Income Tax Considerations — Further Issues.*"
Listing	Application has been made to the Irish Stock Exchange for Notes issued under the Programme within 12 months of this Base Prospectus to be admitted to the Official List and trading on its regulated market, if specified in the relevant Final Terms. Notes issued under the Programme may also be listed on such other stock exchange as shall be specified in the relevant Final Terms or the Series of Notes may remain unlisted.
Governing Law	The Notes will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.
Selling Restrictions	No Notes have been, and no Series of Notes will be, registered under the Securities Act, and Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning ascribed to them by Regulation S under the Securities Act. The Notes may be sold in other jurisdictions (including the United Kingdom, Italy and the Grand Duchy of Luxembourg) only in compliance with applicable laws and regulations. See "*Subscription and Sale.*"
ERISA Considerations	A Series of Notes issued under the Programme may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is a Loan. Accordingly, the Notes may not be acquired by Benefit Plan Investors (as defined under "*Certain ERISA Considerations*" herein). Each purchaser and/or holder of Notes and each transferee thereof will be deemed to have made certain representations as to its status under ERISA. Potential purchasers should read the sections entitled "*Certain ERISA Considerations*" and "*Transfer Restrictions.*"

The Senior Loan corresponding to a Series of Notes

Lender	RSHB Capital S.A.
Borrower	Russian Agricultural Bank.
Security and Ranking	None of the Senior Loans will be secured by any collateral. Obligations under the Senior Loan will rank at least *pari passu* with all other unsecured and unsubordinated financial indebtedness of RAB.
Interest Payment Dates	Interest will be payable on a fixed or floating rate basis as specified in the relevant Loan Supplement.
Redemption at the Option of RAB	Each Senior Loan may be prepaid in whole, but not in part, at RAB's option on any Interest Payment Date in the case of Floating Rate Loans, or at any time, in the case of Fixed Rate Loans, at the principal amount thereof, together with accrued and unpaid interest and additional amounts, if any, to the date of repayment,

for certain tax reasons or by reason of certain increased costs.

Optional Redemption upon a Change of Control	Each Senior Loan may be required to be repaid in whole or in part by RAB upon the exercise of the Put Option upon a Change of Control as defined in Condition 6 (*Redemption and Purchase*) in "*Terms and Conditions of the Notes*" by any holder of Notes of a Senior Series at the principal amount of the Notes of such Senior Series so tendered, together with accrued and unpaid interest and additional amounts, if any.
Mandatory Repayments	In the event that it becomes unlawful for the Issuer to fund any Senior Loan or to allow such Senior Loan to remain outstanding under the relevant Senior Loan Agreement or to allow the corresponding Series of Notes of a Senior Series to remain outstanding, RAB may be required to repay such Senior Loan in full.
RAB Restrictions and Covenants	The Trustee will have the benefit of certain covenants made by RAB, including a negative pledge and restrictions on disposals, all as described in the relevant Loan Supplement.
Events of Default	In the case of an Event of Default (as defined in the relevant Loan Agreement), the Trustee may, subject as provided in the Trust Deed, require the Issuer to declare all amounts payable under the relevant Senior Loan Agreement by RAB to be due and payable.
Use of Proceeds of each Loan	RAB will apply an amount equal to the gross proceeds of each Senior Loan for general corporate purposes or as specified in the relevant Final Terms. In connection with the receipt of such Senior Loan, RAB will pay an arrangement fee, as reflected in the relevant Final Terms.
Withholding Tax	All payments of principal and interest under each Senior Loan will be made in full without set off or counterclaim and free and clear of and without deduction for or on account of all taxes which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by Luxembourg, other than as required by law. If any such taxes, duties or other charges are payable in respect of such Senior Loan, the sum payable by RAB under the Senior Loan will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Issuer receives the net sum which it would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made.
Governing Law	Each Senior Loan will be governed by English law.

The Subordinated Loan corresponding to a Series of Notes

Lender	RSHB Capital S.A.
Borrower	Russian Agricultural Bank.
Terms	The terms of any Subordinated Loan will be as set out in the relevant Subordinated Loan Agreement and as agreed with the CBR. A supplemental prospectus containing the form of the Subordinated Loan Agreement will, if required, be published for use in connection with any subsequent issue of any Subordinated Series to be listed on the Irish Stock Exchange.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Base Prospectus and, in particular, should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The risks highlighted below (individually or in aggregate) could have a material adverse effect on RAB, the Issuer and/or their respective business, financial condition, results of operations and prospects which, in turn, could have a material adverse effect on RAB's ability to service payment obligations under any Loan Agreement and, as a result, the Issuer's ability to pay amounts due on any Series of the Notes. In addition, the value of the Notes could decline due to any of these risks, and the Noteholders may lose some or all of their investment.

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

Risks Related to RAB's Business and the Banking Sector

The continuation of turmoil in global credit markets may continue to adversely affect RAB's business, financial condition, results of operations and prospects

Beginning in the summer of 2007 and continuing into 2009, the global economy experienced a significant downturn, the effects of which continued to some degree into 2010 and 2011. In response to the financial crisis affecting the global banking sector and financial markets and the threats to the ability of investment banks and other financial institutions to continue as going concerns, governments in the United States, in many of the largest countries in Europe and elsewhere implemented and continue to implement significant rescue packages, which include, among other things, the recapitalisation of banks through state purchases of common and preferred equity securities, the state guarantee of certain forms of bank debt, the purchase of distressed assets from banks and other financial institutions by the state and the provision of guarantees of distressed assets held by banks and other financial institutions by the state. Despite these actions, the volatility and market disruption in the global banking sector has continued to a degree unprecedented in recent history.

In 2010, concerns about sovereign debt, in particular sovereign debt of certain member states of the European Union, further disrupted the global credit markets and their adverse effect has continued to the present. On 29 March 2011, the rating agency S&P cut Greece's credit rating by two notches from BB+ to BB-, citing concerns the country may be forced to seek more bailout money, in addition to the €110 billion it received from the IMF and the EU in May 2010. This resulted in widening credit spreads, reduced liquidity and reduced access to funding in the global financial markets. A risk of contagious effects of the Greek sovereign debt crisis on other countries, in particular Spain, Portugal and Ireland, has intensified these adverse effects on the global financial markets. The European Central Bank and the IMF agreed on an emergency loan package that could reach €750 billion to prevent a sovereign debt crisis from spreading through the euro zone. In November 2010, Ireland agreed a €85 billion bailout, and in May 2011, Portugal agreed a €78 billion bailout with the European Union and the International Monetary Fund. In May 2011, Greece's credit rating was cut from BB- to B and after months of intense negotiations, in March 2012, Greece finally reached an agreement with private sector creditors to restructure €172 billion worth of Greek bonds. As a result of risk aversion by investors following these developments, demand for, and values of, securities of emerging markets issuers have decreased and may continue to further decrease in the future.

On 5 August 2011, S&P downgraded the United States' credit rating from AAA to AA+, with negative outlook, amid uncertainties regarding the country's fiscal policy and budget deficit reduction plan, which marks the first time a rating agency has downgraded the United States' credit rating.

Disruption in the global credit markets has had a negative impact on investor confidence and has negatively affected the interbank markets and debt issuance in terms of volume, maturity and credit spreads. Among the sectors of the global credit markets experiencing particular difficulty due to the impact of the global financial crisis are those associated with sub-prime mortgage-backed securities, asset-backed securities, collateralised debt obligations, leveraged finance and complex structured securities. Continued or intensified turmoil in global credit markets may adversely affect RAB's business, financial condition, results of operations and prospects.

No assurance can be given that a further economic downturn or financial crisis will not occur, or that the measures taken or that will be taken in the future to support the banking system and to overcome the crisis, will be sufficient to restore stability in the global banking sector and financial markets in the short term or beyond. Although RAB does not have exposure to Eurozone sovereign debt, it does rely on capital markets to fund its operations and loan growth, therefore 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, directly or indirectly, the business and economic condition and prospects of RAB's counterparties, customers or creditors.

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

In December 2008, due in large part to the impact of the global financial and economic downturn that began in the second half of 2008, the international credit rating agency S&P downgraded Russia's foreign currency sovereign credit rating from BBB+/A-2 to BBB/A-3. Moody's changed its outlook to stable from positive on Russia's key ratings in December 2008. In February 2009, Fitch downgraded its long-term sovereign rating for the Russian Federation from BBB+/A-2 to BBB/A-3, with negative outlook, stating that the lower ratings reflected risks associated with the sharp reversal in external portfolio and other investment flows, which increased the cost and difficulty of meeting the country's external financing needs. In January 2010 Fitch changed the outlook from negative to stable. In October 2011, Moody's, the international rating agency, adjusted its outlook for the Russian banking system from "stable" to "negative". The change reflected concerns that market volatility was weakening Russia's operating environment, which could negatively affect Russian banks through a system-wide liquidity contraction, slower credit growth and pressures on asset quality over the next 12 to 18 months. In January 2012, the World Bank cut its 2012 global economy growth forecast to 2.5 per cent. from 3.6 per cent., and the Russian economy growth forecast to 3.5 per cent. from 4.0 per cent., though the International Monetary Fund ("**IMF**") raised the Russian economy growth forecast back to 4.0 per cent. in April 2012. In January 2012, Fitch revised the outlook on the Russian Federation's Long-term foreign and local currency Issuer Default Ratings (each, individually, an "**IDR**") to stable from positive and affirmed the IDRs at BBB. The agency has also affirmed Russia's short-term IDR at F3 and country ceiling at BBB+. Fitch's revised outlook is based on perceived increased political uncertainty and global economic outlook. In March 2012, Fitch announced it may further lower the Russian sovereign credit rating if the Government does not restrict its budget policy and fails to limit expenditure. Though such rating actions did not prevent Russia from successfully placing US$7 billion in Eurobonds at the end of March 2012, there can be no assurance that a future economic crisis, will not have a negative effect on investors' confidence in the Russian Federation's markets or economy or the ability of Russian entities to raise capital in the international capital markets, any of which, in turn, could have a material adverse effect on the Russian Federation's economy and/or RAB's business, results of operations, financial condition and prospects.

According to the Russian Federal State Statistics Service's latest estimates, Russia's GDP decreased by 7.8 per cent. in 2009. This was the first year of negative GDP growth since 1998. Russia has also experienced a relatively high level of inflation and a large decrease in equity prices from the levels recorded in May 2008, although equity prices have increased from the low levels reached in the beginning of 2009. While Russia's GDP experienced positive growth of 4.3 per cent. in 2010 and 2011, there can be no assurance that GDP growth will continue. Furthermore, during the global financial and economic crisis that commenced in 2008, there were periodic suspensions of Russian stock market trading, extreme volatility in the Russian equity markets and sharp declines in the share prices of Russian financial institutions.

The disruptions in the global markets have had a severe impact on liquidity of Russian banks and other financial institutions, as well as the availability of credit and the terms and cost of funding in Russia. Russian banks, including RAB, have experienced a reduction in available financing both in the interbank and short-term funding market, as well as in the longer-term capital markets and through bank finance instruments. The Russian securitisation market has also been largely inaccessible as a result of the financial crisis. This unavailability of funding to the banking sector in the Russian Federation has negatively affected GDP growth in Russia.

Since October 2008, the Russian Government and the CBR have implemented measures intended to support the liquidity and solvency of Russian banks and to significantly increase the availability of credit to businesses, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. For a description of these measures, see "*Appendix A: Overview of the Russian Banking Sector and Regulation in the Russian Federation — Legislative Framework for the Russian Banking Sector — Measures to Support the Liquidity and Solvency of Russian Banks since October 2008*".

There can be no assurance that the measures taken by the Russian Government and the CBR will succeed in the future, and materially improve the liquidity position and financial condition of Russian banks at a time of a financial crisis. As a result of recent market conditions, accessing funding in the capital markets was more costly than in prior years. If RAB were unable to rely on the capital markets as a source of funding, or if less funding were available than anticipated, the size and nature of its operations could be adversely affected. If RAB's liquidity position deteriorates, this could have a material adverse effect on RAB's business, financial condition, results of operations and prospects.

In addition, a significant percentage of RAB's funding is obtained from the wholesale funding markets. If the market for wholesale funding deteriorates, as it has recently, this could negatively impact on RAB's financial condition and results of operations. Furthermore, according to the Bank for International Settlements, the Russian economy benefits from a significant amount of loans extended to it by international banks. Negative movements in international credit markets could adversely affect the availability of credit extended by such financial institutions to the Russian economy and Russian banks.

In addition, in 2009 the CBR increased on several occasions the reserve requirements for banks. See "*— Significant changes in Russian banking and financial regulation may adversely affect the RAB Group*".

In large part as a result of the impact of the global financial and economic crisis on the Russian economy, including the RAB Group's borrowers, as well as the impact of the drought emergency in the Russian Federation in 2009 and 2010 on the RAB Group's borrowers, the RAB Group's overdue loans and non-performing loans increased significantly in 2009 and 2010. The RAB Group's overdue loans and non-performing loans continued to increase in 2011 and 2012, and no assurance can be given that this trend will not continue in the future. Although RAB's provisions for loan impairment as at 31 December 2011 represented 106.1 per cent. of its non-performing loans, if the amount of the RAB Group's non-performing loans were to continue to increase significantly, and the RAB Group were no longer able to maintain reasonable provisions in response to any such increase, this could have a material adverse effect on RAB's business, financial condition, results of operation or prospects.

RAB could be adversely affected by the deterioration of the commercial soundness and/or the perceived soundness of other financial institutions, which could result in significant systemic liquidity problems, losses or defaults by other financial institutions and counterparties

Against the backdrop of the lack of liquidity and high cost of funds in the international and Russian domestic interbank lending markets, which is unprecedented in recent history, RAB is subject to the risk of deterioration of the commercial soundness and/or perceived soundness of other financial institutions within and outside Russia. Financial institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which RAB interacts on a daily basis, all of which could have an adverse effect on RAB.

RAB routinely executes a high volume of transactions with numerous counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other financial institutions. As a result, RAB is exposed to a significant counterparty risk, and this counterparty risk is heightened due to recent financial institutions failures and nationalisations. A default by, or concerns about the stability of, one or more financial institutions could lead to further significant systemic liquidity problems, or losses or defaults by other financial institutions, which could have a material adverse effect on RAB's business, financial condition, result of operations and prospects.

The quality of the RAB Group's loan portfolio may be adversely affected by weak economic conditions

RAB is subject to risks regarding the credit quality and recovery of loans and advances to, as well as amounts due from, customers and market counterparties. Changes in the credit quality of RAB's borrowers and counterparties, or in their behaviour, or arising from systemic risks in the Russian or global financial systems, could significantly reduce the value of RAB's assets and increase RAB's write-downs and provisions for impairment losses. Factors including increased unemployment in Russia, high inflation, reduced corporate liquidity and profitability and increased number of corporate and personal insolvencies may reduce RAB's customers' and market counterparties' ability to repay loans. In addition, changes in economic conditions may result in a deterioration in the value of security held against lending exposures and increase the risk of loss in the event of a default by borrowers or counterparties.

There can be no assurance that the RAB Group's risk management strategies will protect it from increased levels of overdue loans, particularly in light of the significant increase in RAB Group's loan portfolio (net of provision for loan impairment), with loans and advances to customers increasing by 31.2 per cent. in the year ended 31 December 2011 compared with the year ended 31 December 2010. Moreover, such strategies may not be effective when confronted with risks that the RAB Group did not identify or anticipate while its existing portfolio was being created. As of 31 December 2011, 15.9 per cent. (155,446 million roubles) of the RAB Group's gross loans and advances to customers were overdue, as compared to 14.6 per cent. (108,673 million roubles) as of 31 December 2010 and 6.9 per cent. (42,088 million roubles) as of 31 December 2009. Overdue loans represent not only past due payments but also the outstanding balance of such loans. Although the percentage of non-performing loans in the loan portfolio decreased in the periods under review, due to the growth of the overall loan portfolio, the nominal amount of such loans increased. Provision for loan impairment amounted to 7.7 per cent., 7.6 per cent. and 4.9 per cent. of the RAB Group's gross loans and advances to customers as of 31 December 2011, 31 December 2010 and 31 December 2009, respectively. The growth in provisions for loan impairment reflects significant increases in overdue loans and non-performing loans in 2010 and 2011, principally as a result of the adverse impact of the global financial and economic crisis, and in 2009 and 2010 the impact of the drought in the Russian Federation, on customers to whom the RAB Group had extended loans. If the recent economic downturn in the Russian Federation returns, characterised by a weakening of consumer spending, falling corporate profitability and increased insolvencies, RAB's loan portfolio could generate substantial increases in overdue and non-performing loans and RAB may be required to make greater provisions for loan impairment in respect of its loan portfolio, which could have a material adverse effect on RAB's business, financial condition, results of operations and prospects. See Note 12 to the 2010 Financial Statements and 2011 Financial Statements for loans and advances to customers detailed disclosures.

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

100 per cent. of RAB's share capital is owned by the Russian Government through the SPMA. The SPMA is therefore able to determine the outcome of all matters concerning RAB that may be decided by shareholders and can appoint and remove RAB's Supervisory Board which, in turn, appoints RAB's Management Board. The SPMA is a government agency responsible for the management of state property and holds the shareholdings of the Russian Government in legal entities. Under Russian legislation, the SPMA exercises rights pertaining to the Russian Government's shareholding in private entities in accordance with the Russian Government's policies. Accordingly, the SPMA could cause RAB to pursue transactions or to make large dividend payments or other distributions or payments to shareholders that are designed to implement the agricultural policy of the Russian Government rather than benefit RAB, even though such transactions may involve increased risk for RAB and, consequently, for the Noteholders. Historically, dividend payments by RAB have been equal to approximately 10 per cent. of the net profit of RAB, based on statutory accounting records, although this may change in the future. In 2011, RAB declared and paid dividends in respect of 2010 in the amount of 253 million roubles, representing 72.3 per cent. of RAB's net profit based on statutory accounting records in 2011. In 2010, RAB declared and paid dividends in respect of 2009 in the amount of 232 million roubles, representing 31.7 per cent. of RAB's net profit based on statutory accounting records in 2010. In 2009, RAB declared and paid dividends in respect of 2008 in the amount of 149 million roubles, representing 7.3 per cent. of RAB's net profit calculated in accordance with RAS.

The influence of the Russian Government can also be exercised through the adoption of support programmes for the agricultural sector in which RAB is required to participate as a specialised and state-owned bank, such as the Agricultural Industry Development (AID) National Project, which was subsequently replaced by the State Programme on Agribusiness Development. These programmes include loans to individuals involved in producing agricultural products on household land plots, loans for grain purchase interventions, loans to agricultural consumer and credit cooperatives and loans secured by mortgages on agricultural land plots or for residential construction. In addition, in 2002, RAB became the debt collection agent of the Russian Government in respect of loans extended from the budget of the Russian Federation and extra-budgetary funds to legal entities and individuals operating in the agricultural sector in respect of pre-1998 debts owed by such legal entities and individuals. See "*Business — Debt Collection Services*". Although the Russian Government pays RAB an annual fee for the performance of such agency functions on account of the expenses incurred in undertaking this role, RAB does not expect to derive any profit from these activities and the amount of this fee may be insufficient to cover RAB's operational expenses incurred in connection with this role. As the principal vehicle for implementing the Russian Government's agricultural credit policy, profit maximisation is not the only or even the most significant goal for RAB. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Significant Factors Affecting Results of Operations — State ownership and agricultural policies of the Russian Government*". For example, the Russian Government may target aggressive portfolio growth in the future, which could lead to excessive risks in the agricultural sector. Although RAB has not experienced significant pressure from its controlling shareholder to lend upon more favourable terms to state-owned legal entities or to deviate from its credit and lending policies and procedures, there is no guarantee that RAB may not come under pressure to pursue certain non-core activities, engage in activities with a lower profit margin than RAB would otherwise pursue or to provide financing to certain companies or individuals on favourable or non-market terms. Any of these activities could have a material adverse effect on RAB's business, financial condition, results of operations and prospects. Furthermore, while the Russian Government does not interfere with or attempt to influence RAB's policies in respect of problematic loans at present, there can be no assurance that it will not seek to influence such policies in the future, especially if the performance of the Russian economy in general and the agricultural sector in particular deteriorate further and the volume of problematic loans to borrowers involved in this sector increases significantly. Accordingly, in the event that the interests of the Russian Government conflict with the interests of the Noteholders, the Russian Government may require RAB to take such actions that would adversely affect the Noteholders' investment.

RAB would be adversely affected if it did not continue to receive funding from the Russian Government

To date, RAB has been dependent upon the Russian Government for its capital requirements. The most recent share capital increase in the amount of 40 billion roubles occurred in December 2011 pursuant to Decree No. 3008-r of the SPMA dated 2 December 2011. While also seeking to access alternative funding sources, such as the international or domestic capital markets, RAB will continue to seek to use the Russian federal budget as a significant source of capital funding in the future. There can be no guarantee that, in the event that RAB requires future funding from the Russian federal budget (especially if it is unable to access alternative sources of funding such as international or domestic capital markets), RAB will be able to satisfy all or part of such funding requirements through capital contributions from the Russian Government. The absence of such funding could have a material adverse effect on RAB's business, financial condition, results of operations and prospects.

RAB has experienced decreases in net interest margin and net interest spread in recent years

RAB has experienced decreases in net interest margin and net interest spread in recent years. In particular, net interest margin decreased from 5.8 per cent. in 2008 to 5.0 per cent. in 2009, then increased to 6.8 per cent in 2010 and decreased to 5.5 per cent. in 2011. Similarly, net interest spread decreased from 5.8 per cent. in 2008 to 4.8 per cent. in 2009, then increased to 6.7 per cent. in 2010 and decreased to 5.4 per cent. in 2011. See "*— Management's Discussion and Analysis of Financial Condition and Results of Operations — Selected Statistical Information — Average Balances and Interest Rates Data*". In addition, RAB has limited diversification in earnings, as the major part of the RAB Group's operating income is generated by net interest income.

Any further reduction in net interest margin or net interest spread, whether as a result of reduced yields on interest-bearing assets, increased rates on interest-bearing liabilities, changes in the mix of interest-bearing assets and/or liabilities, or other factors, could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

The Russian Government may at its sole discretion privatise RAB, which may result in RAB's future equity funding being materially decreased

100 per cent. of RAB's shares are held by the SPMA. The Russian Government decided to partially privatise its shareholding in a number of companies, including RAB. The "Forecast Plan for Privatisation of Federal Property and Principal Aspects of Privatisation of Federal Property in 2011-2013" was approved by the Decree of the Russian Government No. 2102-p, dated 27 November 2010. This decree provides that the Russian Government may privatise up to 25 per cent. of RAB's share capital by 2015 subject to market conditions. A partial privatisation may result in RAB's future equity funding from the Russian Government ceasing or being materially decreased, which could have a material adverse effect on RAB's business, financial condition, results of operations and prospects. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Funding — Capital contributions from the Russian Government*".

If RAB fails to manage its growth properly, the RAB Group's business, financial condition, results of operations and prospects may be materially adversely affected

In recent years, the RAB Group has significantly expanded its network of regional branches and additional offices. Following the expansion of the RAB Group's network of regional branches and additional offices in 2009 and 2010, the RAB Group has significantly increased the number of its employees. As of 31 December 2011, the total number of the RAB Group's employees was 35,699 as compared to 36,120 as of 31 December 2010 and 33,134 as of 31 December 2009.

The RAB Group's loan portfolio (net of provision for loan impairment) has also grown significantly in recent years. The RAB Group's loan portfolio (net of provision for loan impairment) increased to 903,697 million roubles as of 31 December 2011, as compared to 688,556 million roubles as of 31 December 2010 and 584,407 million roubles as of 31 December 2009, which represented 70.4 per cent., 74.0 per cent. and 70.4 per cent. of the RAB Group's total assets as of 31 December 2011, 31 December 2010 and 31 December 2009, respectively. See "*Business — Loan Portfolio*".

The expansion of RAB's regional network and the rapid growth of RAB's loan portfolio entail significant investment, as well as increased operating costs. There is no guarantee that RAB will be able to achieve a positive return on the investment it has made in the development of its network of regional branches and additional offices in Russia and representative offices outside Russia, and in the general expansion of its business. Moreover, overall growth in RAB's business will require greater allocation of management resources away from daily operations, continued development of RAB's financial and information management control systems, significant spending on information technology hardware and software, continued training of management and other personnel, adequate supervision and maintenance of consistency in the provision of client services. Furthermore, this rapid growth in RAB's business may create significant operational challenges, including the recruitment, training and retention of suitable staff and effective monitoring of employees' performance, the ability of the RAB Group's information technology systems to adequately handle the rapid rate of growth of RAB'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 the RAB Group's financial performance.

RAB's growth in recent years has resulted in a significant degree of decision making autonomy delegated by the head office of RAB to its regional branches and additional offices. Such decision making autonomy may give rise to fraudulent behaviour by RAB's clients and employees, with the effect of those actions currently not being known and being difficult to estimate.

The failure of the RAB Group to adequately manage its growth may have a material adverse effect on RAB's business, financial condition, results of operations and prospects.

Due to the concentration of the RAB Group's loans in the agricultural sector, a downturn in, or withdrawal of governmental support for, the agricultural sector could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects

As RAB was established to implement state policies in, and provide credit and other banking services to, the agricultural sector, its loan portfolio is characterised by high industry concentration levels. As at 31 December 2011, loans and advances to customers (before impairment) in the agricultural sector accounted for 55.5 per cent. of the RAB Group's gross loans and advances to customers, as compared to 62.8 per cent. as at 31 December 2010 and 64.0 per cent. at 31 December 2009.

Out of the RAB Group's ten largest borrowers in terms of amounts borrowed from the RAB Group, four were operating in the agricultural sector, two were operating in the manufacturing sector, three were operating in the food processing sector and one was operating in the financing sector as at 31 December 2011. As at 31 December 2011, the RAB Group's exposure to its ten largest customers in terms of amounts borrowed from the RAB Group, as calculated on the basis of statutory accounting records, represented 7.7 per cent. of the RAB Group's gross loan portfolio, as compared to 10.2 per cent., as calculated on the basis of RAS statutory accounting records, as at 31 December 2010. The RAB Group's focus on the provision of banking services to the agricultural sector does not allow it to build a fully-diversified loan portfolio that would minimise the risks of exposure to the performance of companies in the agricultural sector.

As a result of RAB's high level of credit exposure to the agricultural sector, its results can be significantly affected by seasonal and cyclical trends in the agricultural sector and decreases in the prices of food commodities or increases in production costs. In addition, severe weather, natural disasters and other adverse events beyond its control could have a significant impact on the ability of borrowers to repay loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue for the RAB Group. For example, in the summer of 2010, the Government declared a drought emergency in several Russian regions. This event had several significant negative consequences, including increases in consumer prices for certain food products. The Russian Government announced state support for drought-affected regions. Borrowers in industry sectors such as food processing and in agricultural sectors such as farming and animal breeding were especially affected by the drought season in 2010. This in turn led to increases in the RAB Group's levels of overdue and non-performing loans. In July and August 2010, a series of fires broke out across Western Russia and around Moscow, covering at one stage over 193,000 hectares. The fires, combined with a summer of drought and record high temperatures in 2010, resulted in a significant decline in the Russian harvest, and, accordingly, an increase in demand for imported grain. In 2010 grain yield amounted to 61 million tonnes as compared to 97 million tonnes in 2009. However with the available grain reserves of about 90 million tonnes it was sufficient to meet the domestic demand.

In addition, as part of Russia's agreement to join the World Trade Organisation, the Russian Government has committed to reducing tariffs on foreign manufactured imports, including agricultural products, which may have a negative impact on Russia's domestic producers, affecting a significant portion of the RAB borrower base by potentially hurting their credit worthiness, increasing the amount of non-performing loans and thereby causing the quality of the RAB Group's loan portfolio to deteriorate.

Furthermore, this sector has benefited from a number of initiatives by the Russian Government aimed at improving the agricultural sector and increasing the availability of affordable credit to businesses and individuals operating in the sector. A change or reversal in Russian Government policy could negatively affect this sector, which in turn could adversely affect the RAB Group's business, financial condition, results of operations and prospects. No assurances can be given that any major downturn or adverse event affecting a sector or sub-sector of the agricultural sector would not have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects. See "*Asset, Liability and Risk Management — Credit Risk*".

The RAB Group's loan portfolio may not continue to grow, or may grow more slowly, which may have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects

Since RAB's incorporation in 2000, its loan portfolio (net of provision for loan impairment) has expanded significantly. The RAB Group's loan portfolio (net of provision for loan impairment) increased to 903,697 million roubles as of 31 December 2011, as compared to 688,556 million roubles as of 31 December 2010 and 584,407 million roubles as of 31 December 2009. See "*Business — Loan Portfolio*". In addition, from 2000 and prior to the onset of the global financial and economic crisis in 2008, the Russian economy also continued to expand. The recent turmoil in the global and Russian credit markets, however, as well as the decreases in commodities exports and prices of such commodities have adversely affected GDP growth in Russia, while also contributing to the weakening of the rouble and increased inflation. Although 2010 and 2011 have seen some recovery in GDP growth, with 4.3 per cent. growth in both years, any future weakening of the Russian economy might result in significantly slower growth of the RAB Group's loan portfolio and deteriorating loan quality.

There is no assurance that the RAB Group's loan portfolio will continue to grow in the future, which may have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects. Further, RAB expects that it will need to further increase its capital in the future to continue to meet its capital adequacy standards if the current rate of growth of the loan portfolio is maintained, and there can be no assurance that RAB will be able to increase its capital to a sufficient extent or at all.

It may be difficult for RAB to accurately evaluate the credit risk of its clients which may result in a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects

Due to unpredictable economic conditions in the Russian Federation and abroad, it is difficult for RAB to make an accurate assessment of default risk on loans and other financial instruments. The financial statements of the majority of RAB's corporate clients are not prepared in accordance with U.S. GAAP or IFRS and are not audited in accordance with United States generally accepted auditing standards or International Standards on Auditing. Although RAB requires regular disclosure of clients' financial information, such financial data may not always present a complete and comparable picture of each such client's financial condition. As of 31 December 2011, past due instalments and current portion of past due loans amounted to 155,446 million roubles or 15.9 per cent. of the RAB Group's gross loans and advances to customers, as compared to 108,673 million roubles or 14.6 per cent. as of 31 December 2010 and 42,088 million roubles or 6.9 per cent. as of 31 December 2009.

There can be no assurance that RAB's risk management strategies will protect it from increased levels of overdue loans, particularly when confronted with risks that RAB did not identify or anticipate while its existing portfolio was being created. Provision for loan impairment amounted to 7.7 per cent., 7.6 per cent. and 4.9 per cent. of the RAB Group's gross loans and advances to customers as of 31 December 2011, 31 December 2010 and 31 December 2009, respectively. See Note 12 to the 2010 Financial Statements and the 2011 Financial Statements for loans and advances to customers detailed disclosures.

There can be no assurance that RAB's overdue loans and provisions for loan impairment will not continue to increase. Furthermore, there can be no assurance that the RAB Group's historic level of loan recovery will be maintained in the future. Furthermore, few of RAB's customers have long-term credit histories and credit bureaus are relatively new to Russia. RAB may be unable to evaluate the current financial condition of its current and prospective borrowers and their long-term financial outlook correctly, which may result in RAB facing credit delinquencies in its portfolio and ultimately in a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

It may be difficult for the RAB Group to manage any material increase in the number of defaulting loans to its corporate customers and to realise the full value of the collateral securing these loans

The recent volatility in the global and Russian credit markets, along with several other factors including high inflation, reduced corporate liquidity and profitability, increased interest rates and increased corporate insolvency have reduced the ability of the RAB Group's customers to repay loans. As a result, a number of the RAB Group's clients defaulted on their loan obligations in 2009, and this continued in 2010 and 2011.

A substantial portion of the RAB Group's loan portfolio is secured by collateral such as real property, livestock, future crops, motor vehicles, vessels, agricultural machinery and equipment, inventories and the rights to equity ownership in certain businesses. As events of default have occurred, the RAB Group has acquired, and in case of future events of default will likely acquire, either assets or controlling stakes in defaulting companies. As the number of corporate customers who default on their loans increases, the RAB Group may acquire additional controlling stakes in such businesses. The RAB Group may not have an adequate number of personnel with sufficient experience to manage these companies properly. Furthermore, as RAB diversifies its investment portfolio, defaulting loans may be of a nature or in a sector that the RAB management has comparatively less experience with. The RAB Group may also fail to manage these businesses effectively once it obtains control. A general deterioration of economic conditions in Russia and the RAB Group's inability to divest ownership of these assets or companies would result in declines in the value of these assets or businesses to levels below the amounts of original principal and accrued interest on these loans, resulting in further losses and possible write-offs or impairments to the RAB Group.

In addition, the RAB Group may acquire controlling or minority stakes in defaulting companies which operate in sectors which are not core to the RAB Group's business and in respect of which the RAB Group has no operational or management expertise. The RAB Group may not have an adequate number of personnel with sufficient experience to assume control of and manage these companies. The RAB Group may also fail to manage these businesses effectively once it has assumed control.

The RAB Group's subsidiary LLC Trading House Agrotorg ("**Agrotorg**") was created inside a wider group of companies that operate principally in the agribusiness and trading sectors for accumulating and managing non-core assets. Many of these non-core assets consist of assets received as a result of restructuring of problem loans initially originated by the Bank. Agrotorg has several subsidiaries, including a subsidiary company in Murmansk (Agrotorg-Murmansk Trading House), in Krasnodar (Krasnodar-Agro Trading House), in Tula (Tula Trading House), as well as in Samara (Samara Trading House). The main objective of these companies is to manage and preserve the value of assets received as a result of restructuring problem loans originated by RAB.

Agrotorg is performing the function of a debt collection centre in close cooperation with RAB's departments responsible for management of problem loans, including the sale of non-core assets.

The RAB Group's inability to recover on security, guarantees and other third party credit support arrangements may lead to losses

The RAB Group enters into security, guarantee or other third party credit support arrangements for loans made to individuals and legal entities. As of 31 December 2011, the amount of collateral repossessed by the RAB Group was 5,334 million roubles, as compared to 5,395 million roubles as of 31 December 2010 and 5,610 million roubles as of 31 December 2009.

Under Russian law, security (which includes pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation becomes void. A mortgage under Russian law is a pledge over real property such as land and buildings, and requires state registration to be valid. Such state registration may be difficult to obtain. Russian law has no pledge perfection system for collateral other than mortgages and pledges of participation interests in Russian limited liability companies, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, the RAB Group may have difficulty foreclosing on collateral or enforcing guarantees or other third party credit support arrangements when clients default on their loans.

On 11 January 2009, a series of laws came into force significantly amending the rights of secured creditors under Russian law. The area that is most affected by these amendments concerns the rights to enforcement of security. In addition, recent amendments (most recently in 2011) to several Russian laws significantly developed the enforcement rules applicable to pledged property. In particular, under these rules, the parties to a pledge agreement are now able, subject to statutory requirements and specific limitations to agree upon the out-of-court enforcement of the pledge. However, these rules have not been conclusively tested by Russian courts and, at times, are ambiguously drafted. See "*Appendix A: Overview of the Russian Banking Sector and Regulation in the Russian Federation — Further Reform of the Russian Banking Sector — Developments in Regulation of Pledge and Pledge Enforcement*".

In connection with its lending secured by mortgages of agricultural land, even if RAB is able to foreclose, RAB is exposed to risks relating to the absence of a developed market for agricultural land in the Russian Federation. No assurance can be given that a secondary market for agricultural land will develop in the Russian Federation, that the RAB Group will be able to adequately assess the value of this type of collateral or will be able to sell such collateral for an adequate price in the event of foreclosure, each of which could result in RAB suffering losses.

Similarly, if RAB is successful in foreclosing on collateral, it may be difficult to find buyers for such collateral, and such collateral may be sold for significantly less than its appraised value. Failure to recover the expected value of collateral may expose the RAB Group to losses, which may materially adversely affect the RAB Group's business, financial position, results of operations and prospects.

A substantial proportion of the RAB Group's loans to legal entities and individuals in the Russian Federation is guaranteed or otherwise supported by individuals and other legal entities. While RAB generally subjects guarantors or providers of other credit support arrangements to the same credit analysis and criteria as borrowers, there can be no assurance that such person's or entity's financial condition will not deteriorate or that it will honour its obligations in case of a borrower's default or that the RAB Group will be able to recover the expected value of the collateral, or anything at all, if a borrower becomes subject to bankruptcy proceedings, which could have a material adverse effect on the RAB Group's business, results of operations, financial condition and prospects.

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

A substantial proportion of the RAB Group's loans to legal entities and individuals in the Russian Federation is secured by collateral such as agricultural machinery and equipment, vehicles, inventory, crops and livestock. A downturn in the relevant market or a general deterioration of economic conditions in the Russian Federation may result in a decline in the value of collateral securing a loan to a level lower than the amount of the outstanding principal and accrued interest on such loan. If collateral values decline, they may not be sufficient to cover uncollectible amounts on the RAB Group's secured loans. The RAB Group's loan agreements with legal entities usually provide that the pledger has the right to replace collateral if the value of the existing collateral declines. Nevertheless, a decline in the value of collateral securing the RAB Group's loans or its inability to obtain additional collateral may, in some cases, require the RAB Group to reclassify the relevant loans, establish additional provisions for loan impairment and increase provisions requirements. Additionally, the RAB Group takes pledges of future crops as collateral, which makes it subject to additional risks inherent in this type of collateral. Although the RAB Group requires that all pledges of future crops be insured, insurance of future crops is not well developed in the Russian Federation and remains largely untested. Moreover, insurance typically does not cover force majeure events, such as natural disasters or severe weather. Therefore, there can be no assurance that the value of collateral and/or insurance coverage in respect of such collateral would be sufficient to cover the value of secured loans.

Insurance coverage may not adequately cover the RAB Group's assets or assets pledged to it by borrowers

Russian banking or other legislation does not require a bank to maintain insurance in respect of its material assets or liabilities (other than the mandatory insurance of individual deposits). Although the RAB Group maintains voluntary insurance on its material assets and additionally requires that certain collateral posted by its borrowers be insured, not all of the RAB Group's assets and liabilities are covered by such insurance. Furthermore, the Russian insurance industry is not well developed and many forms of insurance offered in developed countries are unavailable to the RAB Group on terms common in more developed countries. The RAB Group may become subject to uninsured losses on its assets and to claims not covered or inadequately covered by insurance or by uninsured losses on assets posted as collateral. RAB is also exposed to credit risk in respect of insurance companies that provide insurance to it or provide insurance of collateral provided by borrowers to secure loans made by RAB. Any such uninsured losses or claims could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

Increased competition in the Russian market for financial and banking services, including competition from state-owned and foreign banks, could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects

The Russian market for financial and banking services, particularly in Moscow and other large cities, is competitive. According to the CBR, as of 1 January 2012, 1,051 banks including 61 non-banking credit organisations were registered in the Russian Federation. In particular, competition is increasing in the provision of banking services to small businesses and individuals. The RAB Group faces competition from both domestic banks (state- and privately-owned), as well as subsidiaries of foreign banks.

In particular, the Russian banking sector is controlled to a material extent by large state-owned banks that maintain an advantage as a result of their size and benefit from greater levels of Russian Government funding and credit support than privately-owned banks.

Furthermore, competition between Russian banks and subsidiaries of foreign banks in Russia is increasing. In particular, the deregulation of the Russian financial markets and abolition of restrictions on foreign capital in the Russian banking sector, which may take place in connection with Russia's expected accession to the World Trade Organisation, may contribute to an increase in the number of foreign banks operating in the Russian Federation. According to the CBR, as of 1 January 2012, 77 credit organisations (including banks) with a 100 per cent. foreign ownership interest operated in the Russian Federation. Access to lower-cost funding and interbank operations in the international markets allows foreign banks to increase the amount of deposit-taking and lending operations in the Russian Federation and may result in a decrease in interest rate margins and materially adversely affect the profitability and financial condition of Russian banks, including the RAB Group. If the RAB Group fails to compete effectively with either local competitors, including state-owned banks, or subsidiaries of foreign banks or if interest rate margins are compressed further, this could have a material adverse effect on its business, results of operations, financial condition and prospects.

The RAB Group has exposure to Russian corporate risk

Many businesses in Russia have considerably less operating experience in competitive market conditions than their Western counterparts. In addition, the Russian economy has been severely affected by the global financial and economic crisis. Accordingly, the financial performance of Russian companies, including agricultural companies, is generally more volatile, and the credit quality of Russian companies has been less predictable, than similar companies doing business in more mature markets and economies. Furthermore, a relatively high proportion of Russian companies are largely dependent upon the oil and natural gas industry and other commodity-related sectors, most of which have been adversely affected by the global financial and economic crisis. If the RAB Group's clients were to experience poor financial performance due to the current downturn in the Russian economy generally or volatility in certain sectors of Russian economy, this could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

The limited availability and quality of centralised credit information may expose the RAB Group to risks that it may not be able to assess and provide for accurately

Following recent changes to Russian legislation, credit bureaus have begun to operate in Russia. However, little information on prospective borrowers is available from credit bureaus and/or third parties, or is externally verifiable. Therefore, the RAB Group is often unable to confirm independently information provided by a credit applicant regarding the total credit extended or available to such applicant. As a result, customers may be overexposed by virtue of other credit obligations, of which the RAB Group has no knowledge. The RAB Group is therefore exposed to credit risks that it may not be able to assess and provide for accurately, which could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

Significant changes in Russian banking and financial regulation may adversely affect the RAB Group

As with most of Russia's legislation on business activities, Russia's laws and the CBR regulations on banks and banking activity have a relatively short history. In addition to Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)" dated 10 July 2002, as amended (the "**CBR Law**") and Federal Law No. 395-1 "On Banks and Banking Activities" dated 2 December 1990, as amended (the "**Banking Law**"), which are the major legislation governing the Russian banking sector, the Russian Federation continues to adopt and develop banking legislation.

In accordance with Instruction 2219-U of the CBR dated 23 April 2009, the mandatory reserve requirements for Russian banks were increased by 0.5 per cent. on each of 1 May 2009, 1 June 2009, 1 July 2009 and 1 August 2009. In 2011, the CBR continued to increase the mandatory reserve requirements and as of the date of this Base Prospectus it amounts to 5.5 per cent. for the bank's obligations to non-residents in roubles or foreign currency and 4.0 per cent. for the bank's other obligations in roubles or foreign currency, including those to individuals. No assurance can be given that the mandatory reserve requirements for Russian banks will not be increased further.

The constant changes in Russian banking and financial regulation are aimed at bringing Russian regulation more in line with that of countries with more developed banking regulation. However, Russian banks still operate in a new and relatively unclear regulatory environment and it is difficult to forecast how the changes in the banking and financial regulation will affect the Russian banking system. No assurance can be given that the regulatory system will not change in a way that will impair the RAB Group's ability to provide its banking services or to compete effectively, thus materially adversely affecting the RAB Group's business, financial condition, results of operations and prospects.

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

While the guidelines on capital adequacy standards in the Basel Capital Accord published by the Basel Committee on Banking Supervision form the basis for the capital adequacy guidelines of the CBR, the guidelines on capital adequacy standards contained in the Basel II International Convergence of Capital Measurement and Capital Standards Revised Framework and Basel III International Regulatory Framework for Banks have not yet been implemented in Russia. The effect these revised guidelines will have on RAB's requirements for capital and its capital position is not currently known. If the Basel II capital adequacy guidelines or Basel III guidelines require RAB to maintain higher capital levels or limit the use of RAB's capital such that it is unable to execute its strategy of expanding its retail lending and maintaining its strong position in corporate lending, then such limitations could have a material adverse effect on RAB's business, financial condition, results of operations and prospects.

The RAB Group's funding is based in part on short-term debt and deposits that can be an unstable funding base

A significant proportion of RAB's funding base consists of short-term debt and customer deposits, and the proportion of RAB's funding base represented by customer accounts has increased in recent years. As of 31 December 2011, the contractual undiscounted future cash flows of some of the RAB Group's financial liabilities (due to other banks, promissory note issued, other borrowed funds, syndicated loans and subordinated debts) due within one year amounted to 111,698 million roubles or 8.6 per cent., of the RAB Group's total potential future payments for financial obligations, as compared to 117,178 million roubles, or 12.4 per cent. as of 31 December 2010. As of 31 December 2011, customer accounts amounted to 607,295 million roubles, or 53.9 per cent. of RAB Group's total liabilities, as compared to 386,279 million roubles, or 47.5 per cent. as of 31 December 2010 and 230,303 million roubles, or 32.2 per cent. as of 31 December 2009. Withdrawals of demand deposits, or withdrawals of term deposits by individuals (who are entitled under Russian legislation to withdraw such deposits at any time) or legal entities (who may be permitted to withdraw such deposits, depending on the applicable contractual provisions), could lead to liquidity gaps that the RAB Group would have to cover, thus incurring additional expenses, and which ultimately may have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects. As of 31 December 2011, 32.5 per cent. of the RAB Group's customer accounts were held by state and public organisations as compared to 20.6 per cent. as of 31 December 2010 and 25.1 per cent. as of 31 December 2009. In addition, the RAB Group is increasingly dependent on a small number of depositors. As at 31 December 2011, RAB Group's top four depositors accounted for 32.5 per cent. of total deposits, compared to 15.7 per cent. in 2010 and 23.3 per cent. in 2009. Significant withdrawals of such deposits may have an adverse effect on the RAB Group's liquidity position. Moreover, if the RAB Group is dependent on a few large depositors, it may be exposed to interest rate risks associated with limited diversification of accounts and interest rates. If the RAB Group had to seek alternative funding sources, for example, on domestic or international capital markets, such sources of funding could be unavailable, more expensive or in other ways less advantageous to RAB. The reliance on such alternative funding could materially adversely affect the RAB Group's business, financial condition, results of operations and prospects.

The RAB Group's exposure to exchange rate risk may increase, particularly as it continues to access international capital markets

The RAB Group's loans and advances to customers are denominated primarily in roubles while a growing proportion of its liabilities is denominated in foreign currencies and in particular U.S. dollars and, to a lesser extent, euro and Swiss francs. Although RAB sets limits and performs certain other measures aimed at reducing exchange rate risk, including, but not limited to, entering into foreign exchange derivative contracts, fluctuations in exchange rates may adversely affect the RAB Group's business, financial condition, results of operations and prospects.

RAB plans to continue to access the international capital markets, which subjects it to risks inherent in borrowing funds in foreign currencies and then using such funds to make loans predominantly in roubles. Although RAB seeks to minimise such risks by buying foreign currency spot contracts and entering into foreign currency swaps (at present, maturities of foreign currency spot contracts and foreign currency swaps that RAB bought/entered into range from 2012 to 2023, there is no guarantee that these measures will be effectively implemented, that they will allow the RAB Group to minimise the impact of currency volatility or that they will be available to RAB.

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

If RAB's derivative transactions were to be subject to a credit event, such transactions may be eliminated and this may adversely affect RAB's business, financial condition and results of operations

From time to time, RAB enters into foreign currency swaps, which are marked-to-market and the value of which may, in certain circumstances, be eliminated. If a credit event related to a swap eliminates the value of such swaps, there may be an adverse effect on RAB's business, financial condition and results of operations and RAB's ability to meet its obligations to Noteholders under the Notes may be adversely affected.

For more complete disclosure on RAB's swap transactions, please refer to Note 34 in the 2011 Financial Statements.

The RAB Group is exposed to liquidity risk and may fail to mitigate this risk

The RAB Group is exposed to liquidity risk arising out of mismatches between the maturities of the RAB Group's assets and liabilities, which may result in the RAB Group being unable to meet its obligations in a timely manner. The RAB Group's liquidity is managed through sales and purchases of securities (including repurchase and reverse repurchase transactions), interbank borrowing and lending (including via NOSTRO accounts held by the RAB Group with other banks), borrowing from the CBR and issuing debt instruments, and is monitored using liquidity gap analysis.

Although share capital contributions by the Russian Government remain an important source of the RAB Group's funding, the RAB Group seeks to further diversify its funding sources by continuing to access domestic and international capital markets through syndicated facilities and debt issues, which are more costly. The RAB Group's ability to continue to access the above markets to the extent sufficient to meet its funding needs, including the refinancing of outstanding debt falling due, could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian banking and financial systems.

A decrease in the RAB Group's ability to access the international and domestic capital markets, or the domestic or international interbank loan market, or maturity mismatches between the RAB Group's assets and liabilities may, together or separately, have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

Proprietary securities may expose the RAB Group to market volatility

The RAB Group's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in exchange rates, government actions and general market volatility. RAB has in place limits for its trading securities portfolio on various types of securities and securities transactions and single issuer limits, which are designed to maintain its securities portfolio risk at an acceptable level. Nevertheless, market price fluctuations may adversely affect the value of the RAB Group's securities portfolio.

The global financial crisis had a very significant adverse effect on the Russian stock market, with the RTS stock index falling from its peak of 2,487.9 as of 19 May 2008 to as low as 498.2 as of 23 January 2009, and caused a dramatic increase in market volatility, although the RTS stock index has recovered from its lowest level and stood at 1,381.9 as of 31 December 2011. The prices of fixed income securities of Russian issuers also experienced major declines during the peak of the global financial crisis.

The RAB Group's losses net of gains on its securities portfolio, which consists of trading securities, other financial instruments at fair value through profit or loss, investment securities available for sale and investment securities held to maturity, amounted to 501 million roubles in 2011, as compared to 364 million roubles in 2010 and losses net of gains of 444 million roubles in 2009. The incurrence of any large losses on the RAB Group's securities operations in the future could also have a material adverse effect on its business, financial position, results of operations and prospects.

The departure of key management could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects

The RAB Group is dependent on its senior management for the implementation of its strategy and the operation of its day-to-day activities. In addition, relationships of members of senior management with state agencies and ministries and regional and local authorities are important to the conduct of the RAB Group's business. No assurance can be given that the key members of senior management will remain at the RAB Group or that such business relationships will endure, either of which could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

Any failure of RAB to comply with capital adequacy or other ratios may result in the revocation of RAB's licence and breach of loan covenants

According to CBR regulation, banks are required to maintain a capital adequacy ratio of 10.0 per cent. of total risk-weighted assets, computed based on statutory accounting records. RAB is in compliance with the CBR requirements. In addition, the CBR requires Russian banks to comply with a number of other mandatory economic ratios, the most significant of which are described in "*Appendix A: Overview of the Russian Banking Sector and regulation in the Russian Federation — Role of the CBR — Bank Licensing and Regulation by the CBR — Mandatory economic ratios*". If RAB's capital adequacy ratio were to fall below the 10.0 per cent. threshold or if it were not in compliance with the other mandatory economic ratios, the CBR could impose various administrative fines or, in the event of repeated violations, revoke RAB's general banking licence. Certain of RAB's loan agreements, including the Loan Agreement, contain covenants that require that its consolidated total capital ratio, as calculated in accordance with the regulations of the Bank of International Settlements ("**BIS**"), does not fall below 8.0 per cent. If RAB's consolidated total capital ratio were to fall below this threshold, it would breach its covenants under such agreements and be in default under the terms of these agreements, as well as the terms of other loan agreements to which it is a party that contain cross-default provisions. Any such default and/or cross-default would permit acceleration of amounts due under the loans, which could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

The RAB Group may be unable to recruit or retain experienced and/or qualified personnel

The RAB Group's continuing success depends, in significant part, on its ability to attract, retain and motivate qualified and experienced banking and management personnel, particularly as the RAB Group continues to rapidly expand the geographical coverage of its network and the range of products and services offered. Competition in the Russian banking industry for personnel with relevant expertise became somewhat less intense due to the impact of the global financial crisis, but has increased as the global financial markets and the Russian economy in general have stabilised. The RAB Group's failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

Employee misconduct is difficult to deter and detect and could harm the RAB Group's reputation and business

The RAB Group faces the risk of loss due to its employees' lack of knowledge or wilful violation of laws, rules and regulations or other misconduct. Misconduct by employees happens in the financial services industry and could involve, among other things, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines as well as serious reputational or financial harm. Misconduct by employees, including violation of the RAB Group's own internal risk management policies, could also include binding it to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. It is not always possible to deter employee misconduct and ensure the RAB Group's risk management policies are followed, and the precautions the RAB Group takes to detect such activity may not be effective. The direct and indirect costs of employee misconduct can be substantial and could have a material adverse effect on the RAB Group's business, financial condition, results of operations or prospects.

If RAB fails to receive or maintain licences required to conduct its operations, or if any existing licences are revoked, its operations may be adversely affected

All banking and other operations performed by Russian banks such as broker, dealer and depositary activities in the Russian Federation require licences from the CBR or the FSFM, depending on the type of activities subject to a licencing requirement. RAB has obtained a general banking licence in connection with its banking operations and its broker, dealer and depositary operations as well as its intermediary activities in futures and options transactions in commodities, and RAB's key licences do not have a specified expiration or termination date. Although RAB was successful in obtaining its CBR and FSFM licences, there is no assurance that it will be able to obtain or maintain such licences in the future. In the event that RAB loses a CBR or FSFM licence, including, in particular, but not limited to, its general banking licence issued by the CBR, applying for a new licence would be a burdensome and time-consuming process. The CBR may, in its discretion, impose additional requirements or deny any request by RAB for licences, which could materially adversely affect its business, financial condition, results of operations and prospects. In particular, the loss of the general banking licence, a breach of the terms of the general banking licence by RAB or its failure to obtain such a licence in the future could result in RAB being unable to continue some or all of its banking activities, expand its business internationally and in penalties and fines being imposed on RAB by the CBR. Any such failure could, in turn, affect RAB's ability to fulfil payment obligations, either generally or under any Loan Agreement, and could have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

The RAB Group is subject to regulations related to money laundering and non-compliance with these regulations may result in the revocation of the banking licences of members of the RAB Group

Russia is a member country of the Financial Action Task Force on Money Laundering ("**FATF**") and the Egmond Group, and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Russia, all banks and their employees are obliged to implement and fulfil certain requirements regarding the treatment of activities that may be referred to as money laundering. The Federal Law No. 115-FZ "On Countermeasures Against Laundering of Criminal Profits and the Financing of Terrorism" of 7 August 2001 (the "**Anti-Money Laundering Law**") and implementing legislation set forth the framework for this requirement and other anti-money laundering procedures.

Minimum standards and duties according to the Anti-Money Laundering Law include customer identification, record keeping, suspicious activity reporting, employee training, an internal audit function and designation of a compliance officer. Suspicious ("unusual") transactions must be reported on a daily basis to the Federal Service for Financial Monitoring.

To ensure that the RAB Group is not unwittingly used as an intermediary in any money laundering process or other related criminal activities, the RAB Group has established policies and procedures to facilitate compliance with the CBR's anti-money laundering rules. This programme includes written policies and procedures, assigning a compliance officer, an audit and review function to test the robustness of anti-money laundering policies and procedures, monitoring and auditing customer activities and transactions in accordance with anti-money laundering legislation and regulations and employee training. Non-compliance with Russian money laundering legislation may result in the revocation of RAB's banking licence and, as a result, the general deterioration of the RAB Group's business, financial position or results of operations.

The RAB Group's business is highly dependent on its information technology system, and disruptions of service and/or an inability to scale up to demand may adversely affect the RAB Group's business, financial condition, results of operations and prospects

The RAB Group's financial performance, its ability to meet its strategic objectives and its ability to manage risks arising out of the current market environment and to manage the future growth of its branch and additional office network depend and will continue to depend to a significant extent upon the functionality of its information technology and its ability to increase systems capacity and functionality. There can be no assurance that a disruption (even short-term) to the functionality of the RAB Group's information technology systems, delays, or other problems in increasing the capacity and functionality of the information technology systems, or increased costs associated with such systems, will not have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects.

The RAB Group's IT systems do not provide fully automated processing of data and operations for a number of products and services on a RAB Group-wide basis and do not permit all additional offices to receive and provide information on a real-time basis. In addition, further expansion of the branch and additional office network in remote areas of the Russian Federation may make it difficult to reach high levels of automation. See "*Business — Information Technology*".

In line with RAB's strategy to expand its business in the Russian Federation, the RAB Group is in the process of upgrading its IT systems to support this expansion. Notwithstanding RAB's planned investments of 3.0 billion roubles in the first half of 2012, if RAB is unable to successfully complete its IT systems upgrade, the implementation of its strategy for the development of its operations may be impaired. Without support from upgraded IT systems, RAB may be unable to compete effectively with other Russian banks that are expanding their operations in the Russian regions and enhancing the efficiency of their branches and additional offices and the quality of their products and services. RAB is also subject to the risk of cost overruns in respect of the upgrade of its IT systems.

RAB's banking business entails operational risks

RAB is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorised transactions by employees and operational errors, including but not limited to, clerical or record keeping errors, settlement errors, model errors or errors resulting from faulty computer or telecommunications systems. Given RAB's high volume of transactions, the substantial delegation of decision making authority in respect of such transactions to regional branches and additional offices and its current IT systems, errors may be repeated or compounded before they are discovered and rectified. See "*Asset, Liability and Risk Management — Operational Risk*".

In addition, RAB's ability to operate its business depends on its ability to protect the computer systems and databases which RAB operates and uses from the intrusion of third parties who may attempt to gain access through RAB's computer systems, networks or databases through the internet or otherwise. Although RAB believes that its computer systems, networks and databases are protected from unauthorised intrusion by a range of both physical and programming measures, no assurance can be given that it will be able to protect effectively its computer systems, networks and databases from such attacks in the future.

For example, in the second half of 2010 RAB conducted an internal audit of one of its regional branches. As a result of this audit RAB identified irregularities in connection with the credit approval process at this branch level. RAB determined that the amount of certain granted loans was in excess of the loan approval authority limits established for this regional branch. RAB also identified that the collateral under a number of loan agreements approved by that branch significantly decreased in value. As a result of the audit, the RAB Group created provisions for impairment of these loans in the amount of 11.1 billion roubles as of 31 December 2011.

In order to make its internal control procedures in relation to the credit approval process and monitoring of collateral more stringent, RAB's management has implemented comprehensive measures, which, among others, included establishment of a specialised unit at its head office specifically responsible for monitoring and assessment of collateral, enhancement of its methodology for collateral assessment and the related decision-making process, as well as improvement of internal credit controls at the branch level.

RAB maintains a system of controls designed to keep operational risk at acceptable levels. However, there can be no assurance that it will not suffer losses from any failure of these controls to detect or contain operational risk in the future. See "*Asset, Liability and Risk Management — Operational Risk*".

Due to the ambiguities in the recently adopted Insider Trading Law, trading of securities and other financial instruments by the RAB Group may inadvertently violate restrictions imposed by the law

On 30 July 2010, a new law "On Counteracting the Abuse of Inside Information and Market Manipulation and Amendment of Certain Legislative Acts of the Russian Federation" No. 224-FZ (the "**Insider Trading Law**") was adopted. The restrictions imposed by the Insider Trading Law prohibit the disclosure of any price-sensitive non-public information ("**Inside Information**") to third parties and the use of Inside Information in connection with any trading of securities, commodities, currency or other financial instruments admitted to trading on the Russian stock exchange. A number of the provisions of the Insider Trading Law are vague and might be subject to varying interpretations by courts and state authorities. In particular, the Insider Trading Law does not recognise the concept of information barriers, or Chinese walls, for limiting information exchange within an organisation between employees making investment decisions and the employees possessing information that may affect such decision-making.

As part of the RAB Group's business, it not only provides financing and offers investment banking and other services to publicly traded companies but also invests in securities for its own account for trading purposes or as part of its treasury operations. Accordingly, should one part of the RAB Group come in possession of Inside Information about a publicly traded company, whilst another part of the RAB Group independently enter into a trade with respect to the securities of such company, the RAB Group might be considered by the authorities to be in violation of the Insider Trading Law. This, in turn, could result in the imposition of certain civil, administrative and other sanctions on the RAB Group and could have a material adverse effect on its business, financial condition or results of operations.

Risks Related to the Russian Federation

RAB is a Russian bank and substantially all of its assets are located in the Russian Federation. Set out below is a description of some of the risks relevant to an investment linked to a business operating in the Russian Federation.

Emerging markets such as the Russian Federation are subject to greater risks than more developed markets and the global financial and economic crisis could have a particularly significant adverse effect on banks operating in emerging markets such as Russia

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. Investors should also note that emerging markets such as the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. In addition, during crises companies operating in emerging markets can face particularly severe liquidity constraints as foreign funding sources are withdrawn. Thus, the current global financial and economic crisis could have a particularly significant adverse effect on banks operating in emerging markets such as Russia.

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including, in some cases, significant legal, economic, financial and political risks. Financial turmoil in any large developing country may adversely affect prices in equity and debt markets of other developing countries as investors move their money to more stable and developed markets. Thus, even if the Russian economy remains relatively stable, financial turmoil in other emerging market countries could have an adverse effect on the Russian economy.

The Russian markets have been highly volatile during the global economic downturn beginning in 2008. For example, in the fourth quarter of 2008, during the acute stage of the global financial and economic crisis, the Russian securities markets were highly volatile, resulting, on occasions, in a series of temporary suspensions in trading on the MICEX and RTS stock exchanges by the Federal Service for Financial Markets of the Russian Federation (the "**FSFM**"), which had an adverse impact on the price of Russian securities generally.

As has happened in the past, financial problems, or an increase in the perceived risks associated with investing in emerging economies, could dampen foreign investments in Russia and have an adverse effect on the Russian economy as a whole, which, in turn, could have an adverse effect on most Russian banks, including RAB, due to, among other factors, declining creditworthiness of many borrowers and an overall decrease in demand for loans. See "*Management's Discussion and Analysis of Financial Condition And Results of Operations — Significant Factors Affecting Results of Operations and Financial Position of RAB—*". In addition, any financial turmoil can result in severe liquidity constraints for companies that operate in emerging markets due to the withdrawal of foreign funding sources or the reluctance of foreign investors to provide financing to borrowers in such emerging markets. Since RAB derives a significant proportion of its funding from issuing Eurobonds and interbank borrowing from banks located outside Russia, any significant decrease in availability of funding through international capital markets or bilateral or syndicated loan facilities provided by international banks could have an adverse effect on its operations. Accordingly, investors should exercise particular care when evaluating the risks associated with an investment in the Notes and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investments in emerging markets are suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, such investments, and investors are therefore urged to consult with their own legal and financial advisers before making an investment in the Notes.

Political Risks

Political and governmental instability in the Russian Federation

Since 1991, the Russian Federation has sought to transform itself from a one-party state with a centrally planned economy into a democracy with a market-oriented economy. As a result of the sweeping nature of the reforms, and the limited success of some of them, the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations of the 1990s, as well as to unrest by some social and ethnic groups.

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

Vladimir Putin, the recently elected Russian President, is generally credited with having increased governmental stability and continued the economic reform process, which made the political and economic situation in Russia more conducive to investment. On 4 December 2011, the State Duma elections were held and, on 4 March 2012, presidential elections were held in the Russian Federation. Although the structure of political forces in the State Duma did not change substantially and the election of Mr. Putin is a sign of continuity in Russian politics, it is still unclear what outcome the most recent State Duma and presidential elections might have on the Russian political system.

While the Russian political system and the relationship between the Russian President, the Russian Government and the State Duma currently appear to be stable, future political instability could result from deterioration in the overall economic situation, including any decline in standards of living, as well as from the results of elections of the State Duma and the Russian President in 2011-2012. Shifts in government policy and regulation in the Russian Federation are less predictable than in many Western democracies and could disrupt or reverse political, economic, regulatory and other reforms. Any significant change in, or suspension of, the Russian government's programme of reform in Russia, major policy shifts or lack of consensus between the Russian President, the Russian government, the State Duma and powerful economic groups could lead to a deterioration in Russia's investment climate that might limit the ability of RAB to obtain financing in the international capital markets or otherwise have a material adverse effect on RAB's business, results of operations, financial condition and prospects.

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

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

Military conflicts and international terrorist activity and natural disasters have historically had a significant effect on international finance and commodity markets. For example, the military conflict in August 2008 between Russia and Georgia involving South Ossetia and Abkhazia resulted in significant overall price declines on the Russian stock exchanges. In addition, ethnic, religious, historical and other divisions have, on occasions, given rise to tensions and, in some cases, military conflicts and terrorist attacks. Thus, the conflict in the Russian region of Chechnya in the late 1990s and into the 2000s brought normal economic activity within Chechnya to a halt for a period of time and adversely affected the economic and political situation in neighbouring regions. Violence and attacks relating to conflicts in the North Caucasus also spread to other parts of Russia and resulted in terrorist attacks in Moscow. Most recently, suicide bombings were carried out in two Moscow metro stations on 29 March 2010 and at the Moscow Domodedovo airport on 24 January 2011 and resulted in 76 fatalities in the aggregate. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on Russia's political stability, as well as the international financial and commodities markets and the global economy.

Economic Risks

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

Since the dissolution of the Soviet Union, the Russian Federation experienced in the past and/or is currently experiencing various adverse trends and/or conditions, including the following:

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

The Russian economy has been subject to abrupt downturns in the past. In addition, as Russia produces and exports large quantities of crude oil, natural gas and other commodities, the Russian economy is particularly vulnerable to fluctuations in the prices of crude oil, natural gas and other commodities on the world market, which reached record high levels in the first half of 2008 and have since experienced high levels of volatility, including significant decreases.

In late 2008, at the outset of the global economic downturn, the Russian Government announced plans to institute more than US$200 billion in emergency financial assistance in order to ease taxes, refinance foreign debt and encourage lending. However, these measures had a limited effect, although there has been some improvement, and the Russian economy has not yet fully recovered from the economic downturn. From 2008-2009, the impact of the global economic downturn on the Russian economy led to, among other things, several suspensions of trading on MICEX and RTS by market regulators since September 2008, a reduction in Russian GDP and the disposable income of the general population, a severe impact on bank liquidity, a significant devaluation of the rouble against the U.S. dollar and euro, a sharp decrease in industrial production and a rise of unemployment. See "*—Turmoil in global credit markets has already adversely affected, and may continue to adversely affect, the Russian economy, the Russian banking industry in general and RAB in particular*". Deterioration of the world economy could result in decreases or fluctuations in world commodity prices, which would have a material adverse effect on the Russian economy, which in turn could have a material adverse effect on RAB's business, financial conditions, results of operations and prospects.

Downturns in the global financial markets and global economic crises may have an adverse effect on the Russian economy and on RAB's business, financial condition, results of operations and prospects

Russia's economy has been adversely affected by the current global financial and economic crisis and could be adversely affected by market downturns and economic crises or slowdowns elsewhere in the world in the future. Since mid-September 2008, adverse developments in the financial markets outside the Russian Federation and an increase in the perceived risks associated with investing in emerging economies have resulted in further reductions in the levels of foreign direct and portfolio investment in the Russian Federation that had already been weakened by other developments and have otherwise adversely affected the Russian economy. In particular, because the Russian Federation produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market. There has been a dramatic decrease in the price of oil since it reached its peak in the summer of 2008, resulting in sharp decreases in the Russian Government revenues, which in turn has had a significant negative impact on the Russian economy. These developments could adversely affect RAB's ability to receive capital injections from the Russian Government and could adversely affect the RAB Group's business, financial condition, results of operations and prospects.

In addition, military conflicts, international terrorist activity and natural disasters have had a significant effect on international finance and commodity markets. Any future military conflicts, acts of terrorism or natural disasters could have an adverse effect on the international financial and commodities markets and the global economy. As the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts causing disruption of Russian oil and gas exports could negatively affect the Russian economy and thereby adversely affect the RAB Group's business, results of operations, financial condition or prospects.

Exchange rate fluctuations and repatriation restrictions could adversely affect the value of investments in the Russian Federation

While the rouble appreciated against the U.S. dollar in real terms each year during the 2001 to 2007 period, it has experienced significant depreciation against the U.S. dollar in 2008 and 2009, largely as a result of the ongoing global financial and economic crisis and the significant fall in prices of oil and commodities that are principal generators of Russia's export earnings. The rouble to U.S. dollar exchange rate fluctuated dramatically in 2008 and 2009 ranging from 23.13 roubles per U.S.$1.00 as of 16 July 2008 to its peak 36.43 roubles per U.S.$1.00 as of 19 February 2009. Further U.S. dollar exchange rate decreased to 30.24 roubles per U.S.$1.00 as of 31 December 2009, 30.48 roubles per U.S.$1.00 as of 31 December 2010 and 32.20 roubles as of 31 December 2011. It is therefore uncertain whether the current exchange rate level will be maintained.

The ability of the Russian Government and the CBR to prevent further depreciation of the rouble against the major currencies depends on many political and economic factors, including their ability to control inflation and the availability of foreign currency reserves. In the second half of 2008 and during 2009, the Russian Government and the CBR allowed the rouble to gradually decline in value. In January 2009, the CBR set the upper limit of the rouble's trading band against the U.S. dollar/euro basket at 41 roubles in order to help stabilise Russia's balance of foreign debt payments against its current reserves. Additionally, the CBR has stated in the past that it may reset the upper limit of the rouble's trading band against the U.S. dollar/euro basket in the event of a significant and protracted decline in oil prices. While the value of the rouble stabilised in the immediate aftermath of this action of the CBR, and has remained relatively stable since that time, it is uncertain whether this stability will be maintained in the longer term.

A depreciation of the rouble against the U.S. dollar and other major currencies could negatively affect RAB in a number of ways, including, among other things, by increasing the actual cost to RAB of financing its foreign currency-denominated liabilities and by making it more difficult for Russian borrowers to service their foreign currency-denominated loans. A depreciation of the rouble against the U.S. dollar could have a material adverse effect on RAB's business, financial condition, results of operations and prospects.

Furthermore, although Russia's current international 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 deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. The lack of growth of the Russian currency market in the medium or long term may adversely affect RAB's business, financial conditions, results of operations and prospects.

Inflation may result in decreased demand for the RAB Group's products and services

According to Russian Government estimates, inflation in the Russian Federation was 8.8 per cent. in 2009, 8.8 per cent. in 2010 and 6.1 per cent. in 2011. Any return to significant and sustained inflation, similar to that which Russia experienced in the 1990s could lead to market instability, reductions in consumer purchasing power and an erosion of consumer confidence. Any one of these events could lead to decreased demand for RAB Group's products and services and have a material adverse effect on the RAB Group's business, results of operations, financial condition and prospects.

Lack of reliable official data in Russia makes business planning uncertain and may impair the ability of Russian companies to plan effective strategies

Official statistics and other data published by Russian federal, regional and local governments, federal agencies and the CBR are in certain respects less complete or reliable than those of some of the more developed market economies of North America and Europe. Official statistics may also be produced on different bases than those used in Western countries. Due to the unavailability of alternative reliable sources of country-specific data, Russian companies have to rely on such official statistical data in their business planning. As a result, some assumptions made by Russian companies in their business plans may prove to be incorrect. The lack of accurate statistical data for use in business planning may contribute to the overall volatility of the Russian economy and may adversely affect the profitability of many of RAB's corporate customers, which would have a material adverse effect on RAB's business, financial position, results of operations and prospects, as well as the value of the Notes.

In preparing this Base Prospectus, RAB has relied on and referred to information from various third-party sources and its own internal estimates. For example, a significant portion of information concerning RAB's competitors and banking industry in Russia has been derived from publicly available information, including the CBR. RAB and the Issuer have not independently verified them and, therefore, any discussion of matters relating to Russia in this Base Prospectus is subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Legal Risks

Risks related to the Russian legal system and legislative weaknesses

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

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Russian Federal Constitution, the Civil Code of the Russian Federation (the "**Civil Code**") and by other federal laws, and by decrees, orders and regulations issued by the President, the Russian Government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There may be inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;

- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion. There is a risk that state authorities may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions;

- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;

- there is a lack of judicial and administrative guidance on interpreting applicable rules and judicial decisions have limited or no precedent value;

- the Russian Federation has a judiciary with limited experience in interpreting and applying market-oriented legislation that is vulnerable to economic and political influence; and

- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor would be able to obtain effective redress in a Russian court.

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

Lack of developed corporate and securities laws and regulations in the Russian Federation may result in fines or other enforcement measures or could affect the structure of the Programme

Russian corporate, banking and securities rules and regulations can change rapidly, which may adversely affect RAB's ability to comply with such rules and regulations and to operate effectively. It is often unclear whether regulations, decisions and letters issued by the various regulatory authorities apply to RAB. In addition, the Russian securities market has been regulated by several different authorities including the FSFM and the CBR and the regulations issued by these various authorities have not been always coordinated and may be contradictory. As a result, despite its best efforts at compliance, RAB may be subject to fines or other enforcement measures, including the suspension or revocation of its licences, in connection with its operations in the Russian capital markets including the issuance by RAB of debt instruments. Should RAB become subject to such fines or other enforcement measures, it could have a material adverse effect on its business, financial condition, results of operation or prospects.

It should also be noted that the laws of the Russian Federation are often vague, change rapidly, are sometimes contradictory and are therefore difficult to interpret. There can be no assurance that Russian legislation and regulations will not be altered, in whole or in part, or that a Russian court or other regulatory authority will not interpret such rules and regulations in such a way that the arrangements embodied in the Programme documents or any other transaction thereunder are rendered illegal, null or void, whether retroactively or otherwise, or are adversely affected in any way.

Unlawful or arbitrary government action in Russia may have an adverse effect on the RAB Group's business, financial condition, results of operations and prospects

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

Russian corporate governance and disclosure laws apply to RAB, and these laws are less stringent than comparable laws in other jurisdictions

The rights of RAB's shareholders, the responsibilities of RAB's management, RAB's public reporting and disclosure requirements and the regulations to which RAB is subject differ significantly from those applicable to comparable financial institutions in other jurisdictions.

RAB's charter and internal regulations, the regulations governing Russian banks and the laws governing companies established in the Russian Federation collectively regulate RAB's corporate affairs. See "*Appendix A — Overview of the Russian Banking Sector and Regulation in the Russian Federation*". The rights of shareholders and the responsibilities of members of RAB's Supervisory Board and RAB's Management Board under Russian law are different from those applicable to corporations organised in other jurisdictions, and RAB may be subject to, requirements not generally applicable to corporations organised in other jurisdictions.

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. Russian accounting legislation continues to develop and has been subject to change on a regular basis in recent years. As of 1 January 2004, all credit organisations in the Russian Federation must prepare financial statements in accordance with IFRS in addition to the statutory accounting reports in accordance with RAS.

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 RAB longer than comparable companies in other jurisdictions to prepare its consolidated annual and condensed interim financial statements, in accordance with IFRS. This prevents the RAB Group from generating certain information required by Industry Guide 3 under the Securities Act (Statistical Disclosure by Bank Holding Companies) on an IFRS basis.

In accordance with the Banking Law, RAB is required to publish certain RAS accounting reports quarterly, including a balance sheet, income statement and information on its assets, capital reserves and allowances for non-performing loans, which do not contain all of the information contained in RAB's IFRS consolidated financial statements and are not prepared in accordance with IFRS. RAB 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, RAB is required to file quarterly reports with the federal governmental authority responsible for the supervision of the securities market of the Russian Federation, which is currently the FSFM. These reports include certain information about RAB, 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).

A principal objective of the securities laws of the United States, the United Kingdom and certain other countries is to promote the full and fair disclosure of all material corporate information to the public. Although RAB is subject to Russian law disclosure requirements discussed above and despite recent initiatives to improve corporate transparency in the Russian Federation, these disclosure requirements are less stringent that the comparable requirements in the United States, the United Kingdom or certain other jurisdictions and there is less publicly available information about RAB than there is for comparable companies in the United States, the United Kingdom or certain other jurisdictions, which could significantly limit the ability of investors to make informed decisions in respect of transactions involving securities of Russian companies.

The Russian taxation system is relatively underdeveloped

The Russian Government is constantly reforming the tax system by redrafting parts of the Tax Code of the Russian Federation (the "**Russian Tax Code**"). These changes have resulted in some improvement in the tax climate. As of 1 January 2009 the corporate profits tax rate was reduced to 20 per cent. For individuals who are tax residents in Russia the current personal income tax rate is 13 per cent. The general rate of VAT is 18 per cent. Since 1 January 2010 the Unified Social Tax was replaced by social security charges to the Russian pension, social security and medical insurance funds. Since 1 January 2012 the total security charge generally equals 30 per cent. Since 1 January 2012 the new Russian transfer pricing legislation is in force.

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretations and inconsistent and selective enforcement. In accordance with the Constitution of the Russian Federation, laws that introduce new taxes or worsen a taxpayer's position cannot be applied retroactively. Nonetheless, there have been several instances when such laws have been introduced and applied retroactively.

Despite the Russian Government's taking steps to reduce the overall tax burden in recent years in line with its objectives, there is a possibility that the Russian Federation would impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on the RAB Group's business, results of operations and financial condition.

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

Generally, taxpayers are subject to tax audits for a period of three calendar years immediately preceding the year in which the decision to conduct a review has been taken. This provision of the Tax Code relates to the fact that the tax authorities are prohibited from carrying out repeat on-site tax audits in respect of the same taxes for a tax period which has already been audited. The statute of limitations for the commission of a tax offence is also limited to three years from the date on which it was committed or from the date following the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence). Nevertheless, based on current judicial interpretation, there may be cases where the tax offence statute of limitations may be extended beyond three years.

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

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

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

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

New Russian transfer pricing rules may subject RAB's transfer prices to challenge by the Russian tax authorities.

Since 1 January 2012 new transfer pricing legislation has been introduced to the Russian tax law.

In summary, this transfer pricing legislation results in new transfer pricing rules, in particular:

- the methods for monitoring the prices of controlled transactions have been expanded;
- the list of controlled transactions has been expanded to include:
    - cross-border transactions with certain types of commodities where the amount of income attributable to one counterparty exceeds 60 million roubles;
    - Russian domestic transactions between related entities if the total annual turnover of such transactions exceeds 100,000 million roubles (300,000 million roubles for 2012 and 200,000 million roubles for 2013);
    - transactions with residents of offshore jurisdictions included in the list established by the Russian Ministry of Finance where the amount of income attributable to one counterparty exceeds 60 million roubles; and
    - transactions between Russian legal entities and related foreign legal entities.

The amended transfer pricing law requires taxpayers to notify the Russian tax authorities as to all controlled transactions (for 2012 and 2013 the notification should be made in case the income attributable to one counterparty exceeds 100 million roubles and 80 million roubles, respectively). Taxpayers must also be required to present to the Russian tax authorities transfer pricing documentation upon their request. Due to uncertainties in the interpretation of the recently introduced transfer pricing legislation, there is a risk that the tax authorities may impose significant additional tax liabilities on the Company as a result of transfer pricing adjustments. The Russian transfer pricing law could have a material adverse effect on RAB's business, results of operations and financial condition.

Social Risks

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

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

Notes, could be materially adversely affected by illegal activities, corruption or by claims implicating RAB in illegal activities.

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

Risks relating to the Issuer

The Issuer is a special purpose vehicle with no independent sources of revenue whose obligations under the Notes are limited to passing on amounts it receives under the relevant Loan Agreement from RAB

The Issuer is a special purpose vehicle which was created specifically for the purpose of issuing loan participation notes in order to finance loans to RAB. The Issuer does not engage in any other activity and does not have any other sources of revenue. The sole purpose of the issue of the Notes of each Series is to provide the funds for the Issuer to finance the corresponding Loan to RAB and the Issuer will be obliged to apply the proceeds from the issue of such Notes solely to financing the corresponding Loan.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes in this Base Prospectus, the obligations of the Issuer to make any such payment will constitute an obligation only to account to the holders of the Notes of the relevant Series on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of such Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer from RAB pursuant to the relevant 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 covenant to pay under the relevant Loan Agreement and the credit and financial standing of RAB.

Risks Relating to the Programme, Notes and the Trading Market

If RAB fails to meet its payment obligations under the Loan Agreement in full, this will result in the Noteholders receiving less than the scheduled amount of principal, interest or other amounts, if any

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

Noteholders have no direct recourse to RAB

Except as otherwise expressly provided in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of a Loan Agreement exists for the benefit of Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the relevant Loan Agreement or have direct recourse to RAB as borrower except through action by the Trustee pursuant to the rights granted to the Trustee in the Trust Deed. Under the Trust Deed and the Terms and Conditions of the Notes, the Trustee shall not be required to take proceedings to enforce payment under a Loan Agreement unless it has been indemnified or secured by the Noteholders to its satisfaction. See "*Terms and Conditions of the Notes*".

In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by RAB of its obligations under the Loan Agreement. See "*Terms and Conditions of the Notes — Status*".

Noteholders' claims under a Subordinated Loan will be subordinated to those of certain other creditors under Russian insolvency law

RAB's obligations in respect of the payment of principal and interest under any Subordinated Loans are subordinated in right of payment to the claims of its unsubordinated creditors. As a result, in case of the insolvency, liquidation, dissolution, winding up or analogous events of RAB, RAB'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. See "*Overview of the Russian Banking Sector and Regulation in the Russian Federation – The Insolvency Regime for Credit Organisations*". Such remaining assets may not be sufficient to satisfy RAB's obligations under the relevant Subordinated Loan Agreement. Any Subordinated Loan Agreement may not prohibit or limit the incurrence by RAB of unsubordinated indebtedness, other subordinated indebtedness that ranks equally with the indebtedness under Subordinated Loans or other liabilities by RAB. Incurrence of such additional indebtedness or other liabilities could adversely affect RAB's ability to make payments under any Subordinated Loans. As of 31 December 2010, RAB had 46,545 million roubles of subordinated debt and 257,559 million roubles of other borrowed funds. As of 31 December 2011, RAB had 57,192 million roubles of subordinated debt and 342,499 million roubles of other borrowed funds. RAB anticipates that, from time to time, it will incur additional indebtedness, including unsubordinated indebtedness. In addition, in order for a Subordinated Loan to be eligible for inclusion as tier two capital under the CBR regulations, the terms of each Subordinated Loan Agreement must provide for prior CBR approval of any early payment thereof. Moreover, following the occurrence of certain events of default (which will be defined in the relevant Subordinated Loan Agreement), amounts payable under each Subordinated Loan Agreement may be declared immediately due and payable. However, such actions may not result in the payment of principal, accrued interest and additional amounts, if any, due under any Subordinated Loan Agreement being paid in full, as such payments may be made only after all unsubordinated obligations are satisfied in full.

If the Notes are treated as equity for U.S. income tax purposes, there may be adverse consequences for U.S. taxpayers

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the Notes. The Issuer expects the Notes to be treated as debt for U.S. federal income tax purposes. However, no ruling will be obtained from the Internal Revenue Service ("**IRS**") with respect to the characterisation of the Notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the Notes. If, due to the capital structure of the Issuer or otherwise, 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" (a "**PFIC**"). Prospective investors should consult their tax advisers regarding the characterisation of the Notes and the consequences of owning an equity interest in a PFIC.

Payments on the relevant Loan may be subject to Russian withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident legal entity or organisation are subject to Russian withholding tax at a rate of 20 per cent. for legal entities and 30 per cent. for non-resident individuals, unless such withholding is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on professional advice received, RAB believes that interest payments on the relevant Loan made to the Issuer should not be subject to withholding tax under the terms of the applicable Convention between the Grand Duchy of Luxembourg and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital signed on June 28, 1993 (the "Convention").

The new protocol to the Convention was signed in 2011. The protocol introduces certain changes to the provisions of the Convention. Such changes include inter alia a limitation of benefits of a resident of one contracting state if the main purpose or one of the main purposes of the establishment and existence of such resident was receipt of treaty benefits; further exchange of information procedures are extended. Once the protocol is ratified and becomes effective, it may have an impact on future payments under the Loan Agreement.

The application of tax benefits under the double tax treaty could be influenced by changes in the position of the Russian tax authorities to look beyond the mere form of the transaction while assessing the availability of treaty benefits.

A recent letter of the Ministry of Finance of the Russian Federation No. 03-08-13/1, dated December 30, 2011 expressed the view that the noteholders were the beneficial owners of interest payable by a Russian bank on the proceeds of a Eurobond offering that were placed as a deposit with the Russian bank by the issuer of the notes (the issuer was a special purpose vehicle established by the Russian bank). Although that letter refers to a deal structure which is not the same as the transaction structure described in the Prospectus, and refers to an issuer domiciled in a jurisdiction which is different from the jurisdiction of the Issuer, RAB cannot exclude the risk that the conclusions in the letter could potentially be applied by the Russian tax authorities to the payments of interest in respect of the Loan.

RAB is aware of at least one recent instance where the Russian tax authorities argued with respect to a transaction similar to the one described in the Prospectus that the noteholders rather than the issuer should be regarded as the actual recipients of the interest income. The issuer in that particular transaction was located in a jurisdiction which is different from the Issuer's jurisdiction. This transaction is currently being discussed, but, to the best of RAB's knowledge, has not been brought to court. If, in the instance above, the issue is brought before a Russian court and the court decides in favour of the Russian tax authorities, such decision could result in impairing the Issuer's and RAB's position to benefit from the withholding tax exemption provided by the respective Convention.

On the other hand, amendments to the Russian Tax Code would nevertheless allow the interest on the Loan not to be subject to withholding, if such amendments are adopted. In particular, the Ministry of Finance of the Russian Federation is seeking to introduce into the Russian Tax Code an exemption from the obligation to withhold tax from interest paid under transactions similar to the transactions described herein. The relevant official communication and the draft amendments to the Russian Tax Code were posted on the website of the Ministry of Finance of the Russian Federation on 20 February 2012.

According to these draft amendments, in respect of Eurobonds issued prior to 1 January 2013, Russian borrowers are exempted from the obligation to withhold Russian withholding tax from interest payments made to foreign companies on debt obligations arising in connection with issuances by these foreign companies of quoted bonds, provided that (1) there is a double tax treaty between the Russian Federation and the jurisdiction of tax residence of the issuer, and (2) the issuer duly confirms its tax residence. The draft law does not provide tax exemption for the holders of Eurobonds from Russian tax on interest payments, although at present there is no mechanism or requirement for non-residents to self-assess and pay the tax.

For the purpose of the above draft amendments, "quoted bonds" mean bonds and other debt obligations listed on one or more foreign stock exchanges specified in the list approved by the Federal authority for securities markets in consultation with the Ministry of Finance of the Russian Federation and/or rights to which bonds or obligations are recorded by a recognized depositary-clearing organisation located in a country which has concluded a double tax treaty with the Russian Federation which is specified in the list approved by the Federal authority for securities markets in consultation with the Ministry of Finance of the Russian Federation. To the best of our knowledge, these lists have not been drafted yet.

According to the official communication on the website of the Ministry of Finance of the Russian Federation, based on its consultations with the Federal Tax Service there are no plans to challenge borrowers in connection with payments relating to Eurobonds issued during 2012 in respect of which borrowers are expected to be released from any obligation as a tax agent under the proposed legislative amendments. The law should generally apply retrospectively to interest payments made after 1 January 2007, which, given the general three year limitation for tax audits, should mean that if the law is adopted tax agents in the above situation should not be challenged for not having withheld tax in prior periods. However, as discussed above, this communication represents merely the intention of the fiscal authorities and not a binding commitment as to future actions by the authorities. The above amendments to the Russian Tax Code have not yet been discussed by the State Duma, therefore, we cannot guarantee that important aspects of this draft law will not change significantly; any such changes could have either positive or, alternatively, adverse effect on the tax treatment of the transaction described herein.

If any payments under the relevant Loan are subject to any Russian or Luxembourg withholding tax, RAB will be obliged to increase the amounts payable as may be necessary to ensure that the recipient receives a net amount equal to the amount it would have received in the absence of such withholding taxes. In addition, payments in respect of the Notes will, except in certain limited circumstances, be made without deduction or withholding for or on account of Luxembourg taxes except as required by law. Based on professional advice that it has received, RAB believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of Luxembourg taxes as described in "*Taxation—Luxembourg*". In the event of such a deduction or withholding, the Issuer will only be required to increase payments to the extent that it receives corresponding amounts from RAB under the relevant Loan Agreement. While the Loan Agreement provides for RAB to pay such corresponding amounts in these circumstances, there are some doubts as to whether a tax gross up clause such as that contained in the Loan Agreement is enforceable under Russian law. Due to the limited recourse nature of the Notes, if RAB fails to pay any such gross-up amounts, the amount payable by the Issuer under the Notes will be correspondingly reduced. Any failure by RAB to increase such payments would constitute an Event of Default under the Loan Agreement. In certain circumstances, including if RAB becomes required, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application) in, the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein, to make or increase any payment due pursuant to any Loan Agreement, it may prepay the principal amount of the relevant Loan together with accrued interest and/or additional amounts payable (if any) thereon, and all outstanding Notes corresponding to such Loan would then be redeemed by the Issuer (to the extent that it has actually received the relevant funds from RAB).

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

There is a risk that under the Russian thin capitalisation rules in certain circumstances where parties related to RAB (i.e. any foreign corporate, direct or indirect 20 per cent. shareholder in RAB's charter capital, affiliates thereof, or affiliates of RAB, collectively the "**Related Parties**") hold Notes, part or all of the interest to be paid by RAB under the Loan could be reclassified as dividends for Russian tax purposes. This would occur if the overall amount of the "controlled debt" of RAB , calculated on an individual related party basis, exceeded the capital of RAB , calculated in accordance with the requirements of the Russian Tax Code, by more than 12.5 times. Interest in the amount of such excess would be reclassified as dividends for Russian tax purposes. There is a risk that the "controlled debt" of RAB may include all or part of the Loan, to the extent that any Related Parties acquire any portion of the Notes.

Such reclassification of all or a portion of the interest under the Loan as dividends could potentially lead to the imposition of Russian withholding tax on such reclassified interest at the rate of 15 per cent., subject to possible tax relief under the double tax treaty between the Russian Federation and Luxembourg, and the non-deductibility of such interest for Russian profit tax purposes by RAB. Also, such withholding on dividends would trigger the gross-up obligation of RAB discussed above.

Based on the assumption that the amount of RAB's "controlled debt" calculated in accordance with the requirements of Article 269 of the Russian Tax Code does not exceed by more than 12.5 times the amount of "own capital" ("*собственный капитал*") of RAB calculated on an individual Related Party basis, the Russian thin capitalisation rules should not apply currently to the interest on the Loan. However, changes in these assumptions could result in all or a portion of such interest being subject to the thin capitalisation rules in the future so as to treat "excess interest" related to the Loan as a dividend under the double tax treaty between the Russian Federation and Luxembourg subject to 15 per cent. withholding tax applicable to dividends (subject to possible Luxembourg or other DTT relief, if any) rather than zero withholding tax applicable to interest. Such withholding on dividends would trigger the gross-up obligation of RAB discussed above.

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

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

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

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

Foreign judgments and arbitral awards may not be enforceable against RAB

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

In the absence of an applicable treaty or convention providing for the recognition and enforcement of judgments in civil and commercial matters between the United Kingdom or the United States and the Russian Federation, a judgment of a court in England or the United States may be recognised and enforced in the Russian Federation only on the grounds of reciprocity. Although a number of Russian court decisions indicate this possibility, there has only been one instance in which a Russian court recognised and enforced an English court judgment on this basis. In each case, reciprocity must be established and, in the absence of a developed court practice, it is difficult to predict whether a Russian court will be inclined to recognise and enforce an English or United States court judgment on the grounds of reciprocity in any particular instance.

The Facility Agreement is governed by English law and provides that all disputes, controversies, claims and causes of action brought by any party thereto shall be settled by arbitration. The Russian Federation is a party to the 1958 United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards, although the Issuer has the right to have disputes settled in the courts of England. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the lack of experience of Russian courts in international commercial transactions, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts' inability to enforce such orders and corruption.

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

Russian bankruptcy law has been the object of limited court decisions and thus it is impossible to predict with certainty how claims by the Lender or the Trustee on behalf of the Noteholders against RAB would be resolved in the event of RAB's bankruptcy

Russian bankruptcy law differs in many respects from comparable law in the developed countries and is subject to varying interpretations. Federal Law No. 127-FZ "On Insolvency (Bankruptcy)" dated 26

October 2002, as amended (the "**Insolvency Law**"), and Federal Law No. 40-FZ "On Insolvency (Bankruptcy) of Credit Organisations" dated 25 February 1999, as amended (the "**Bank Insolvency Law**"), set forth the priority in which claims rank in insolvency. See "*Appendix A — Overview of the Russian Banking Sector and Regulation in the Russian Federation — The Insolvency Regime for Credit Organisations — Insolvency Proceedings — Priority of claims*". As a result of limited court practice, it is impossible to predict with certainty how claims by the Lender or the Trustee on behalf of the Noteholders against RAB would be resolved in the event of RAB's bankruptcy and whether the Lender, the Trustee or the Noteholders would be able to recover sums owed by RAB under the Loan Agreement in the event of RAB's insolvency. Specifically, in the course of RAB's bankruptcy proceedings, the creditors' claims (including claims by the Lender or the Trustee on behalf of the Noteholders under the relevant Loan Agreement) would need to be presented and satisfied only within the bankruptcy proceedings framework established by the mandatory provisions of bankruptcy legislation. The relevant provisions of bankruptcy legislation provide that the claims of the creditors of a bankrupt bank are fixed and satisfied (in the thus fixed amount) in roubles (including claims denominated in foreign currency). For these purposes the foreign currency claims would be converted into roubles at the rate established by the CBR as of the date of the revocation of RAB's banking licence (which is a prerequisite to initiating bankruptcy proceedings with respect to a Russian bank).

In the event of the insolvency of RAB, the existence of priority claims and secured claims may substantially decrease the amount of funds and assets that may be available for making payments under the Loan and, as a result, the Notes.

Russian regulatory capital regulations are relatively new and subject to further review and development

With respect to regulatory capital for banks and subordinated loans in particular, the concept of subordinated debt is relatively new in Russia, and the rules governing subordinated debt may be subject to further review, clarification and development. In particular, the regulatory capital regulations of the CBR are currently rudimentary as compared with regulatory capital legislation enacted in other jurisdictions, which could lead to uncertainty and a lack of clarity in the interpretation and application of such regulations. In this respect, RAB is relying on letters issued by the CBR in response to RAB's requests to confirm, inter alia, that the CBR agrees with the structural aspects of the issue of a Subordinated Series. In addition, RAB is relying on conversations that it had with representatives of the CBR both before and after the receipt of these letters.

Such letters issued by the CBR to RAB, as well as such conversations, are informal individual clarifications and do not have the effect of legislation, and as such they may, at any time, be revised, revoked and/or disapplied.

Usually, following the CBR's preliminary approval and conclusion (*zakluchenie*) on the regulatory capital treatment of a Subordinated Loan and on the basis of the discussion in the paragraph above, the CBR delivers its final approval and conclusion (*zakluchenie*) on the eligibility of a Subordinated Loan for inclusion as tier two capital between 30 and 60 days after the issue date of the corresponding Subordinated Series. There can, however, be no guarantee that such approval and conclusion in respect of a Subordinated Loan will be granted. If the CBR does not initially grant such approval or conclusion in respect of a Subordinated Loan within 60 days after the date of the relevant Subordinated Loan Agreement, RAB will have the right to prepay that Subordinated Loan pursuant to provisions of the relevant Subordinated Loan Agreement, in which circumstances the corresponding Subordinated Series will become redeemable on a pro rata basis corresponding to the amount received in respect of the relevant Subordinated Loan Agreement.

If such approval and conclusion are granted by the CBR, it is possible that the interpretation of such capital treatment changes or that the regulatory capital rules are subsequently amended or clarified. As a result, RAB could lose the eligibility for inclusion as tier two capital granted to each Subordinated Loan and, therefore, exercise the right (described below) to prepay any Subordinated Loan which would result in the early repayment of corresponding Subordinated Series.

Under the relevant Subordinated Loan Agreement, RAB will, inter alia, have the right, following the CBR's delivery of the final confirmation as being eligible for inclusion as tier two capital, to prepay the relevant Subordinated Loan, in whole but not in part, at any time if, as a result of any amendment or clarification of, or change in (including a change in interpretation or application of), applicable requirements of the CBR, such Subordinated Loan would cease to be eligible for inclusion as tier two capital. If a Subordinated Loan is prepaid pursuant to this provision, the corresponding Subordinated Series will become due and repayable at its principal amount plus interest accrued and all other amounts payable by RAB, if any, on a pro rata basis corresponding to the amount received in respect of the Subordinated Loan being so redeemed.

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

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

The lack of an existing market for the Notes could reduce their value

There is no existing market for the Notes. The Issuer intends to apply for the Notes to be admitted to the Official List of the Irish Stock Exchange and to be admitted to trading on its regulated market. However, there can be no assurance that an active trading market for the Notes will develop or be maintained after such listing and admission to trading. If an active trading market for the Notes were not to develop or could not be maintained, the market price and liquidity of the Notes may be adversely affected. In addition, markets in recent years have experienced significant price fluctuations. These fluctuations were often unrelated to the operating performance of the companies whose securities were traded on such markets. Market fluctuations as well as adverse economic conditions have negatively affected the market price of many securities and may affect the market price of the Notes.

In addition, the Noteholders should be aware that there is a general lack of liquidity in the secondary market for instruments similar to the Notes. In particular, the disruptions recently experienced in the global capital markets have led to reduced liquidity and increased credit risk premiums and have therefore resulted in a reduction in investment in securities globally.

Credit ratings of the Russian Federation, RAB or the Notes could adversely affect the value of the Notes

As of 1 April 2011, the outstanding loan participation notes of the Russian Federation are rated Baa1 by Moody's, and BBB by Fitch.

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 agency. 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 Community and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Fitch is a credit rating agency established and operating in the European Community prior to 7 June 2010 and is registered in accordance with the CRA Regulation. Moody's is a credit rating agency established outside the European Community and is not registered under the CRA Regulation. The ratings issued by Moody's are endorsed in accordance with the CRA regulation by Moody’s Investors Service Ltd., which is established in the European Union and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs). Any credit ratings on the Notes do not mean that the Notes are a suitable investment. Similar ratings on different types of notes do not necessarily mean the same thing. 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. Ratings also 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.

Any changes in the credit ratings of the Russian Federation, RAB or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser would be willing to pay for the Notes.

Luxembourg Insolvency Laws

Under Luxembourg insolvency laws, the ability of Noteholders to receive payment from the Issuer in respect of the Notes may be subject to significant limitations. Under Luxembourg law, the following types of proceedings (together referred to as insolvency proceedings) may be initiated against an entity having its registered office or centre of main interest (as defined in the EC Regulation 1346/2000 of 29 May 2000 on insolvency proceedings (the "**Regulation 1346/2000**")) in Luxembourg:

bankruptcy proceedings (*faillite*), the commencement of which may be requested by the Issuer or by any of its creditors. The Issuer itself has the obligation to file for bankruptcy within one month of it being in a state of cessation of payments (*cessation des paiements*). Following such a request, the courts having jurisdiction may commence bankruptcy proceedings if the Issuer (i) is in a state of cessation of payments (*cessation des paiements*) and (ii) has lost its commercial creditworthiness (*ébranlement de credit*). If a court finds that these conditions are satisfied, it may also commence bankruptcy proceedings ex officio (absent a request made by the Issuer or a creditor). The main effect of such proceedings is the suspension of all measures of enforcement against the Issuer, except, subject to certain limited exceptions, for secured creditors, and the payment of the creditors in accordance with their rank upon realisation of the assets of the Issuer;

controlled management proceedings (*gestion contrôlée*), the commencement of which may only be requested by the Issuer and not by its creditors; and

composition proceedings (*concordat préventif de faillite*), which may be requested only by the Issuer (subject to obtaining the required majority consent of its creditors) and not by its creditors.

In addition to the proceedings described above, the ability of Noteholders to receive payment on the Notes may be affected by a decision of a court to grant a stay on payments (*sursis de paiements*) or to put the Issuer into judicial liquidation (*liquidation judiciaire*). Judicial liquidation proceedings may be commenced at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that is in violation of the commercial code or of the laws governing commercial companies. The management of such liquidation proceedings will generally follow the rules of bankruptcy proceedings.

The Issuer's liabilities in respect of the Notes will, in the event of the liquidation of the Issuer following bankruptcy or judicial liquidation proceedings, rank lower than the costs and expenses of liquidation (including any debt incurred for the purpose of such liquidation) and those of the Issuer's debts entitled to priority under Luxembourg law. Preferential debts under Luxembourg law include inter alia:

(i) money owed to the Luxembourg revenue;

(ii) value added tax and other taxes and duties owed to the Luxembourg customs and excise;

(iii) social security contributions; and

(iv) remuneration owed to employees.

Assets over which a security interest has been granted and duly perfected will in principle not be available for distribution to unsecured creditors (except after enforcement and only to the extent a surplus is realised, and subject to the applicable priority rules and liens and privileges arising from mandatory laws). During insolvency proceedings, all enforcement measures by unsecured creditors are suspended. The ability of secured creditors to enforce their security interest may also be limited, in particular in the event of controlled management proceedings automatically causing the rights of secured creditors to be frozen until a final decision has been made by the court as to the petition for controlled management and may be affected thereafter by a reorganisation order issued by the relevant Luxembourg court, subject to the exceptions under the Luxembourg law of 5 August 2005 on financial collateral arrangements.

Furthermore, prospective investors should note that declarations of default and any subsequent acceleration (such as acceleration upon the occurrence of an event of default) might not be enforceable during controlled management proceedings.

Luxembourg insolvency laws may affect transactions entered into or payments made by the Issuer during the period before any liquidation or administration. If the liquidator or administrator can demonstrate (including, without limitation, in relation to the Issuer, any *commissaire, juge-commissaire, liquidateur* or *curateur* or similar official) that the Issuer has given "preference" to any person by defrauding the rights of creditors generally, regardless of when this fraud occurred, a Luxembourg court has the power, among other things, to void the preferential transaction. If the liquidator or administrator can show that a payment was made during the so-called "suspect period" (which is a maximum of six months and ten days preceding the judgment declaring bankruptcy) and is disadvantageous to the general body of creditors and the party receiving such payment is shown to have known that the bankrupt party had generally stopped making payments when such payment occurred, a Luxembourg court has the power, among other things, to void the preferential transaction.

Regardless of the suspect period, article 448 of the Luxembourg Code of Commerce and article 1167 of the Luxembourg Civil Code (*action paulienne*) provide creditors with the right to challenge any fraudulent payments and transactions made prior to the bankruptcy.

Finally, international aspects of Luxembourg bankruptcy, controlled management or composition proceedings may be subject to Regulation 1346/2000.

Interest on the Notes may be subject to withholding tax

Under EC Council Directive 2003/48/EC on the Taxation of Savings Income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead impose a withholding system in relation to such payments, rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, including Switzerland, and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

The Issuer is not required to pay additional amounts on account of withholding pursuant to the EU Savings Tax Directive.

The Issuer is not required to pay additional amounts on account of withholding pursuant to the EU Savings Tax Directive. If the Principal Paying Agent or any other person by or through whom a payment on the Notes is made or received is required to withhold any amount from any such payment as a consequence of or pursuant to EC Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Tax Directive**") or any law implementing or complying with, or introduced in order to conform to, such Directive, there is no requirement for the Issuer to pay any additional amounts on account of that withholding. In this regard, prospective Noteholders should read the information about the EU Savings Tax Directive in the section entitled "*Taxation*" and consult their advisors.

Risks relating to rouble-denominated Notes

Currency exchange rates can be volatile and unpredictable. See "*Presentation of Financial and Other Information — Exchange Rates*" for a presentation of historical rouble/US dollar exchange rates. The effective yield realised by an investor whose currency of investment or account is a currency other than the rouble will be adversely affected by the depreciation of the rouble against the investor's currency of investment or account. Depreciation of the rouble against the U.S. dollar or euro may thus affect the market value of the Notes and could result in an investor realising a loss on the Notes even if the Notes are timely paid in full.

Prior to June 2004, when a new currency law came into force, the convertibility of the rouble was heavily regulated. Russia has subsequently eliminated most exchange controls. If the Bank of Russia were to reintroduce exchange controls, they could adversely affect the value of the rouble relative to the U.S. dollar or the euro, and impede or prevent bondholders from converting rouble payments into foreign currencies, either of which would materially and adversely affect the market value of the Notes.

If Condition 7(g) (*U.S. Dollar Payment Election*) is specified in the relevant Final Terms as being applicable, for investors (x) holding rouble-denominated Notes through (i) DTC who have not made an election to receive payment in roubles and (ii) Euroclear and/or Clearstream, Luxembourg who have made an election to receive payment in U.S. dollars or (y) whose rouble-denominated Notes are represented by Note Certificates and who have made an irrevocable election to receive payment in U.S. dollars, the rouble interest and principal payments made by RAB will be converted into U.S. dollars by the Currency Agent at a purchase price equal to (a) the bid price then used by the Currency Agent to purchase U.S. dollars with roubles for its own account, or (b) if no such bid price is then available from the Currency Agent, at the bid price for the purchase of U.S. dollars with roubles quoted by a leading foreign exchange bank in London or New York City selected by the Currency Agent, in each case for delivery on the date on which a the relevant interest payment date. Although the Currency Agent may agree in the supplemental paying agency agreement to ensure that each purchase of U.S. dollars with the related aggregate rouble amount will represent the 'best execution' for that trade then available to the Currency Agent, no assurance can be given that the amount of U.S. dollars received by an investor will be equal to the amount of U.S. dollars that the investor could have realised in the foreign exchange market if the interest and principal payments made on the investor's Notes were instead paid directly to the investor in roubles.

Debt instruments denominated and settled in roubles have only been accepted for clearance through Euroclear or Clearstream, Luxembourg since 2007, and only a small number of rouble-denominated debt instruments are now settled through these clearing systems. Due to the relative lack of experience of Euroclear or Clearstream, Luxembourg with settling, clearing and trading rouble-denominated debt instruments, there can be no assurance that the clearing, settlement and trading of rouble-denominated Notes held through Euroclear or Clearstream, Luxembourg will be effected in the same manner as the clearing, settlement and trading of U.S. dollar- or euro-denominated instruments.

Holders of rouble-denominated Notes held through Euroclear or Clearstream, Luxembourg who have not irrevocably elected to receive payments in U.S. dollars will be required to open and maintain a rouble-denominated bank account. There are significant practical difficulties associated with opening rouble-denominated bank accounts outside Russia, and no assurance can be given that holders will be able either to open or maintain an offshore rouble bank account. Holders of such rouble-denominated Notes who do not open and maintain a rouble-denominated bank account will be unable to transfer from their accounts at Euroclear or Clearstream, Luxembourg the rouble payments made on rouble-denominated Notes or any rouble proceeds realised from the sale of their rouble-denominated Notes.

Furthermore, Noteholders whose interests in the rouble-denominated Notes are represented by a Rule 144A Global Note Certificate and who hold their Notes through a sub-account in Euroclear or Clearstream, Luxembourg may not have the option to elect to receive payments on their Notes in U.S. dollars as Euroclear or Clearstream, Luxembourg may not provide such option in practice in such circumstances.

USE OF PROCEEDS

An amount equal to the proceeds from the offering of a Series of Notes will be used by the Issuer for the sole purpose of financing the corresponding Loan to RAB. The net proceeds of such Loan will be used by RAB for general corporate purposes (unless otherwise specified in the relevant Loan Supplement). In connection with the receipt of such Loan, RAB will pay an arrangement fee, as reflected in the relevant Final Terms.

CAPITALISATION OF THE RAB GROUP

The table below sets out the RAB Group's consolidated capitalisation, which RAB considers to be equal to total equity and liabilities, as of 31 December 2011. This information should be read in conjunction with "*Selected Consolidated Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the 2011 Financial Statements included elsewhere in this Base Prospectus.

	As of 31 December 2011	
	(in millions of roubles)	*(in millions of US$)*[(1)]
		(unaudited)
EQUITY		
Share capital	148,798	4,621
Revaluation reserve for premises	1,050	33
Revaluation reserve for investment securities available for sale	(898)	(28)
Retained earnings	7,017	218
Non-controlling interest	808	25
Total equity	**156,775**	**4,869**
LIABILITIES		
Derivative financial instruments	739	23
Due to other banks	90,417	2,808
Customer accounts	607,295	18,860
Promissory notes issued	20,129	625
Other borrowed funds	342,499	10,637
Deferred income tax liability	1,322	41
Current income tax liability	7	0
Other liabilities	6,769	210
Subordinated debts	57,192	1,776
Liabilities directly associated with the disposal groups held for sale	1,282	40
Total liabilities	**1,127,651**	**35,020**
Total equity and liabilities	**1,284,426**	**39,889**

(1) Solely for the convenience of the reader, financial information in roubles as of 31 December 2011 has been translated into U.S. dollars at 32.20 roubles per US$1.00, the conversion rate quoted by the CBR as of 31 December 2011. See "*Presentation of Financial and Other Information — Exchange Rates*".

In February 2012, the RAB Group issued rouble-denominated stock exchange bonds ("*birzhevye obligazii*") in an aggregate principal amount of 10 billion roubles maturing in February 2015. The first three semi-annual coupon payments due on the bonds were set at a rate of 8.20 per cent. per annum.

In February 2012, the RAB Group issued Eurobonds denominated in roubles in an aggregate principal amount of 10 billion roubles maturing in February 2017 with semi-annual payment of interest at a rate of 8.625 per. cent per annum.

In April 2012, the RAB Group issued rouble-denominated bonds in an aggregate principal amount of 10 billion roubles maturing in April 2022. The first six semi-annual coupon payments due on the bonds were set at a rate of 8.55 per cent. per annum.

Save as described above, there have been no material adverse changes in the consolidated capitalisation, indebtedness, guarantees or contingent liabilities of the RAB Group since 31 December 2011.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information which has been derived, subject to rounding, from the RAB Group Financial Statements, taking into account voluntary changes in presentation disclosed in "*Presentation of Financial and Other Information – Voluntary Changes in Presentation*". The following data should be read in conjunction with the RAB Group Financial Statements and the notes thereto.

Consolidated Statement of Comprehensive Income Data

	For the years ended 31 December			
	2009	2010	2011[(1)]	
	(in millions of roubles)			*(in millions of US$) (unaudited)*
Net interest income	**35,077**	**51,624**	**53,615**	**1,665**
Provision for loan impairment	(13,421)	(28,507)	(22,552)	(700)
Net interest income after provision for loan impairment	**21,656**	**23,117**	**31,063**	**965**
Fee and commission income	3,244	3,411	4,834	150
Fee and commission expense	(489)	(589)	(631)	(20)
Gains less losses/(Losses net of gains) from trading securities	106	708	(76)	(2)
Gains less losses/(Losses net of gains) from financial instruments designated at fair value through profit or loss	285	(734)	(749)	(23)
Foreign exchange translation losses net of gains	(2,515)	(1,737)	(8,136)	(253)
(Losses net of gains)/Gains less losses from foreign exchange swaps with settlement dates of more than 30 working days[(2)]	(3,089)	(456)	2,933	91
(Losses net of gains)/Gains less losses from other derivative financial instruments	(553)	(342)	221	7
Gains less losses from dealing in foreign currency	472	289	82	3
Gains less losses from disposal of investment securities available for sale	528	390	324	10
Impairment of investment securities available for sale	(475)	—	—	—
(Provision)/Recovery of provision for other assets and litigation	(319)	192	(78)	(2)
Gains from early redemption of other borrowed funds[(3)]	2,075	41	25	1
Losses net of gains from non-banking activities	(299)	(269)	(1,245)	(39)
Gains on disposal of subsidiaries	—	—	21	0
Other operating income	212	296	927	29
Administrative and other operating expenses	(19,999)	(23,584)	(29,165)	(906)
Profit before tax	**840**	**733**	**350**	**11**
Income tax expense	(589)	(364)	(292)	(9)
Profit for the year	**251**	**369**	**58**	**2**
Other comprehensive income/(loss) for the year, net of tax	**1,434**	**(2)**	**(628)**	**(20)**
Total comprehensive income/(loss) for the year	**1,685**	**367**	**(570)**	**(18)**
Profit/(loss) attributable to:				
Owner of the Bank	358	489	367	11
Non-controlling interest	(107)	(120)	(309)	(9)
Profit for the year	**251**	**369**	**58**	**2**

(1) Solely for the convenience of the reader, financial information in roubles for the year ended 31 December 2011 has been translated into U.S. dollars at 32.20 roubles per US$1.00, the conversion rate quoted by the CBR as of 31 December 2011. See "*Presentation of Financial and Other Information — Exchange Rates*".

(2) Change in the presentation of the derivative financial instruments effected in 2011 (see "*Presentation of Financial and Other Information — Voluntary Change in Presentation*) did not affect the result of RAB Group's operations for the years ended 31 December 2009 and 2010.

(3) This line item is referred to as gains from early redemption of other borrowed funds and buy-back of subordinated debts in respect of the consolidated statement of comprehensive income for the years ended 31 December 2009 and 31 December 2010.

Consolidated Statement of Financial Position Data

	As of 31 December			
	2009	2010	2011[(1)]	
	(in millions of roubles)			(in millions of US$) (unaudited)
ASSETS				
Cash and cash equivalents	94,958	81,010	133,959	4,160
Mandatory cash balances with the CBR	2,974	3,468	8,417	261
Trading securities	18,022	3,563	—	—
Repurchase receivables	3,467	15,240	2,369	74
Financial instruments designated at fair value through profit or loss[(2)]	4,070	9,686	11,225	349
Derivative financial instruments	28,289	20,621	23,296	723
Due from other banks	37,792	34,477	39,569	1,229
Loans and advances to customers	584,407	688,556	903,697	28,065
Investment securities available for sale	7,800	15,687	76,595	2,379
Investment securities held to maturity	7,732	14,922	31,319	973
Deferred income tax asset	400	1,930	5,531	172
Goodwill	298	—	8	0
Intangible assets	1,023	1,563	1,531	48
Premises and equipment	27,446	25,985	25,093	779
Current income tax prepayment	229	191	820	25
Other assets	11,757	11,052	15,896	494
Assets of the disposal groups held for sale	—	2,849	5,101	158
Total assets	**830,664**	**930,800**	**1,284,426**	**39,889**
LIABILITIES				
Derivative financial instruments	167	541	739	23
Due to other banks	192,010	105,578	90,417	2,808
Customer accounts	230,303	386,279	607,295	18,860
Promissory notes issued	12,567	9,874	20,129	625
Other borrowed funds	216,484	257,559	342,499	10,637
Syndicated loans	7,570	—	—	—
Deferred income tax liability	1,815	1,405	1,322	41
Current income tax liability	—	17	7	0
Other liabilities	7,842	4,389	6,769	210
Subordinated debts	46,370	46,545	57,192	1,776
Liabilities directly associated with the disposal groups held for sale	—	1,015	1,282	40
Total liabilities	**715,128**	**813,202**	**1,127,651**	**35,020**
EQUITY				
Share capital	106,973	108,798	148,798	4,621
Revaluation reserve for premises	842	933	1,050	33
Revaluation reserve for investment securities available for sale	14	(101)	(898)	(28)
Retained earnings	6,572	6,851	7,017	218
Equity attributable to the Bank's owner	114,401	116,481	155,967	4,844
Non-controlling interest	1,135	1,117	808	25
Total equity	**115,536**	**117,598**	**156,775**	**4,869**
Total liabilities and equity	**830,664**	**930,800**	**1,284,426**	**39,889**

(1) Solely for the convenience of the reader, financial information in roubles as of 31 December 2011 has been translated into U.S. dollars at 32.20 roubles per US$1.00, the conversion rate quoted by the CBR as of 31 December 2011. See "*Presentation of Financial and Other Information — Exchange Rates*".

(2) This line item is referred to as other instruments designated at fair value through profit or loss in respect of the consolidated statement of financial position as of 31 December 2009.

Selected Financial Ratios

	As of and for the year ended 31 December		
	2009	2010	2011
		(in percentages) (unaudited)	
Profitability (% per annum)			
Return on average total assets (ROA)[(1)]	0.0	0.0	0.0
Return on average total equity (ROE)[(2)]	0.3	0.3	0.0
Internal capital generation ratio[(3)]	0.2	0.1	(0.2)
Liquidity (% at period end)			
Loans and advances to customers/Total assets	70.4	74.0	70.4
Loans and advances to customers/Customer accounts	253.8	178.3	148.8
Customer accounts/Total liabilities	32.2	47.5	53.9

(1) Profit for the year divided by average total assets. Average total assets has been calculated using the simple average of the opening balance for the applicable year, the 30 June balance for the applicable year and the closing balance for the applicable year.

(2) Profit for the year divided by average total equity. Average total equity has been calculated using the simple average of the opening balance for the applicable year, the 30 June balance for the applicable year and the closing balance for the applicable year.

(3) Profit for the year less dividends declared during the year divided by total equity at the beginning of the applicable year.

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

The following discussion and analysis of the consolidated financial condition and results of operations of the RAB Group covers the financial years ended 31 December 2009, 2010 and 2011. The financial information presented in this discussion has been derived, unless otherwise indicated, from the RAB Group Financial Statements, taking into account voluntary changes in presentation disclosed in "Presentation of Financial and Other Information – Voluntary Changes in Presentation". Other information has been derived from statutory accounting, management and operating records of RAB and the RAB Group and publicly available sources. This section should be read in conjunction with the RAB Group Financial Statements and the notes thereto and the other financial information included elsewhere in this Base Prospectus (including the section entitled "Presentation of Financial and Other Information"). Certain information contained in the discussion and analysis set forth below and elsewhere in this Base Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Forward-Looking Statements".

Overview

The RAB Group provides a wide range of banking services to companies and individuals with a primary focus on lending to businesses and individuals operating in the Russian agricultural sector. RAB's credit policy provides that at least 70 per cent. of its loan portfolio consist of loans to companies and individuals operating in the agricultural sector and related sub-sectors such as, for example, food processing and the production of agricultural machinery or fertilisers. The RAB Group participates in several programmes of the Russian Government to support the agricultural sector and related sub-sectors. The RAB Group's participation in such programmes includes lending to individuals involved in producing agricultural products on household land plots, lending for grain purchase interventions, providing loans to agricultural consumer and credit cooperatives, lending secured by mortgages on agricultural land plots in connection with the Russian Government's efforts to develop an agricultural land mortgage system in the Russian Federation and lending for the purchase or construction of residential buildings. The RAB Group also focuses on financing purchases of modern agricultural machinery and equipment and, since 2006, has placed a greater emphasis on making consumer loans to individuals residing in small towns and rural areas in the Russian Federation who are involved in agricultural production.

As of 31 December 2011, the RAB Group had 502,982 million roubles of loans and advances to customers, or 51.3 per cent. of the RAB Group's gross loans and advances to customers, to borrowers who are eligible for compensation by the Russian federal and/or regional authorities for a portion of the interest payable on the relevant loan. The RAB Group refers to this type of lending as "subsidised lending". In addition, RAB acts as an agent of the Russian Government in connection with the state's restructuring programme in respect of pre-1998 debts owed by agricultural companies to the state, pursuant to which RAB maintains the bank accounts of agricultural company debtors participating in the programme, monitors compliance of the debtors with the terms of the relevant debt restructuring agreements and collects the debts. RAB also engages in foreign exchange transactions and securities trading as an ancillary aspect of its business.

As of 31 December 2011, RAB has established a network comprised of the head office in Moscow, 78 regional branches and 1,518 additional offices throughout Russia. In 2011, RAB closed 29 additional offices to optimise its network.

The RAB Group Financial Statements include majority-owned subsidiaries of RAB, which comprise several grain storage companies, food processing companies, trading companies and other agricultural companies. As of 1 April 2012, RAB's ownership share in its subsidiaries ranged from 75.0 per cent. to 99.9997 per cent. RAB's shareholdings in most of these subsidiaries were acquired from the RAB Group's debtors in connection with loan restructuring and overdue debts.

General Market Conditions and Operating Environment

Due to the substantial concentration of the assets of the RAB Group in Russia, the RAB Group is significantly affected by Russian macroeconomic conditions. While there had been improvements in the country's economic trends prior to the onset of the global financial and economic crisis in September

2008, the Russian Federation continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not widely convertible outside of the Russian Federation and relatively high inflation.

The following table sets forth certain Russian economic indicators as of or for the years ended 31 December 2009, 2010 and 2011.

	As of or for the years ended 31 December		
	2009	**2010**	**2011**
Nominal GDP (in billions of roubles)	38,807.2	45,172.7	54,585.6
Real GDP growth (in %)	(7.8)	4.3	4.3
(Deficit)/Surplus of federal budget of the Russian Federation (in billions of roubles)	(2,300.1)	(1,811.8)	430.8
Official reserves (in billions of U.S. dollars)	439.5	479.4	498.6
Inflation[(1)] (in %)	8.8	8.8	6.1
Nominal (depreciation)/appreciation of the Russian rouble against the U.S. dollar[(2)] (in %)	(21.7)	4.3	3.4
Real (depreciation)/appreciation of the Russian rouble against the U.S. dollar[(2),(3)] (in %)	(12.2)	9.7	8.8

Sources: CBR, Russian Federal State Statistics Service, Russian Federal Treasury

(1) Inflation is measured as change in the consumer price index.
(2) Nominal and real (depreciation)/appreciation of the Russian rouble against the U.S. dollar are measured by comparing the change in the reporting period with the change in the corresponding period of the previous year.
(3) Real (depreciation)/appreciation is distinguished from nominal (depreciation)/appreciation because the former also takes into account inflation in Russia and the United States, as well as certain other macroeconomic parameters that are calculated by the CBR.

Russia experienced positive growth in real GDP in 2010 and 2011, in comparison with negative growth in real GDP in 2009, which was the first year of negative real GDP growth since 1999 due to the impact of the global financial and economic crisis.

The global financial and economic crisis had a significant adverse effect on the Russian economy. In 2009, industrial production decreased by 10.8 per cent. compared to 2008; Russia's exports decreased by 35.5 per cent. compared to 2008; and unemployment increased from 6.3 per cent. in 2008 to 8.4 per cent. in 2009. Russia's official reserves fell from a peak of US$598.1 billion as of 8 August 2008 to as low as US$376.1 billion as of 13 March 2009. Management believes that the Russian economy began recovering in the second half of 2009, in part due to relatively high oil prices. Revenue from oil sales is a significant contributor to the Government's budget. Russia's official reserves have increased since March 2009 and reached US$524.4 billion as of 1 April 2012. The global financial and economic crisis also affected the stability of the rouble, which had been steadily appreciating against the U.S. dollar in both nominal and real terms prior to the onset of the crisis. The nominal exchange rate and real exchange rate of the rouble against the U.S. dollar decreased by 21.7 per cent. and 12.2 per cent. in 2009 compared to 2008, while the nominal exchange rate and the real exchange rate of the rouble against the U.S. dollar increased by 4.3 per cent. and 9.7 per cent. in 2010 compared to 2009, respectively, and further increased by 3.4 per cent. and 8.8 per cent. in 2011, respectively, compared to 2010.

The Russian banking sector is particularly sensitive to economic conditions in Russia and fluctuations in the value of the rouble. See "*Risk Factors — Risks Related to RAB's Business and the Banking Sector — The continuation of turmoil in global credit markets may continue to adversely affect RAB's business, financial condition, results of operations and prospects*" and "*Risk Factors — Turmoil in global credit markets has already adversely affected, and may continue to adversely affect, the Russian economy, the Russian banking industry in general and RAB in particular*". In addition, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of certain categories of collateral, and other legal and fiscal impediments also contribute to difficulties experienced by banks currently operating in Russia. The stability of the Russian economy will be significantly affected by the Government's continued implementation of administrative, legal and economic reforms.

Significant Factors Affecting Results of Operations

The Impact of Changes in Interest Rates and Average Balances of the RAB Group's Interest-Earning Assets and Interest-Bearing Liabilities on Its Net Interest Spread and Net Interest Margin

The RAB Group defines net interest spread as the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities, and net interest margin as net interest income (defined as interest income less interest expense) before provision for loan impairment expressed as a percentage of average interest-earning assets.

The average interest rate on the RAB Group's total interest-earning assets increased from 13.4 per cent. in 2009 to 13.8 per cent. in 2010, principally due to the fact that although the average interest rate on loans and advances to customers decreased, the proportion of loans and advances to customers (which generally earn higher interest rate than other interest-earning assets) in total interest-earning assets increased in 2010 from 2009. The average interest rate on the RAB Group's total interest-earning assets decreased to 11.6 per cent. in 2011, principally due to a decrease in average interest rate on the RAB Group's average balance of loans and advances to customers. The average interest rate on the RAB Group's interest-bearing liabilities decreased from 8.6 per cent. in 2009 to 7.1 per cent. in 2010 and further to 6.2 per cent. in 2011, principally as a result of improving economic conditions, a decrease in the cost of funding and, principally for 2011, a change in customer accounts structure towards an increase of short-term deposits (bearing lower interest rates as compared to long-term deposits) placed by state and public organisations in 2011. As a result of these changes in the average interest rates on the RAB Group's total interest-earning assets and interest-bearing liabilities, the RAB Group's net interest spread increased from 4.8 per cent. in 2009 to 6.7 per cent. in 2010 and then decreased to 5.4 per cent in 2011.

The RAB Group's interest income increased by 8,307 million roubles, or 7.9 per cent., to 113,314 million roubles in 2011 from 105,007 million roubles in 2010, which in turn represented a 12.7 per cent. increase from 93,146 million roubles in 2009. During the period from 2009 to 2011, the RAB Group generated a substantial majority of its interest income from loans and advances to customers, most of which were provided to companies and individuals operating in the Russian agricultural sector and related sectors. Interest income on loans and advances to customers represented 88.6 per cent., 93.1 per cent. and 91.1 per cent. of total interest income of the RAB Group in 2009, 2010 and 2011, respectively. The average interest rate on the average balance of loans and advances to customers decreased from 15.6 per cent. in 2009 to 15.2 per cent. in 2010 and further decreased to 13.0 per cent. in 2011. Loans and advances to customers increased from 584,407 million roubles as of 31 December 2009 to 688,556 million roubles as of 31 December 2010 and then to 903,697 million roubles as of 31 December 2011. Interest income on loans and advances to customers increased from 82,520 million roubles in 2009 to 97,749 million roubles in 2010 and further to 103,276 million roubles in 2011. The increase in interest income on loans and advances to customers from 2009 to 2010 was principally due to an increase in the average balance of loans and advances to customers, which increased both in absolute terms (by 21.6 per cent. year-on-year) and as percentage of the average balance of the RAB Group's total interest-earning assets from 76.0 per cent. in 2009 to 84.4 per cent. in 2010. The increase in interest income on loans and advances to customers from 2010 to 2011 was principally due to a 24.2 per cent. increase in the average balance of loans and advances to customers, partially offset by a decrease in the average interest rate on the average balance of loans and advances to customers from 15.2 per cent. in 2010 to 13.0 per cent. in 2011. The increases in loans and advances to customers in 2010 and 2011 reflected RAB's focus on the growth of its loan portfolio. The decrease in the average interest rate on the average balance of loans and advances to customers from 2010 to 2011 was mainly due to a decrease in market interest rates resulting from a decrease in the cost of funding, which was attributable to the recovery from the financial and economic crisis.

The RAB Group's interest expense decreased by 8.1 per cent. from 58,069 million roubles in 2009 to 53,383 million roubles in 2010 and then increased by 6,316 million roubles, or 11.8 per cent., in 2011 to 59,699 million roubles. The average balance of the RAB Group's total interest-bearing liabilities increased from 674,607 million roubles in 2009 to 749,958 million roubles in 2010 and further to 955,414 million roubles in 2011, principally due to the need to fund the growth of the RAB Group's loan portfolio. See " — *Selected Statistical Information*" for additional information on the changes in the RAB Group's interest expense. As a result of the aforementioned changes in the RAB Group's interest income and interest expense, the RAB Group's net interest income before provision for loan impairment increased by 16,547 million roubles, or 47.2 per cent., from 35,077 million roubles in 2009 to 51,624 million roubles in 2010 and increased further by 1,991 million roubles, or 3.9 per cent., to 53,615 million roubles in 2011.

The average balance of the RAB Group's total interest-earning assets increased from 694,682 million roubles in 2009 to 760,500 million roubles in 2010 and further to 973,088 million roubles in 2011, principally reflecting the growth in the RAB Group's loans and advances to customers.

As a result of the foregoing changes in the average interest rates and balances of the RAB Group's interest-earning assets and interest-bearing liabilities, the RAB Group's net interest margin increased from 5.0 per cent. in 2009 to 6.8 per cent. in 2010 and then decreased to 5.5 per cent. in 2011.

Impact of the Global Financial and Economic Crisis and Adverse Weather Conditions

The RAB Group was significantly affected by the global financial and economic crisis in 2008 and 2009. As Russian economic conditions deteriorated, some of the RAB Group's customers became unable to service their loans. The proportion of overdue loans (which represent not only past due payments but also outstanding balances of such loans) as a percentage of gross loans and advances to customers increased to 15.9 per cent as of 31 December 2011 as compared to 14.6 per cent. as of 31 December 2010 and 6.9 per cent. as of 31 December 2009. In addition, in the summer of 2010, Russia experienced severe droughts, which had a significant negative effect on the country's agricultural production and which in turn further contributed to the rise in the proportion of overdue and non-performing loans. Although 2011 was a favourable year for the country's agricultural production, with record crop levels in Russia, the consequences of the droughts have lingered and lending rates decreased in the first half of 2011. While lending rates improved in the second half of 2011, the overall decreasing trend remained, as interest rates on loans declined faster than the rates on the RAB Group's liabilities. The RAB Group's provision for loan impairment as a percentage of gross loans and advances to customers also increased to 7.7 per cent. as of 31 December 2011 from 7.6 per cent. as of 31 December 2010 and 4.9 per cent. as of 31 December 2009. Provision for loan impairment charged to the consolidated statement of comprehensive income decreased in 2011 to 22,552 million roubles from 28,507 million roubles in 2010.

RAB is one of the very few Russian banks in which the aggregate balance of all customer accounts of individuals has increased since 2009, when the Russian financial system was particularly adversely affected by the global financial crisis.

Emphasis on Loans to the Agricultural Sector

RAB's credit policy provides that at least 70 per cent. of its loan portfolio should consist of loans to borrowers in the agricultural sector and related sub-sectors. RAB estimates that as of 31 December 2011 the share of loans to borrowers in the agricultural sector and related sub-sectors accounted for 75.9 per cent. of its total loan portfolio (based on statutory accounting records). This high degree of specialisation has allowed the RAB Group to develop expertise in lending to agricultural producers, agricultural commodity traders, food processing enterprises and other companies that produce goods for, or provide services to, the agricultural sector. The RAB Group's market niche allows it to operate in an environment in which there is relatively little competition from other banks for loans to borrowers operating in the agricultural sector, particularly small businesses and individuals. In 2011, RAB's continued support of the agricultural sector resulted in a 57.2 per cent. increase in customer accounts held with the RAB Group. The only significant competitor to the RAB Group in this market segment, which has a larger market share in loans to companies and individuals operating in the agricultural sector and also has a significantly larger network of branches and offices, is state-owned savings bank Sberbank. However, the high volume of lending to this industry poses credit concentration risks to RAB and has required it to develop a risk diversification strategy. The RAB Group has a variety of strategies to limit risk concentration, including limiting loans issued in a single region of the Russian Federation to no more than 15 per cent. of loans, maintaining a balance between various types of agricultural producers and companies operating in related sub-sectors to minimise the risk of negative developments within any one sub-sector, and continuing to maintain a loan portfolio that is diversified by individual borrowers. See "*Asset Liability and Risk Management*" for more information.

State Ownership and Agricultural Policies of the Russian Government

The Russian state, which maintains its ownership through the SPMA, owns 100 per cent. of RAB's share capital. As the principal vehicle for implementing the Russian Government's agricultural credit policy, profit maximisation is not the only or even the most significant goal for the RAB Group. The activities of the RAB Group should be viewed in the context of the Government's wider policy objectives in respect of the development of the Russian agricultural sector. The Russian Government has for the last several years sought to increase the availability of affordable credit to small businesses and individuals operating in the agricultural sector. Accordingly, the RAB Group's loan portfolio has rapidly increased and the RAB Group's regional network has expanded significantly. As of 31 December 2011, the RAB Group's regional network covered 79 of the 83 regions of the Russian Federation through 78 regional branches and 1,518 additional offices. The relative lack of emphasis on achieving profit levels comparable to the profits of large private Russian banks has allowed the RAB Group to expand its network of regional branches and additional offices and increase its loan portfolio significantly. In addition, the RAB Group's relatively low profitability makes further equity contributions from its sole shareholder essential for the continued growth of the RAB Group's business. Since its incorporation in 2000, the Russian Government has increased RAB's share capital fifteen times in an aggregate nominal amount of 147,673 million roubles. The most recent share capital increase in the amount of 40 billion roubles occurred in December 2011 pursuant to Decree No. 3008-r of the SPMA dated 2 December 2011.

In addition to direct capital contributions, the Russian Government supports RAB by providing it with access to unsecured borrowings from Russian Ministry of Finance and by making funding available in other ways, such as through a 25 billion rouble subordinated loan made by state-owned Vnesheconombank in October 2008. See "*Business — Competitive Strengths — State ownership and financial support from the Russian Government*".

The Russian Government often uses RAB as a vehicle for implementation of its policies and programmes aimed at addressing specific problems in the Russian agricultural sector. For instance, since 2002, RAB has acted as a state agent in connection with the state's restructuring programme in respect of pre-1998 debts owed by agricultural companies to the state. In this capacity, RAB maintains the bank accounts of agricultural company debtors participating in the programme, monitors compliance of the debtors with the terms of the relevant debt restructuring agreements and collects the old debts in return for an annual fee from the Russian federal budget in connection with its performance of these functions.

The Russian Government also provides critical support to the growth of the RAB Group's lending operations through its assistance to borrowers participating in subsidised lending programmes. Subsidised lending involves the compensation by federal authorities (frequently combined with additional compensation by regional authorities) of a portion of the interest expenses incurred by borrowers. These subsidies are paid directly to the borrowers. The amount of the federal-level subsidy for corporate entities is limited to 80 per cent. of the refinancing rate of the CBR, which, as of 1 April 2012, was 8.0 per cent., with a subsidy of up to 100 per cent. available for corporate entities involved in the livestock and dairy industries. The amount of the federal-level subsidy for farmers and individuals involved in producing agricultural products on household land plots, including beginner farmers, has been set at 95 per cent. of the refinancing rate of the CBR. The loans may be further subsidised by regional authorities as discussed below under "— *Relationships with regional and local authorities*". The RAB Group already has a significant share of the subsidised lending market in Russia and plans to further develop this line of business and increase its market share. Management believes that the RAB Group's loans to borrowers who participate in these subsidised loan programmes permit the RAB Group to rapidly increase its loan portfolio and also to improve the quality of its loan portfolio, as punctual payments on subsidised loans are a condition to the compensation of the borrower's interest expenses by the federal authorities.

Relationships with Regional and Local Authorities

The RAB Group relies on the support of regional and local governments to expand its operations in various regions of the Russian Federation. Support from regional and local governments is provided at several levels. Regional governments frequently enter into cooperation agreements with RAB prior to the opening of a new regional branch of RAB or major expansion of RAB's operations in the region. As of 1 April 2012, agreements such as these were signed with regional authorities of 78 regions. Regional authorities may provide additional subsidies for companies and individuals operating in the agricultural sector, which, for 2012, are typically provided in the amount of 20 per cent. of the refinancing rate of the CBR for corporate entities (other than corporate entities involved in livestock and dairy industries) and five per cent. of the refinancing rate of the CBR for farmers and individuals involved in producing agricultural products on household land plots. There is no mandatory provision in law requiring regional authorities to provide such subsidies. The provision of subsidies has a significant impact on the RAB Group's operations within a particular region and demonstrates the importance of regular interaction with such authorities. Regional and local authorities also sometimes provide guarantees for the loans taken out by local companies and individuals operating in the agricultural sector, which management believes improves the quality of the RAB Group's assets. In addition, regional and local authorities may also provide financial assistance to the RAB Group's customers who have been affected by natural disasters or catastrophic events.

Basis of Preparation of the Consolidated Financial Statements

The consolidated financial statements of the RAB Group have been prepared in accordance with IFRS. The RAB Group maintains accounting records in compliance with Russian banking and accounting regulations. The consolidated financial statements have been prepared from those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS.

The preparation of consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Selected Significant Accounting Policies, Critical Accounting Estimates and Judgments in Applying Accounting Policies

The RAB Group's consolidated results of operations and consolidated financial position presented in the consolidated financial statements and the notes thereto and in the selected statistical and other information appearing elsewhere in this Base Prospectus are, to a large degree, dependent upon the RAB Group's accounting policies. The selection and application of the RAB Group's accounting policies involve judgments, estimates and uncertainties that are susceptible to change.

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

Impairment Losses on Loans and Advances to Customers

The RAB Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss report, the RAB Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a RAB group, or national or local economic conditions that correlate with defaults on assets in the RAB Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. In 2011, a five per cent. increase or decrease in actual loss given default compared to estimated loss given default used would have resulted in an increase or decrease in loan impairment losses of 2,045 million roubles as compared to 2010, when a five per cent. increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses of 1,480 million roubles.

Held to Maturity Financial Assets

Management applies judgment in assessing whether financial assets can be categorised as held to maturity, in particular its intention and ability to hold the assets to maturity. If the RAB Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the RAB Group's entire portfolio of investment securities held to maturity as of 31 December 2011 were to be reclassified as investment securities available for sale, the carrying amount of such securities as of that date would have decreased from 32,372 million roubles to 32,107 million roubles. For further discussion, see Note 35 to the 2011 Financial Statements.

Accounting for Subordinated Debt from Vnesheconombank

The Russian government provided assistance to the Russian financial system by instructing Vnesheconombank to grant subordinated debts to selected banks. This subordinated debt was issued in accordance with the Federal Law No. 173-FZ.

In October 2008 the RAB Group received a subordinated loan from Vnesheconombank in the amount of 25,000 million roubles, with maturity in December 2019 and an interest rate of 8.0 per cent. per annum. Due to its unique terms and conditions, its subordinated nature and the absence of observable current market transactions providing evidence of a market rate for such instruments, the debt was originally recognized and subsequently carried on the consolidated statement of financial position at amortised contractual value.

Had there been evidence that the market interest rate for such debt was higher than the contractual interest rate, the amortised contractual value of the debt would have been replaced by (i) the amortised value of the debt determined based on the fair value of the debt at the date of origination and (ii) the unamortised value of the government grant embedded in such low interest debt; there would have been no impact on the profit or loss for the year since the increased effective interest rate would have been offset by amortisation of the government grant. In July 2010, Federal Law No. 173-FZ was amended to reduce the interest rate on subordinated debt received by the RAB Group from Vnesheconombank from 8.0 per cent. per annum to 6.5 per cent. per annum. All other terms of the debt remained unchanged. The RAB Group accounted for this reduction in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* and tested whether the modification was substantial. As the modification was not substantial in management's opinion, the RAB Group accounted for the change in the effective interest rate as a prospective adjustment of the effective interest rate. The alternative possible accounting treatment could have been to account for the above reduction of interest rate in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance* and the difference between the previous and revised carrying value of the debt in the amount of 2,375 million roubles would have been recorded as a government grant and included in deferred income within other liabilities and would have to be amortised through interest expense until the debt's maturity date.

Fair Value of Financial Instruments Carried at Fair Value

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the RAB Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques with observable data. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Related Party Transactions

RAB's only shareholder is the Russian Federation represented by the SPMA. Currently, the Russian Government does not provide to the general public or entities under its ownership/control a complete list of entities that are owned or controlled directly or indirectly by the state. Judgment is applied by the RAB Group's management in the identification of related parties to be disclosed in the consolidated financial statements. See "*Related Party Transactions*".

Income and Expense Recognition

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the RAB Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the RAB Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The RAB Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

Commissions on agency services are recognised based on the applicable service contracts.

Impairment of Financial Assets Carried at Amortised Cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events, each a loss event, that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the RAB Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Lending for food interventions and reverse repo agreements are assessed for impairment by the RAB Group on an individual basis as the nature of the borrowers and products are unique and transactions normally cannot be grouped into categories. The primary factors that the RAB Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any. As a loss event the RAB Group recognises objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities, including individual entrepreneurs and sole farmers*: (i) significant financial difficulty of the borrower, as evidenced by a deterioration in the financial position of the borrower from the moment the loan was issued from good or average to poor (in accordance with the methodology of evaluation and analysis of the RAB Group's borrowers' financial position taking into consideration their industry, organisational and legal specifics); or (ii) a breach of the loan agreement pursuant to which the principal or interest is overdue by more than 5 days;

- *for loans issued to individuals*: (i) significant financial difficulty of the borrower, as evidenced by a deterioration in the borrower's financial position from the moment the loan was issued from good to poor (for example, a loss of, or a significant decrease in, the value of, or the potential income generated by (if applicable), the asset using which the individual intended to repay the debt, termination of labour relations between the borrower and his or her employer when the borrower has no savings sufficient to repay the loan, existence of a criminal court decision resulting in the borrower's imprisonment that came into effect, or the existence of documentary evidence that the license of the financial institution with which some or all of the borrower's funds are deposited is revoked if the borrower's inability to withdraw such deposit(s) may impact the borrower's ability to repay his or her loan to the RAB Group); (ii) a breach of the loan agreement pursuant to which the principal or interest is overdue by more than 5 days.

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

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

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

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the statement of comprehensive income.

Selected Statistical Information

Average Balances and Interest Rates Data

The following table sets forth the unaudited consolidated average balances of interest-earning assets and interest-bearing liabilities of the RAB Group for the years ended 31 December 2009, 2010 and 2011 and also sets forth the amount of interest income and interest expense, respectively, as well as the average interest rate of such interest income or expense for such assets and liabilities. For the purposes of this table, the consolidated average balances of assets and liabilities represent, in respect of the financial years ended 31 December 2009, 2010 and 2011, the average of the opening balance, the 30 June balance and the closing balance for the applicable year. The results of the analysis would likely be different if alternative or more frequent averaging methods were used and such differences could be material. Prospective investors are cautioned that the average balances and related data presented in this Base Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions, including some banks in the Russian Federation, in connection with similar offers of securities. The average interest rates below 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 the RAB Group. See "*Notes to the Consolidated Financial Statements — Summary of Significant Accounting Policies*" in the 2011 Financial Statements and "*Presentation of Financial and Other Information — Average Balances, Average Interest Rates and Effective Interest Rates*".

	For the year ended 31 December								
	2009			2010			2011		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
	(in millions of roubles, except percentages) (unaudited)								
Interest-earning assets									
Loans and advances to customers	527,718	82,520	15.6	641,809	97,749	15.2	797,087	103,276	13.0
Investment securities available for sale and related repurchase receivables[1]	7,405	955	12.9	17,860	1,346	7.5	56,418	4,441	7.9
Cash equivalents[2]	59,264	574	1.0	34,242	210	0.6	50,773	658	1.3
Due from other banks	64,291	4,863	7.6	37,584	3,246	8.6	35,131	2,480	7.1
Investment securities held to maturity and related repurchase receivables	8,916	739	8.3	10,424	665	6.4	20,569	1,006	4.9
Financial instruments designated at fair value through profit or loss	5,105	645	12.6	7,291	813	11.2	11,716	1,139	9.7
Trading securities and related repurchase receivables	21,983	2,850	13.0	11,290	978	8.7	1,394	314	22.5
Total interest-earning assets	**694,682**	**93,146**	**13.4**	**760,500**	**105,007**	**13.8**	**973,088**	**113,314**	**11.6**
Interest-bearing liabilities									
Customer accounts	210,407	21,240	10.1	310,794	19,837	6.4	499,078	25,555	5.1
of which									
Term deposits of individuals	55,921	5,511	9.9	90,756	8,268	9.1	117,975	7,711	6.5
Term deposits of legal entities[3]	111,477	15,338	13.8	156,416	10,849	6.9	300,077	17,096	5.7
Current/settlement accounts	43,009	391	0.9	63,622	720	1.1	81,026	748	0.9
Other borrowed funds and subordinated debts[4]	247,421	18,782	7.6	287,936	23,093	8.0	348,064	26,215	7.5
Due to other banks[5]	197,232	17,075	8.7	135,265	8,839	6.5	93,159	7,088	7.6
Promissory notes issued	9,800	648	6.6	13,440	1,590	11.8	15,113	841	5.6
Syndicated loans	9,747	324	3.3	2,523	24	1.0	—	—	—
Total interest-bearing liabilities	**674,607**	**58,069**	**8.6**	**749,958**	**53,383**	**7.1**	**955,414**	**59,699**	**6.2**
Net interest spread[6]			4.8			6.7			5.4
Net interest income		35,077			51,624			53,615	
Net interest margin[7]			5.0			6.8			5.5

(1) Excludes corporate shares as these securities are not interest earning.
(2) Excludes cash on hand, cash balances with the CBR and settlement accounts with stock and currency exchanges as these balances are not interest- earning.
(3) Includes sale and repurchase agreements with securities with legal entities.
(4) Includes subordinated debts, Eurobonds issued and domestic bonds issued.
(5) Includes term deposits of other banks, term deposits of the CBR, correspondent accounts and overnight placements of other banks.
(6) The difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.
(7) Net interest income before provision for loan impairment for the year as a percentage of average interest-earning assets.

The significant year-on-year increases in the average balance of the RAB Group's total interest-earning assets from 2009 to 2011 were principally driven by increases in the average balance of loans and advances to customers, which accounted for 76.0 per cent., 84.4 per cent. and 81.9 per cent of the average balance of RAB Group's total interest-earning assets in 2009, 2010 and 2011, respectively. The year-on-year increases in the average balance of loans and advancers to customers from 2009 to 2011 mainly reflected the RAB Group's strategy of growing its loan portfolio during those years.

The average interest rates on the RAB Group's total interest-earning assets increased from 13.4 per cent. in 2009 to 13.8 per cent. in 2010 and decreased to 11.6 per cent. in 2011. The decrease in the average interest rates on the average balance of the RAB Group's total interest-earning assets in 2011 in comparison with 2010 was primarily due to a decrease in the average interest rate on the average balance of loans and advances to customers to 13.0 per cent in 2011 from 15.2 per cent. in 2010. The decrease in the average interest rate on the average balance of loans and advances to customers was principally due to a decrease in market interest rates resulting from a decrease in the cost of funding, which was attributable to the recovery from the financial and economic crisis. The increase in the average interest rate in 2010 in comparison with 2009 was principally due to an increase in the proportion of the average balance of loans and advances to customers, which generally earn interest at higher rates than the RAB Group's other interest-earning assets, in the average balance of the RAB Group's total interest-earning assets from 76.0 per cent. in 2009 to 84.4 per cent. in 2010. This increase in the proportion of the average balance of loans and advances to customers was partially offset by a slight decrease in the average interest rate on loans and advances to customers to 15.2 per cent. in 2010 from 15.6 per cent. in 2009.

The significant year-on-year increases in the average balance of the RAB Group's total interest-bearing liabilities from 2009 to 2011 were primarily attributable to the need to finance the growth in the RAB Group's loan portfolio. The growth in the average balance of the RAB Group's total interest-bearing liabilities in 2010 and 2011 was primarily driven by increases in the average balances of customer accounts and other borrowed funds and subordinated debts, partially offset by year-on-year decreases in due to other banks. The increases in the average balances of customer accounts mainly resulted from the RAB Group's focus on increasing its deposit and current account customer base. The increases in other borrowed funds and subordinated debts principally reflected proceeds from issuances of rouble-denominated and U.S. dollar-denominated Eurobonds and rouble-denominated domestic bonds. The decreases in due to other banks principally reflect the RAB Group's objective of decreasing the share of amounts due to other banks in the RAB Group's funding base while increasing the share of customer accounts.

The average interest rate on the average balance of the RAB Group's total interest-bearing liabilities decreased from 8.6 per cent. in 2009 to 7.1 per cent. in 2010 and further to 6.2 per cent. in 2011. The decrease in the average interest rate in 2011 in comparison with 2010 was principally due to a decrease in the average interest rate on customer accounts from 6.4 per cent. in 2010 to 5.1 per cent. in 2011 and a decrease in the average interest rate on other borrowed funds and subordinated debts from 8.0 per cent. in 2010 to 7.5 per cent. in 2011. The decreasing trend in the average interest rates in 2011 as compared to 2010 generally reflects the decreasing trend in market interest rates. The decrease in the average interest rate in 2010 in comparison with 2009 was principally due to a decrease in the average interest rate on customer accounts from 10.1 per cent. in 2009 to 6.4 per cent. in 2010 and a decrease in the average interest rate on due to other banks from 8.7 per cent. in 2009 to 6.5 per cent. in 2010, partially offset by an increase in the average interest rate on other borrowed funds and subordinated debts from 7.6 per cent. in 2009 to 8.0 per cent. in 2010.

For a discussion of certain changes in the line items of the table above, see "— *Results of Operations for the Years Ended 31 December 2009, 2010 and 2011*".

Net Changes in Interest Income and Interest Expense - Volume and Rate Analysis

The following table sets forth an unaudited comparative analysis of net changes in interest income and interest expense by reference to changes in average volume and average interest rates in the years ended 31 December 2009, 2010 and 2011. Net changes in net interest income or expense are attributed to either changes in average balances (volume change) or changes in average interest rates without rounding (rate change) for interest-earning assets or interest-bearing liabilities, respectively. Volume change is calculated as the change in volume multiplied by the previous average interest rate, while rate change is the change in average interest rate multiplied by the later year volume. Average balances used for calculating the information for the table below represent, in respect of the financial years ended 31 December 2009, 2010 and 2011, the average of the opening balance, 30 June balance and the closing balance for the applicable year.

Prospective investors are cautioned that the average balances and related data presented in this Base Prospectus are based on materially less frequent average methods than those used by other banks in the United States, Western Europe and other jurisdictions, including some banks in the Russian Federation, in connection with similar offers of securities.

	2009/2010			**2010/2011**		
	Increase/(decrease) due to changes in			**Increase/(decrease) due to changes in**		
	Volume	**Rate**	**Net Change**	**Volume**	**Rate**	**Net Change**
	(in millions of roubles) (unaudited)					
Interest income						
Loans and advances to customers	17,841	(2,612)	15,229	23,649	(18,122)	5,527
Due from other banks	(2,020)	403	(1,617)	(212)	(554)	(766)
Investment securities available for sale and related repurchase receivables[(1)]	1,348	(957)	391	2,906	189	3,095
Trading securities and related repurchase receivables	(1,386)	(486)	(1,872)	(857)	193	(664)

	2009/2010			2010/2011		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	**Rate**	**Net Change**	**Volume**	**Rate**	**Net Change**
			(in millions of roubles) (unaudited)			
Investment securities held to maturity and related repurchase receivables	125	(199)	(74)	647	(306)	341
Financial instruments designated at fair value through profit or loss	276	(108)	168	493	(167)	326
Cash equivalents[(2)]	(242)	(122)	(364)	101	347	448
Total interest income	**15,942**	**(4,081)**	**11,861**	**26,727**	**(18,420)**	**8,307**
Interest expense						
Customer accounts	10,134	(11,537)	(1,403)	12,018	(6,300)	5,718
of which						
Term deposits of individuals	3,433	(676)	2,757	2,480	(3,037)	(557)
Term deposits of legal entities[(3)]	6,183	(10,672)	(4,489)	9,964	(3,717)	6,247
Current/settlement accounts	187	142	329	197	(169)	28
Other borrowed funds and subordinated debts[(4)]	3,076	1,235	4,311	4,822	(1,700)	3,122
Due to other banks[(5)]	(5,365)	(2,871)	(8,236)	(2,751)	1,000	(1,751)
Promissory notes issued	241	701	942	198	(947)	(749)
Syndicated loans	(240)	(60)	(300)	(24)	—	(24)
Total interest expense	**7,846**	**(12,532)**	**(4,686)**	**14,263**	**(7,947)**	**6,316**
Net change in net interest income	**8,096**	**8,451**	**16,547**	**12,464**	**(10,473)**	**1,991**

(1) Excludes corporate shares as these securities are not interest earning.
(2) Excludes cash on hand, cash balances with the CBR and settlement accounts with stock and currency exchanges as these balances are not interest- earning.
(3) Includes sale and repurchase agreements with securities with legal entities.
(4) Includes subordinated debts, Eurobonds issued and domestic bonds issued.
(5) Includes term deposits of other banks, term deposits of the CBR, correspondent accounts and overnight placements of other banks.

Results of Operations

Summary

The following table sets forth selected consolidated statement of comprehensive income data for the RAB Group for the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December			Change from prior year	
	2009	**2010**	**2011**	**2010**	**2011**
	(in millions of roubles, except percentages)			*(percentages)*	
Interest income	93,146	105,007	113,314	12.7	7.9
Interest expense	(58,069)	(53,383)	(59,699)	(8.1)	11.8
Net interest income	**35,077**	**51,624**	**53,615**	**47.2**	**3.9**
Provision for loan impairment	(13,421)	(28,507)	(22,552)	112.4	(20.9)
Non-interest (loss)/income, net	(817)	1,200	(1,548)	246.9	(229.0)
Administrative and other operating expenses	(19,999)	(23,584)	(29,165)	17.9	23.7
Profit before tax	**840**	**733**	**350**	**(12.7)**	**(52.3)**
Income tax expense	(589)	(364)	(292)	(38.2)	(19.8)
Profit for the year	**251**	**369**	**58**	**47.0**	**(84.3)**
Cost/income ratio[(1)] (unaudited)	58.4%	44.6%	56.0%		

(1) Cost/income ratio is calculated as administrative and other operating expense divided by profit before tax adjusted for administrative and other operating expenses, and provision for loan impairment.

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

Interest income, interest expense, net interest income and provision for loan impairment

The following table sets forth the principal components of the RAB Group's net interest income after provision for loan impairment in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December			Change from prior year	
	2009	**2010**	**2011**	**2010**	**2011**
	(in millions of roubles)			*(percentages)*	
Interest income					
Loans and advances to customers	82,520	97,749	103,276	18.5	5.7
Due from other banks	4,863	3,246	2,480	(33.3)	(23.6)
Investment securities available for sale and related repurchase receivables	955	1,346	4,441	40.9	229.9
Trading securities and related repurchase receivables	2,850	978	314	(65.7)	(67.9)
Financial instruments designated at fair value through profit or loss	645	813	1,139	26.0	40.1
Investment securities held to maturity and related repurchase receivables	739	665	1,006	(10.0)	51.3
Cash equivalents	574	210	658	(63.4)	213.3
Total interest income	**93,146**	**105,007**	**113,314**	**12.7**	**7.9**
Total interest expense	**(58,069)**	**(53,383)**	**(59,699)**	**(8.1)**	**11.8**
Net interest income	35,077	51,624	53,615	47.2	3.9
Provision for loan impairment	(13,421)	(28,507)	(22,552)	112.4	(20.9)
Net interest income after provision for loan impairment	**21,656**	**23,117**	**31,063**	**6.7**	**34.4**

The amount of net interest income earned by the RAB Group is affected by a number of factors. It is primarily determined by the volumes of interest-earning assets and interest-bearing liabilities, as well as the differential between rates earned on interest-earning assets and rates paid on interest-bearing liabilities. Interest-earning assets are composed primarily of the RAB Group's loan portfolio as well as due from other banks, investment securities available for sale and related repurchased receivables, investment securities held to maturity and related repurchased receivables, trading securities and related repurchased receivables, and cash equivalents and other assets. Interest-bearing liabilities are composed primarily of customer accounts (term deposits and current/settlement accounts), amounts due to other banks (interbank borrowings), other borrowed funds and subordinated debts (consisting of international and domestic bonds issued), and promissory notes issued.

Interest Income

Interest income consists of (a) interest paid to the RAB Group by companies and individuals that have borrowed funds from the RAB Group; (b) interest earned on investment securities available for sale and related repurchase receivables; (c) interest paid by credit institutions, which have borrowed funds from the RAB Group at interbank terms and rates; (d) interest earned on financial instruments designated at fair value through profit or loss; (e) interest earned on investment securities held to maturity and related party repurchase receivables; (f) interest earned by the RAB Group on cash equivalents; and (g) interest earned by the RAB Group on trading securities and related repurchase receivables. Interest-earning investment securities available for sale in 2011 consisted of (i) rouble-denominated corporate bonds issued by large Russian companies, (ii) rouble-denominated and U.S. dollar-denominated corporate Eurobonds issued by large Russian companies, (iii) rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation, (iv) municipal and sub-federal bonds issued by municipal and sub-federal authorities of the Russian Federation and (v) state Eurobonds denominated in U.S. dollars and Russian roubles issued by the Russian Federation. Interest-earning investment securities held to maturity in 2011 consisted of (i) rouble-denominated corporate bonds issued by large Russian companies and (ii) state Eurobonds denominated in U.S. dollars issued by Russian Federation, (iii) municipal and sub-federal bonds issued by municipal and sub-federal authorities of the Russian Federation, (iv) rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation, (v) U.S. dollar-denominated corporate Eurobonds issued by large Russian companies and (vi) promissory notes denominated in U.S. dollars issued by one Russian bank and rouble-denominated promissory notes issued by Russian companies.

The following table sets forth the principal components of the RAB Group's interest income in the years ended 31 December 2009, 2010 and 2011 and average interest-earning assets in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December			Change from prior year	
	2009	**2010**	**2011**	**2010**	**2011**
	(in millions of roubles)			*(percentages)*	
Interest income					
of which					
Loans and advances to customers	82,520	97,749	103,276	18.5	5.7
Due from other banks	4,863	3,246	2,480	(33.3)	(23.6)
Investment securities available for sale and related repurchase receivables	955	1,346	4,441	40.9	229.9
Trading securities and related repurchase receivables	2,850	978	314	(65.7)	(67.9)
Financial instruments designated at fair value through profit or loss	645	813	1,139	26.0	40.1
Investment securities held to maturity and related repurchase receivables	739	665	1,006	(10.0)	51.3
Cash equivalents	574	210	658	(63.4)	213.3
Total interest income	**93,146**	**105,007**	**113,314**	**12.7**	**7.9**
			(unaudited)		
Average interest-earning assets					
Loans and advances to customers	527,718	641,809	797,087	21.6	24.2
Due from other banks	64,291	37,584	35,131	(41.5)	(6.5)
Cash equivalents[1]	59,264	34,242	50,773	(42.2)	48.3
Trading securities and related repurchase receivables	21,983	11,290	1,394	(48.6)	(87.7)
Investment securities held to maturity and related repurchase receivables	8,916	10,424	20,569	16.9	97.3
Investment securities available for sale and related repurchase receivables[2]	7,405	17,860	56,418	141.2	215.9
Financial instruments designated at fair value through profit or loss	5,105	7,291	11,716	42.8	60.7
Total average interest-earning assets	**694,682**	**760,500**	**973,088**	**9.5**	**28.0**

(1) Excludes cash on hand, cash balances with the CBR and settlement accounts with stock and currency exchanges as these balances are not interest-earning.
(2) Excludes corporate shares as these securities are not interest-earning.

Interest income increased by 8,307 million roubles, or 7.9 per cent., to 113,314 million roubles in 2011 from 105,007 million roubles in 2010, which in turn represented a 12.7 per cent. increase from 93,146 million roubles in 2009.

The year-on-year increases in interest income were primarily due to increases in interest income on loans and advances to customers. Interest income on loans and advances to customers represented 88.6 per cent., 93.1 per cent. and 91.1 per cent. of the RAB Group's total interest income in 2009, 2010 and 2011, respectively. It increased by 15,229 million roubles, or 18.5 per cent., from 82,520 million roubles in 2009 to 97,749 million roubles in 2010 and by 5,527 million roubles, or 5.7 per cent., to 103,276 million roubles in 2011. In 2011, interest income on loans and advances to customers increased principally due to a 24.2 per cent. increase in the average balance of loans and advances to customers, partially offset by a decrease in the average interest rate on loans and advances to customers from 15.2 per cent. in 2010 to 13.0 per cent. in 2011. The increase in interest income on loans and advances to customers from 2009 to 2010 was principally due to an increase in the average balance of loans and advances to customers from 641,809 million roubles in 2010 to 797,087 million roubles in 2011, which represented an increase both in absolute terms (by 21.6 per cent. year-on-year) and as a percentage of the average balance of the RAB Group's total interest-earning assets from 76.0 per cent. in 2009 to 84.4 per cent. in 2010. The increases in loans and advances to customers in 2010 and 2011 reflected the RAB's focus on the growth of its loan portfolio. The decrease in the average interest rate on loans and advances to customers from 2010 to 2011 was mainly due to a decrease in market interest rates resulting from a decrease in the cost of funding, which was attributable to the recovery from the financial and economic crisis. The increase in interest income in 2011 as compared to 2010 was also due to an increase in income from investment securities available for sale and related repurchase receivables, principally due to an increase in the average balance of investment securities available for sale and related repurchase receivables from 17,860 million roubles in 2010 to 56,418 million roubles in 2011 mainly as a result of additional purchases by the RAB Group of investment debt securities and the interest income accrued for this type of debt securities.

In addition to the above factors, the year-on-year increases in interest income were also due to an increase in total average interest-earning assets by 9.5 per cent., from 694,682 million roubles in 2009 to 760,500 million roubles in 2010 and a further increase by 28.0 per cent., to 973,088 million roubles in 2011. In 2011, the increase in total average interest-earning assets was partially offset by a decrease in the average interest rate on interest-earning assets to 11.6 per cent from 13.8 per cent. in 2010, principally due to a decrease in the average interest rates on loans and advances to customers, which reflected a decrease in market interest rates due to a decrease in the cost of funding, which was attributable to the recovery from the financial and economic crisis. In 2010, the average interest rate on interest-earning assets increased in comparison to 2009, principally as a result of the increase in average balance of loans and advances to customers as a proportion of average balance of total interest-earning assets, which was partially offset by a slight decrease in the average interest rates on loans and advances to customers.

Interest Expense

Interest expense principally consists of amounts paid by the RAB Group as interest on (a) other borrowed funds and subordinated debts, which include proceeds from the issuance of U.S. dollar-denominated, Swiss franc-denominated and rouble-denominated Eurobonds and domestic bonds; (b) customer accounts, which include term deposits and current/settlement accounts; (c) due to other banks (interbank borrowings); and (d) promissory notes issued.

The following table sets forth the principal components of the RAB Group's consolidated interest expense in the years ended 31 December 2009, 2010 and 2011 and average interest-bearing liabilities in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December			Change from prior year	
	2009	2010	2011	2010	2011
	(in millions of roubles)			*(percentages)*	
Interest expense					
Other borrowed funds and subordinated debts	18,782	23,093	26,215	23.0	13.5
Customer accounts	21,240	19,837	25,555	(6.6)	28.8
of which					
Term deposits of legal entities	15,338	10,849	17,096	(29.3)	57.6
Term deposits of individuals	5,511	8,268	7,711	50.0	(6.7)
Current/settlement accounts	391	720	748	84.1	3.9
Due to other banks	17,075	8,839	7,088	(48.2)	(19.8)
Promissory notes issued	648	1,590	841	145.4	(47.1)
Syndicated loans	324	24	—	(92.6)	(100.0)
Total interest expense	**58,069**	**53,383**	**59,699**	**(8.1)**	**11.8**
			(unaudited)		
Average interest-bearing liabilities					
Customer accounts	210,407	310,794	499,078	47.7	60.6
Other borrowed funds and subordinated debts[(1)]	247,421	287,936	348,064	16.4	20.9
Due to other banks[(2)]	197,232	135,265	93,159	(31.4)	(31.1)
Promissory notes issued	9,800	13,440	15,113	37.1	12.4
Syndicated loans	9,747	2,523	—	(74.1)	(100.0)
Total average interest-bearing liabilities	**674,607**	**749,958**	**955,414**	**11.2**	**27.4**

(1) Includes subordinated debts, Eurobonds issued and domestic bonds issued.
(2) Includes term deposits of other banks and term deposits of the CBR, correspondent accounts and overnight placements of other banks.

Interest expense increased by 6,316 million roubles, or 11.8 per cent., in 2011 to 59,699 million roubles from 53,383 million roubles in 2010. The increase in interest expense in 2011 as compared to 2010 was primarily due the increase in the average balance of customer accounts (principally term deposits of legal entities) and other borrowed funds and subordinated debts, partially offset by a decrease in the average balance of due to other banks. Interest expense decreased by 8.1 per cent. from 58,069 million roubles in 2009 to 53,383 million roubles in 2010. The decrease in interest expense in 2010 as compared to 2009 was primarily due to the decrease in the average balance of due to other banks and the decrease in the average interest rate on customer accounts (principally term deposits of legal entities), partially offset by the increase in the average balance of other borrowed funds and subordinated debts.

Interest expense on customer accounts in 2011 increased by 5,718 million roubles, or 28.8 per cent., from 19,837 million roubles in 2010 to 25,555 million roubles in 2011, which in turn represented a 6.6 per cent. decrease from 21,240 million roubles in 2009. The increase in 2011 was principally due to an increase in the average volume of term deposits of legal entities, partially offset by a decrease in the average interest rate on term deposits of legal entities. The decrease in interest expense on customer accounts in 2010 as compared to 2009 was principally due to a decrease in the average interest rate on term deposits of legal entities, partially offset by an increase in the average volume of term deposits of legal entities. The increases in the average volume of term deposits of legal entities in 2011 and 2010 principally reflected the RAB Group's strategy of growing its term deposit and current account customer base, while the decreases in the average interest rate on term deposits of legal entities in 2011 and 2010 were mainly due to the fact that market rates on term deposits were generally decreasing in Russia in 2010 and the first three quarters of 2011. The proportion of interest expense on customer accounts in the total interest expense of the RAB Group increased from 36.6 per cent. in 2009 to 37.2 per cent. in 2010 and further increased to 42.8 per cent. in 2011. These increases in the proportion of interest expense on customer accounts in the total interest expense of the RAB Group were primarily due to large increases in the average volume of customer accounts and increases in the proportion of the average balance of customer accounts in total average interest-bearing liabilities due to significant increases in term deposits of legal entities. The average balances of customer accounts increased from 210,407 million roubles, or 31.2 per cent. of the average balance of total interest-bearing liabilities, in 2009 to 310,794 million roubles, or 41.4 per cent. of the average balance of total interest-bearing liabilities, in 2010 and further to 499,078 million roubles, or 52.2 per cent. of the average balance of total interest-bearing liabilities, in 2011. Significant increases in the volume of customer accounts in 2009, 2010 and 2011 contributed to the rapid growth of interest expense on customer accounts, as average balances of customer accounts increased by 60.6 per cent. in 2011 compared to 2010 and by 47.7 per cent. in 2010 compared to 2009.

Interest expense on other borrowed funds and subordinated debts was a large component of total interest expense for the RAB Group throughout the 2009-2011 period. It increased by 3,122 million roubles, or 13.5 per cent., to 26,215 million roubles in 2011 from 23,093 million roubles in 2010 which, in turn, represented a 23.0 per cent. increase from 18,782 million roubles in 2009. In 2011, the increase in interest expense on other borrowed funds and subordinated debts was primarily attributable to a significant increase in the average volume of other borrowed funds and subordinated debts, principally due to the increase in rouble-denominated Eurobonds in the amount of 52,000 million roubles and rouble-denominated domestic bonds in the amount of 30,000 million roubles, which was partially offset by a decrease in the average interest rates paid. The increase in interest expense on other borrowed funds and subordinated debts in 2010 was attributable both to an increase in the average volume of other borrowed funds and subordinated debts and an increase in the average interest rates paid.

Interest expense on due to other banks decreased in 2011 by 1,751 million roubles, or 19.8 per cent., to 7,088 million roubles, from 8,839 million roubles in 2010 which, in turn represented a 48.2 per cent. decrease from 17,075 million roubles in 2009. In 2011, the decrease in interest expense on due to other banks was primarily due to a decrease in the average balance of due to other banks, principally reflecting the RAB Group's objective of decreasing the share of amounts due to other banks in the RAB Group's funding base while increasing the share of customer accounts. The decrease in interest expense on due to other banks in 2011 was partially offset by an increase in the average interest rate on due to other banks mainly as a result of an increase in the share of long term borrowings, over one year, in the total amount of due to other banks. In 2010, the decrease in interest expense on due to other banks was mainly due to the repayment of a significant portion of funding from the CBR, which bore relatively higher interest rates than other amounts due to other banks.

Interest expense on promissory notes issued decreased by 749 million roubles, or 47.1 per cent., in 2011 from 1,590 million roubles in 2010 which, in turn, represented an increase of 942 million roubles, or 145.4 per cent., from 648 million roubles in 2009. The proportion of interest expense on promissory notes issued in the total interest expense of the RAB Group increased from 1.1 per cent. in 2009 to 3.0 per cent in 2010 and decreased to 1.4 per cent in 2011. In 2011, a decrease in interest expense on promissory notes issued was due to a decrease in the average interest rate on promissory notes issued from 11.8 per cent. in 2010 to 5.6 per cent. in 2011. In 2010, the increase in interest expense on promissory notes issued was due to an increase in the volume of promissory notes issued and an increase in the average interest rate on promissory notes issued from 6.6 per cent. in 2009 to 11.8 per cent. in 2010.

Net Interest Income before Provision for Loan Impairment and Net Interest Margin

Net interest income before provision for loan impairment increased by 16,547 million roubles, or 47.2 per cent., from 35,077 million roubles in 2009 to 51,624 million roubles in 2010 and increased further by 1,991 million roubles, or 3.9 per cent., to 53,615 million roubles in 2011.

The RAB Group's net interest margin, defined as net interest income before provision for loan impairment for the year expressed as a percentage of the average balance of total interest-earning assets, was 5.5 per cent. in the year ended 31 December 2011 as compared to 6.8 per cent. in the year ended 31 December 2010. This decrease in net interest margin in 2011 was primarily attributable to an increase in the average balance of total interest-earning assets, which was mainly due to an increase in the average balance of loans and advances to customers increased from 760,500 million roubles in 2010 to 973,088 million roubles in 2011. The RAB Group's net interest spread, defined as the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities, was 5.4 per cent. in the year ended 31 December 2011 as compared to 6.7 per cent. in the year ended 31 December 2010. The decrease in net interest spread in 2011 was principally attributable to a decrease in the average interest rate earned on interest-bearing assets to 11.6 per cent. in 2011 from 13.8 per cent. in 2010, partially offset by a decrease in the average interest rate paid on interest-bearing liabilities from 7.1 per cent. in 2010 to 6.2 per cent. in 2011.

The RAB Group's net interest margin increased from 5.0 per cent. in 2009 to 6.8 per cent. in 2010 due to an increase in net interest income, partially offset by an increase in the average balance of total interest-bearing assets. The RAB Group's net interest spread increased from 4.8 per cent. in 2009 to 6.7 per cent. in 2010 was principally due to an increase in the average interest rate earned on interest-bearing assets to 13.8 per cent in 2010 from 13.4 per cent. in 2009 and a decrease in the average interest rate paid on interest-bearing liabilities decreased to 7.1 per cent. in 2010 from 8.6 per cent. in 2009.

The RAB Group monitors interest rates on its financial instruments. The tables below summarise the effective interest rates by major currencies for major assets and liabilities in the years ended 31 December 2009, 2010 and 2011 based on reports reviewed by management personnel. The analysis has been prepared based on period-end effective interest rates used for amortisation of the respective assets/liabilities.

	2009				2010				2011			
	rouble	US$	euro	other	rouble	US$	euro	other	rouble	US$	euro	other
					(in percentage per annum)							
Assets												
Cash and cash equivalents[(1)]	10	—	—	—	3	1	—	—	6	—	—	—
Mandatory cash balances with the CBR	0	—	—	—	0	—	—	—	0	—	—	—
Debt trading securities and related repurchase receivables	12	—	—	—	12	—	—	—	—	—	—	—
Financial instruments designated at fair value through profit or loss	12	12	—	—	12	10	—	—	12	9	—	—
Due from other banks[(1)]	10	8	—	—	—	8	—	—	—	7	—	—
Loans and advances to customers	16	11	10	7	14	9	10	7	13	8	9	7
Debt investment securities available for sale and related repurchase receivables	16	8	—	—	8	6	—	—	8	8	—	—
Debt investment securities held to maturity and related repurchase receivables	7	7	—	—	8	6	—	—	8	6	—	—
Liabilities												
Due to other banks	8	8	3	5	7	8	3	5	7	8	3	5
Customer accounts[(1)]	11	7	7	—	7	7	6	—	8	3	3	—
Promissory notes issued	11	—	5	—	6	1	5	—	7	1	5	—
Other borrowed funds	11	8	—	5	9	8	—	6	8	8	—	6
Syndicated loans	—	1	—	—	—	—	—	—	—	—	—	—
Subordinated debts	8	6	—	—	7	6	—	—	7	5	—	—

Note: In the table above, "—" indicates that there were no such assets or liabilities in the applicable year, while "0" indicates that the effective interest rate on such assets was either 0 per cent. or below 0.5 per cent.

(1) Disclosed rates on term deposits.

Provision for Loan Impairment

Provision for loan impairment consists of provision for loan impairment for loans and advances to customers and provision for loan impairment for due from other banks.

The following table sets forth movements in the RAB Group's provision for loan impairment relating to the RAB Group's gross loans and advances to customers in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December		
	2009	2010	2011
	(in millions of roubles)		
Provision for loan impairment at 1 January	16,557	29,950	57,029
Provision for loan impairment during the year	13,414	28,491	22,567
Sale of loans	—	(1,405)	(3,203)
Loans and advances to customers written off during the year as uncollectible	(21)	(7)	(467)
Reclassification to assets of disposal groups held for sale	—	—	(15)
Provision for loan impairment at 31 December	**29,950**	**57,029**	**75,911**
Gross loans and advances to customers	**614,357**	**745,585**	**979,608**
Provision for loan impairment as at 31 December as a percentage of gross loans and advances to customers	4.9%	7.6%	7.7%

For a discussion of movements in the RAB Group's provision for loan impairment relating to the RAB Group's gross loans and advances to customers during the years ended 31 December 2009, 2010 and 2011, see "*— Liquidity and Capital Resources — Loan Portfolio*".

The following table sets forth movements in the RAB Group's provision for loan impairment for due from other banks in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December		
	2009	2010	2011
	(in millions of roubles)		
Provision for loan impairment for due from other banks at 1 January	—	7	23
Provision/(Recovery of provision) for loan impairment for due from other banks during the year	7	16	(15)
Provision for loan impairment for due from other banks at 31 December	**7**	**23**	**8**

Non-interest income and expense

The following table sets forth the principal components of the RAB Group's non-interest income and expense in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December			Change from prior year	
	2009	2010	2011	2010	2011
	(in millions of roubles)			*(percentages)*	
Non-interest income and expense					
Fee and commission income	3,244	3,411	4,834	5.1	41.7
(Losses net of gains)/Gains less losses from foreign exchange swaps with settlement dates of more than 30 working days[(1), (2)]	(3,089)	(456)	2,933	(85.2)	(743.2)
Other operating income	212	296	927	39.6	213.2
Gains less losses/(Losses net of gains) from trading securities	106	708	(76)	567.9	(110.7)
Gains less losses from disposal of investment securities available for sale	528	390	324	(26.1)	(16.9)
(Losses net of gains)/Gains less losses from other derivative financial instruments	(553)	(342)	221	(38.2)	(164.6)
Gains less losses from dealing in foreign currencies	472	289	82	(38.8)	(71.6)
Gains from early redemption of other borrowed funds[(3)]	2,075	41	25	(98.0)	(39.0)
Gains on disposal of subsidiaries	—	—	21	—	—
Provision/Recovery of provision for other assets and litigation	(319)	192	(78)	(160.2)	(140.6)
Fee and commission expense	(489)	(589)	(631)	20.4	7.1
Impairment of investment securities available for sale	(475)	—	—	(100.0)	—
Gains less losses/(Losses net of gains) from financial instruments designated at fair value through profit or loss	285	(734)	(749)	(357.5)	2.0

Losses net of gains from non-banking activities	(299)	(269)	(1,245)	(10.0)	362.8
Foreign exchange translation losses net of gains	(2,515)	(1,737)	(8,136)	(30.9)	368.4
Administrative and other operating expenses	(19,999)	(23,584)	(29,165)	17.9	23.7
Total non-interest income less expense	**(20,816)**	**(22,384)**	**(30,713)**	**7.5**	**37.2**

(1) Change in the presentation of the derivative financial instruments effected in 2011 (see "*Presentation of Financial and Other Information – Voluntary Change in Presentation*) did not affect the result of RAB Group's operations for the years ended 31 December 2009 and 2010.
(2) The financial information for 2010 presented above has been extracted from the 2011 Financial Statements.
(3) This line item is referred to as gains from early redemption of other borrowed funds and buy-back of subordinated debts in respect of the consolidated statement of comprehensive income for the years ended 31 December 2009 and 2010.

The following six components of non-interest income and expense are further discussed below: administrative and other operating expenses; foreign exchange translation losses net of gains; losses net of gains/(gains less losses) from other derivative financial instruments; gains less losses from dealing in foreign currency; fee and commission income, and fee and commission expense.

Administrative and other operating expenses

The following table sets out the components of the RAB Group's administrative and other operating expenses in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December			Change from prior year	
	2009(1)	**2010(1)**	**2011**	**2010**	**2011**
	(in millions of roubles)			*(percentages)*	
Staff costs(2)	12,274	15,301	18,734	24.7	22.4
Rental expenses	1,828	2,050	2,383	12.1	16.2
Depreciation of premises and equipment	901	1,177	1,314	30.6	11.6
Taxes other than on income	829	895	1,114	8.0	24.5
Security services	629	716	836	13.8	16.8
Other costs of premises and equipment(2)	506	536	682	5.9	27.2
Communications and information services(2)	489	565	669	15.5	18.4
Advertising and marketing services	169	185	508	9.5	174.6
Payment to the Deposit Insurance Fund(2)	239	279	499	16.7	78.9
Amortization of intangible assets	216	287	448	32.9	56.1
Supplies and other materials	278	258	428	(7.2)	65.9
Impairment of premises/(Reversals of impairment)	195	(51)	246	(126.2)	(582.4)
Depreciation of repossessed collateral	45	24	42	(46.7)	75.0
Impairment of goodwill	430	298	—	(30.7)	(100.0)
Other	971	1,064	1,262	9.6	18.6
Total administrative and other operating expenses	**19,999**	**23,584**	**29,165**	**17.9**	**23.7**

(1) In 2011, the RAB Group voluntarily changed presentation of certain administrative and other operating expenses (staff costs, other costs of premises and equipment, communications and information services, payments to the Deposit Insurance Fund and other). Consequently, the financial information provided with respect to these line items for the years ended 31 December 2009 and 2010 above has been similarly presented, therefore it is not directly comparable with the 2009 Financial Statements and 2010 Financial Statements.
(2) The financial information in respect of staff costs, other costs of premises and equipment, communications and information services, payments to the Deposit Insurance Fund and other for 2010 presented above has been extracted from the 2011 Financial Statements.

Total administrative and other operating expenses increased by 5,581 million roubles, or 23.7 per cent., to 29,165 million roubles in 2011 from 23,584 million roubles in 2010. Staff costs, rental expenses, advertising and marketing services, and impairment of premises accounted for 61.5 per cent., 6.0 per cent., 5.8 per cent. and 5.3 per cent., respectively, of the total net increase in administrative and other operating expenses in 2011 as compared to 2010.

Set forth below is a discussion of staff costs, rental expenses, advertising and marketing services, and impairment of premises/(reversals of impairment).

Staff costs principally consist of wages, staff bonuses and statutory social security and pension contributions. Staff costs increased by 3,433 million roubles, or 22.4 per cent., to 18,734 million roubles in 2011 from 15,301 million roubles in 2010 and by 3,027 million roubles or 24.7 per cent. from 12,274 million roubles in 2009. These year-on-year increases were primarily due to the increase in the number of employees at the head office, whose wages are generally higher, and a decrease in the number of employees in the branch offices. In 2011, the number of employees necessary to support the RAB Group's network of regional branches and additional offices, the acquisition of non-banking subsidiaries and the increased size of the RAB Group's loan portfolio decreased due to efficiency initiatives at RAB. The RAB Group employed 35,699 persons as of 31 December 2011, which represented a 1.2 per cent. decrease from 36,120 employees as of 31 December 2010, which, in turn represented a 9.0 per cent. increase compared to 33,134 employees as of 31 December 2009.

Rental expenses increased by 333 million roubles, or 16.2 per cent., to 2,383 million roubles in 2011 from 2,050 million roubles in 2010. This increase was primarily due to the higher rent payments for some of the RAB Group's offices, while the number of the additional offices decreased by 21 additional offices (due to the addition of 8 offices and the closure of 29 offices) during 2011.

Advertising and marketing services expenses increased by 323 million roubles, or 174.6 per cent., to 508 million roubles in 2011 from 185 million roubles in 2010 primarily due to a substantial advertising and marketing campaign designed to grow RAB's retail business.

In 2011, the RAB Group recorded impairment of premises losses in the amount of 246 million roubles as compared to reversal of impairment in the amount of 51 million roubles in 2010. The impairment losses recorded in 2011 mainly represent negative revaluation of the office premises purchased by RAB in the year 2011.

Foreign exchange translation losses net of gains

The RAB Group's monetary assets and liabilities are translated into roubles (the RAB Group's functional currency) at the official exchange rate of the CBR at the end of each reporting period, with foreign exchange gains and losses on translation recognised in the consolidated statement of comprehensive income in line item foreign exchange translation losses net of gains. In those periods when the rouble appreciates against the major currencies and, in particular, the U.S. dollar, such appreciation of the rouble results in net foreign exchange translation gains for the RAB Group. On the other hand, when the rouble depreciates against the major currencies and, in particular, the U.S. dollar, such depreciation of the rouble results in net foreign exchange translation losses for the RAB Group. As the RAB Group seeks to avoid maintaining a significant open foreign currency position and to manage its foreign exchange exposure, management believes that the impact of foreign exchange translation gains or losses on its profit for the year should not be considered on a stand-alone basis and, instead, it should be viewed together with the impact of losses or gains from derivative financial instruments, as well the impact of gains or losses from dealing in foreign currency, which the RAB Group engages in principally for the purpose of managing its foreign exchange exposure and maintaining its liquidity position.

In 2011, the RAB Group recorded net foreign exchange translation losses of 8,136 million roubles, compared to net foreign exchange translation losses of 1,737 million roubles in 2010. While the rouble appreciated, the net foreign exchange translation losses in 2011 resulted primarily from the impact of mark-to-market losses from dealing in foreign currency and derivative financial instruments. In 2010, the RAB Group recorded net foreign exchange translation losses of 1,737 million roubles, compared to losses of 2,515 million roubles in 2009.

Gains less losses from dealing in foreign currency; net effect of changes in line items related to currency fluctuations and foreign exchange operations of the RAB Group

In 2011, the RAB Group recorded gains less losses from dealing in foreign currency of 82 million roubles as compared to 289 million roubles in 2010 and 472 million roubles in 2009.

The following table sets forth a summary of the RAB Group's gains less losses from dealing in foreign currency, losses net of gains or gains less losses from other derivative financial instruments, foreign exchange translation losses net of gains, and losses net of gains or gains less losses from foreign exchange swaps with settlement dates of more than 30 working days in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December			Change from prior year	
	2009	2010	2011	2010	2011
	(in millions of roubles)			(percentages)	
Gains less losses from dealing in foreign currencies	472	289	82	(38.8)	(71.6)
(Losses net of gains)/Gains less losses from other derivative financial instruments	(553)	(342)	221	(38.2)	(164.6)
Foreign exchange translation losses net of gains	(2,515)	(1,737)	(8,136)	(30.9)	368.4
(Losses net of gains)/Gains less losses from foreign exchange swaps with settlement dates of more than 30 working days[1], [2]	(3,089)	(456)	2,933	(85.2)	(743.2)

(1) Change in the presentation of the derivative financial instruments effected in 2011 (see "*Presentation of Financial and Other Information — Voluntary Change in Presentation*) did not affect the result of RAB Group's operations for the years ended 31 December 2009 and 2010.

(2) The financial information for 2010 presented above has been extracted from the 2011 Financial Statements.

The net effect of gains less losses from dealing in foreign currency, losses net of gains or gains less losses from other derivative financial instruments, foreign exchange translation losses net of gains, and losses net of gains or gains less losses from foreign exchange swaps with settlement dates of more than 30 working days on the RAB Group's profit for the year was negative in 2009, 2010 and 2011 with net losses of 5,685 million roubles, 2,246 million roubles and 4,900 million roubles, respectively. The losses in 2011 were mainly due to the fact that while operations with foreign exchange swaps with settlement dates of more than 30 working days, dealing in foreign currency and operation with other derivative financial instruments resulted in gains of 2,933 million roubles, 82 million roubles and 221 million roubles, respectively in 2011 they were offset by the losses of 8,136 million roubles in foreign exchange translation losses net of gains. This net negative effect for all three years can be explained by the fact that foreign exchange translation losses net of gains in each respective year have not been fully offset by the results from foreign exchange swaps with settlement dates of more than 30 working days, as it is difficult for the RAB Group to effectively hedge currency risk by exactly matching swap transactions with interest rates and maturity terms.

Fee and commission income and expense

The following table sets out the components of the RAB Group's fee and commission income and expense in the years ended 31 December 2009, 2010 and 2011.

	For the year ended 31 December			Change from prior year	
	2009[1]	2010[1]	2011	2010	2011
	(in millions of roubles)			(percentages)	
Fee and commission income					
Commission on cash transactions...	2,159	2,668	3,553	23.6	33.2
Commission on settlement transactions	330	423	537	28.2	27.0
Agency fees for sale of insurance contracts…	—	—	246	—	—
Commission on banking cards[1], [2]…	46	137	235	197.8	71.5
Agency fees for debt collection and currency control	57	77	100	35.1	29.9
Commission on guarantees issued..	534	10	25	(98.1)	150.0
Other[1], [2]…	118	96	138	(18.6)	43.8
Total fee and commission income	**3,244**	**3,411**	**4,834**	**5.1**	**41.7**
Fee and commission expense					
Commission on cash collection..	(260)	(349)	(426)	34.2	22.1
Commission on settlement transactions	(28)	(59)	(163)	110.7	176.3
Commission on restructuring loans..	—	(148)	—	—	(100.0)
Commission on guarantees received	(140)	—	—	(100.0)	—
Other	(61)	(33)	(42)	(45.9)	27.3
Total fee and commission expense	**(489)**	**(589)**	**(631)**	**20.4**	**7.1**
Net fee and commission income	**2,755**	**2,822**	**4,203**	**2.4**	**48.9**

(1) In 2011, RAB Group commenced separately presenting commission on banking cards, previously included in line item - other. Consequently, the financial information provided with respect to 2009 and 2010 above has been similarly presented and is not directly comparable with the 2009 Financial Statements and 2010 Financial Statements.

(2) The financial information in respect of commission on banking cards and other commission for 2010 presented above has been extracted from the 2011 Financial Statements.

Total fee and commission income increased by 1,423 million roubles, or 41.7 per cent., to 4,834 million roubles in 2011 from 3,411 million roubles in 2010 as compared to 3,244 million roubles in 2009. The increase in 2011 compared to 2010 was primarily due to increases in commission on cash transactions and agency fees for sale of insurance contracts by 885 million roubles and 246 million roubles, respectively. The fees generated by the RAB Group from its card business as well as its cooperation with insurance companies are expected to remain the two main sources of growth of commission income in 2012. The increase in 2010 compared to 2009 was primarily due to increases in commission on cash transactions, commission on settlement transactions and commission on banking cards by 509 million roubles, 93 million roubles and 91 million roubles, respectively, which were partially offset by a decrease in commission on guarantees issued by 524 million roubles.

Total fee and commission expense increased by 42 million roubles, or 7.1 per cent., to 631 million roubles in 2011 from 589 million roubles in 2010 primarily due to an increase in commission on settlement transactions and commission on cash collection by 104 million roubles. or 176.3 per cent and 77 million roubles or 22.1 per cent. from 59 million roubles and 349 million roubles in 2010, respectively. This increase was partially offset by the absence of commission on restructuring loans in 2011, which amounted to 148 million roubles in 2010.

In 2010, total fee and commission expense increased by 100 million roubles, or 20.4 per cent., to 589 million roubles from 489 million roubles in 2009. This increase was primarily due to commission on cash collection, which increased in 2010 by 89 million roubles or 34.2 per cent to 349 million roubles as compared to 260 million roubles in 2009.

Income tax expense

The income tax charge in the consolidated statement of comprehensive income comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using tax rates in force at the end of each reporting period. Taxes other than on income are recorded as part of administrative and other operating expenses.

The statutory income tax rate applicable to the majority of the RAB Group's income was 20 per cent. in each of 2009, 2010 and 2011. The tax rate for interest income on Russian Government securities was 15 per cent. in each of 2009, 2010 and 2011.

RAB and its subsidiaries have no right to offset tax losses and current tax assets against current tax liabilities and taxable profits of other members of the RAB Group. As a result, deferred tax assets and deferred tax liabilities are assessed separately for each entity.

Income tax expense decreased by 72 million roubles, or 19.8 per cent., in 2011 compared to 2010. The effective tax rate calculated in accordance with IFRS (calculated as income tax expense divided by profit before tax) was 83.4 per cent. in 2011 or 63.4 per cent. higher than the statutory tax rate applicable to the majority of the RAB Group's income, and was 49.7 per cent. and 70.1 per cent. in 2010 and 2009, or 29.7 per cent and 50.1 per cent. points higher, respectively, than the statutory tax rate applicable to the majority of the RAB Group's income. The difference between the RAB Group's effective tax rate in 2009, 2010 and 2011 and the statutory income tax rate was principally due to some of the RAB Group's costs, including, among other items, certain staff costs, fees in connection with membership in public organisations, unions and organisations, a portion of insurance fees, expenses for maintenance of rented premises and expenses in connection with purchases of appliances for providing an appropriate working environment for employees, being non-deductible expenses under the Russian Tax Code. The particularly high effective tax rate in 2011 was mainly due to the non-deductible staff costs and other non-deductible operating expenses.

Profit for the year

The RAB Group's profit for the year decreased by 311 million roubles, or 84.3 per cent., to 58 million roubles in 2011 from 369 million roubles in 2010, mainly due to the increases in administrative and other operating expenses by 5,581 million roubles to 29,165 million roubles in 2011 as compared to 23,584 million roubles in 2010, which was partially offset by an increase in net interest income by 1,991 million roubles to 53,615 million roubles in 2011 from 51,624 million roubles in 2010. The negative effect of net non-interest loss of 1,548 million roubles in 2011 as compared to net non-interest income in 2010 of 1,200 million roubles was due to an increase in foreign exchange translation losses net of gains of 6,399 million roubles, or 368.4 per cent., in 2011 to 8,136 million roubles. This was partially offset by gains less losses from foreign exchange swaps with settlement dates of more than 30 working days in 2011 in the amount of 2,933 million roubles as compared to losses net of gains from foreign exchange swaps with settlement dates of more than 30 working days in the amount of 456 million roubles in 2010.

Liquidity and Capital Resources

Liquidity

The RAB Group's liquidity needs have arisen primarily from making loans and advances to customers, principally in the agricultural sector. The RAB Group's liquidity needs have been funded largely through debt issuances (including promissory notes issued, Eurobonds and rouble-denominated domestic bonds), increases in customer accounts, increases in interbank borrowings, including borrowings from the CBR, and equity contributions from the Russian Government.

Cash Flows

The following table sets forth the RAB Group's main sources and uses of cash for the years ended 31 December 2009, 2010 and 2011.

	As of 31 December		
	2009	2010	2011
	(in millions of roubles)		
Cash flows from operating activities before changes in operating assets and liabilities	13,469	35,996	23,377
Net cash used in operating activities	(63,520)	(12,086)	(5,676)
Net cash used in investing activities	(6,456)	(33,384)	(66,502)
Net cash from financing activities	80,081	33,096	121,943
Effect of exchange rate changes on cash and cash equivalents	1,676	(1,568)	3,178
Net increase/(decrease) in cash and cash equivalents	11,781	(13,948)	52,949
Effect directly associated with disposal groups held for sale	—	(6)	6
Cash and cash equivalents at the end of the year	94,958	81,010	133,959

In 2011, 2010 and 2009, the RAB Group used cash in the amount 5,676 million roubles, 12,086 million roubles and of 63,520 million roubles, respectively, in its operating activities. In 2011, net cash used in operating activities reflected a net increase in loans and advances to customers of 225,985 million roubles, which was partially offset by a net increase in customer accounts of 218,666 million roubles in 2011. In 2010, net cash used in operating activities reflected a net increase in customer accounts of 154,883 million roubles, and a net increase in loans and advances to customers of 125,768 million roubles. In 2009, net cash used in operating activities reflected a net increase in loans and advances to customers of 158,326 million roubles, and a net increase in customer accounts of 73,240 million roubles.

The RAB Group used net cash in investing activities in the amount of 66,502 million roubles, 33,384 million roubles and 6,456 million roubles in 2011, 2010 and 2009, respectively. In 2011, 2010 and 2009, amounts spent on acquisitions of investment securities held to maturity and investment securities available for sale exceeded proceeds from redemption of investment securities held to maturity and from disposal of investment securities available for sale by 64,300 million roubles, 30,402 million roubles and 49 million roubles, respectively.

The RAB Group generated net cash from financing activities in the amount of 121,943 million roubles, 33,096 million roubles and 80,081 million roubles in 2011, 2010 and 2009, respectively. In 2011, net cash from financing activities was principally due to the receipt of proceeds from (i) the issuance of rouble-denominated loan participation notes in March, April and November 2011 by the Issuer, (ii) the rouble-denominated bond issuances in July and November 2011, (iii) the attraction of U.S. dollar-denominated subordinated debt in Eurobonds issued by the Issuer in June 2011, and (iv) the capital contribution from the sole shareholder of RAB in the amount of 40,000 million roubles made in December 2011. In 2010, net cash from financing activities was principally due to the receipt of proceeds from (i) the issuance of rouble-denominated loan participation notes in March 2010 by the Issuer, (ii) the rouble-denominated bond issuances in February, September and November 2010, and (iii) the capital contribution from the sole shareholder of RAB in the amount of 825 million roubles made in February 2010 and in the amount of 1,000 million roubles made in December 2010. In 2009, net cash from financing activities was principally due to the receipt of proceeds from (i) the issuance of U.S. dollar-denominated loan participation notes in June 2009 by the Issuer, (ii) the rouble-denominated bond issuances in November 2009, and (iii) the capital contribution from the sole shareholder of RAB in the amount of 45,000 million roubles made in August 2009.

Funding

The principal sources of funding for the RAB Group are capital contributions by the Russian Government, customer accounts (client's balances in current accounts and term deposits), other borrowed funds (which include proceeds from the issuance of U.S. dollar, Swiss franc and rouble-denominated Eurobonds and rouble-denominated domestic bonds), interbank borrowings, subordinated debts and promissory notes issued.

The following table sets forth the RAB Group's sources of funding, other than capital contributions from the Russian Government, as of 31 December 2009, 2010 and 2011.

	As of 31 December					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Customer accounts						
Term deposits	184,021	26.1	313,599	38.9	521,667	46.7
Current/demand/settlement accounts	46,282	6.5	72,485	9.0	85,539	7.7
Sale and repurchase agreements with securities	—	—	195	0.0	89	0.0
Total for customer accounts	**230,303**	**32.6**	**386,279**	**47.9**	**607,295**	**54.4**
Due to other banks						
Term borrowings from other banks	121,800	17.3	101,484	12.6	90,065	8.1
Term borrowings from the CBR	70,126	9.9	3,853	0.5	—	—
Correspondent accounts and overnight placement of other banks	84	0.0	241	0.0	352	0.0
Total for due to other banks	**192,010**	**27.2**	**105,578**	**13.1**	**90,417**	**8.1**
Promissory notes issued						
Promissory notes issued	12,567	1.8	9,874	1.2	20,129	1.8
Total for promissory notes issued	**12,567**	**1.8**	**9,874**	**1.2**	**20,129**	**1.8**
Other						
Subordinated debts	46,370	6.6	46,545	5.8	57,192	5.1
Syndicated loans	7,570	1.1	—	—	—	—
Other borrowed funds	216,484	30.7	257,559	32.0	342,499	30.6
Total for other	**270,424**	**38.4**	**304,104**	**37.8**	**399,691**	**35.7**
Total for all categories of funding	**705,304**	**100.0**	**805,835**	**100.0**	**1,117,532**	**100.0**

Set forth below are discussions of the RAB Group's principal funding sources as well as funding from promissory notes issued and syndicated loans.

Capital Contributions from the Russian Government

Decisions to increase the share capital of RAB are adopted by RAB's General Shareholders' Meeting. As the Russian Government controls 100 per cent. of the share capital of RAB and members of RAB's Supervisory Board must vote in accordance with directives issued by the SPMA, RAB may not increase its share capital using non-budgetary sources without the consent of the Russian Government. The decision to increase RAB's share capital using sources from the Russian federal budget and the amount of any related share capital contributions must be provided for in the law on the annual federal budget of the Russian Federation.

The Russian Government has periodically contributed capital to fund the rapid growth of the RAB Group's lending operations and the expansion of its network of regional branches and additional offices. Upon the establishment of RAB, its initial charter capital constituted 375 million roubles. Since its incorporation, the Russian Government has funded fifteen increases of RAB's share capital:

(1) on 6 February 2001 in the amount of 430 million roubles (the placement report was registered with the CBR on 12 March 2001);

(2) on 22 June 2001 in the amount of 2,000 million roubles (the placement report was registered with the CBR on 18 July 2001);

(3) on 10 December 2002 in the amount of 994 million roubles (the placement report was registered with the CBR on 26 December 2002);

(4) on 21 June 2003 in the amount of 850 million roubles (the placement report was registered with the CBR on 17 July 2003);

(5) on 5 August 2005 in the amount of 6,121 million roubles (the placement report was registered with the CBR on 12 September 2005);

(6) on 21 December 2005 in the amount of 493 million roubles (the placement report was registered with the CBR on 3 February 2006);

(7) on 14 April 2006 in the amount of 3,700 million roubles (the placement report was registered with the CBR on 29 May 2006);

(8) on 20 December 2006 in the amount of 5,908 million roubles (the placement report was registered with the CBR on 28 December 2006);

(9) on 24 December 2007 in the amount of 6,857 million roubles (the placement report was registered with the CBR on 28 December 2007);

(10) on 31 March 2008 in the amount of 2,000 million roubles (the placement report was registered with the CBR on 21 April 2008);

(11) on 28 August 2008 in the amount of 31,495 million roubles (the placement report was registered with the CBR on 29 August 2008);

(12) on 24 February 2009 in the amount of 45,000 million roubles (the placement report was registered with the CBR on 27 February 2009);

(13) on 2 February 2010 in the amount of 825 million roubles (the placement report was registered with the CBR on 2 February 2010); and

(14) on 20 December 2010 in the amount of 1,000 million roubles (the placement report was registered with the CBR on 30 December 2010).

(15) on 16 December 2011 in the amount of 40,000 million roubles (the placement report was registered with the CBR on 29 December 2011).

Certain capital contributions by the Russian Government were made in connection with its programmes designed to assist the agricultural sector of the Russian economy.

Customer Accounts

Customer accounts continue to be one of the RAB Group's main sources of funding.

The following table sets forth the RAB Group's customer accounts by type of depositor and deposit as of 31 December 2009, 2010 and 2011.

	As of 31 December					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
State and public organisations						
Term deposits	52,954	23.0	74,300	19.2	192,706	31.7
Current/settlement accounts	4,864	2.1	5,333	1.4	4,757	0.8
Other legal entities						
Term deposits	60,480	26.3	128,443	33.2	201,264	33.1
Current/settlement accounts	30,658	13.3	50,317	13.0	57,226	9.4

	As of 31 December					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Sale and repurchase transactions with securities	—	—	195	0.1	89	0.1
Individuals						
Term deposits	70,587	30.6	110,856	28.7	127,697	21.0
Current/demand accounts	10,760	4.7	16,835	4.4	23,556	3.9
Total customer accounts	**230,303**	**100.0**	**386,279**	**100.0**	**607,295**	**100.0**

As of 31 December 2011, customer accounts held with the RAB Group amounted to 607,295 million roubles, which represented 53.9 per cent. of the RAB Group's total liabilities, as compared to 386,279 million roubles as of 31 December 2010, representing 47.5 per cent. of the RAB Group's total liabilities and 230,303 million roubles as of 31 December 2009, representing 32.2 per cent. of the RAB Group's total liabilities.

The increase of the share of term deposits of state and public organisations in the RAB Group's customer accounts from 19.2 per cent. as of 31 December 2010 to 31.7 per cent. as of 31 December 2011 was principally due to the RAB Group's seeking less expensive sources of financing and its success in winning several tenders organised by such organisations in connection with placements of their deposits.

The following table sets forth the RAB Group's customer accounts by sector as of 31 December 2009, 2010 and 2011.

	As of 31 December					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
State and public organisations	57,818	25.1	79,633	20.6	197,463	32.5
Individuals	81,347	35.3	127,691	33.2	151,253	24.9
Financial services and pension funds	22,673	9.9	33,260	8.6	88,081	14.5
Insurance	22,541	9.8	29,444	7.6	38,740	6.4
Manufacturing	9,096	4.0	35,371	9.2	33,718	5.5
Agriculture	14,081	6.1	25,203	6.5	23,149	3.8
Trading	8,124	3.5	13,685	3.5	18,795	3.1
Construction	8,559	3.7	12,738	3.3	13,755	2.3
Leasing	972	0.4	8,920	2.3	9,662	1.6
Telecommunication	54	0.0	7,404	1.9	9,046	1.5
Other	5,038	2.2	12,930	3.3	23,633	3.9
Total customer accounts	**230,303**	**100.0**	**386,279**	**100.0**	**607,295**	**100.0**

Customer accounts of state and public organisations increased by 117,830 million roubles, or 148.0 per cent., to 197,463 million roubles as of 31 December 2011 from 79,633 million roubles as of 31 December 2010. The rapid growth of customer accounts of state and public organisations was due to the RAB Group's active search for cheaper sources of financing and its success in winning several tenders organised by such organisations in connection with placements of their deposits.

As of 31 December 2011, 32.5 per cent. of the aggregate balance of all customer accounts at the RAB Group was held by state and public organisations, 24.9 per cent. by individuals and 14.5 per cent. by financial services and pension funds.

Customer accounts held by individuals increased by 23,562 million roubles, or 18.5 per cent., to 151,253 million roubles as of 31 December 2011 from 127,691 million roubles as of 31 December 2010. The increase in customer accounts held by individuals in 2011 as compared to 2010 and 2009 can be attributed, in the management's view, to the perception of greater reliability of state-owned banks among the Russian population. After the global financial and economic crisis, many privately-owned Russian banks experienced a large volume of deposit withdrawals.

As of 31 December 2011, the RAB Group had four customers with balances in excess of 15,000 million roubles, as compared to three customers with balances in excess of 11,500 million roubles as of 31 December 2010 and 2009. As of 31 December 2011, the aggregate balance of deposits of these four customers was 197,372 million roubles or 32.5 per cent. of total customer accounts as compared to 60,639 million roubles, or 15.7 per cent., as of 31 December 2010. The aggregate account balance of the three customers as of 31 December 2009 was 53,674 million roubles, or 23.3 per cent. of total customer accounts as of 31 December 2009.

Other Borrowed Funds

As of 31 December 2011, the RAB Group's other borrowed funds included U.S. dollar-denominated, Swiss franc-denominated and rouble-denominated Eurobonds that were issued by the RAB Group through the Issuer, as well as rouble-denominated bonds issued in the domestic market.

The following table sets forth certain information on the RAB Group's outstanding Eurobond issues and rouble-denominated bonds as of 31 December 2011.

Currency of denomination	Nominal value, in millions of relevant currency units	Issue date	Maturity date	Put option date	Annual coupon rate	Coupon payment frequency
Eurobond issues						
U.S. dollars	630	16 May 2006	16 May 2013	—	7.175%	6 months
U.S. dollars	1,148	14 May 2007	15 May 2017	—	6.299%	6 months
Swiss francs	150	30 April 2008	30 April 2012	—	6.263%	1 year
U.S. dollars						
- tranche A	702	29 May 2008	14 January 2014	—	7.125%	6 months
- tranche B	901	29 May 2008	29 May 2018	—	7.750%	6 months
U.S. dollars	1,000	11 June 2009	11 June 2014	—	9.000%	6 months
Russian roubles	30,000	25 March 2010	25 March 2013	—	7.500%	6 months
Russian roubles	20,000	17 March 2011	17 March 2016	—	8.700%	6 months
Russian roubles	12,000	20 April 2011	17 March 2016	—	8.700%	6 months
Russian roubles	20,000	23 November 2011	23 November 2016	—	6.970%	6 months
Bonds issued in domestic market						
Russian roubles	10,000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months
Russian roubles	9,010	10 October 2007	27 September 2017	4 October 2013	7.500%	6 months
Russian roubles	585	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months
Russian roubles	5,000	17 June 2008	5 June 2018	14 June 2013	6.850%	6 months
Russian roubles	10,000	9 December 2008	27 November 2018	5 December 2013	8.750%	6 months
Russian roubles	5,000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months
Russian roubles	5,000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months
Russian roubles	5,000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months
Russian roubles	5,000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months
Russian roubles	5,000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months
Russian roubles	10,000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months
Russian roubles	10,000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months
Russian roubles	10,000	12 July 2011	29 June 2021	9 July 2015	7.700%	6 months
Russian roubles	5,000	14 July 2011	1 July 2021	13 July 2015	7.700%	6 months
Russian roubles	5,000	15 July 2011	2 July 2021	14 July 2015	7.700%	6 months
Russian roubles	10,000	8 November 2011	26 October 2021	7 November 2013	8.750%	6 months

The loan participation notes issued in May 2006, May 2007, April 2008, May 2008, June 2009, March 2010, March 2011, April 2011 and November 2011 are included in other borrowed funds, while the loan participation notes issued in June 2011 are included in subordinated debts in the 2011 Financial Statements.

In February 2012, the RAB Group issued rouble-denominated stock exchange bonds ("*birzhevye obligazii*") in an aggregate principal amount of 10 billion roubles maturing in February 2015. The first three semi-annual coupon payments due on the bonds were set at a rate of 8.20 per cent. per annum.

In February 2012, the RAB Group issued Eurobonds denominated in roubles in an aggregate principal amount of 10 billion roubles maturing in February 2017 with semi-annual payments of interest at a rate of 8.625 per. cent per annum.

In April 2012, the RAB Group issued rouble-denominated bonds in an aggregate principal amount of 10 billion roubles maturing in April 2022. The first six semi-annual coupon payments due on the bonds were set at a rate of 8.55 per cent. per annum.

Interbank Borrowing (Due to Other Banks)

As of 31 December 2011, the total amount due to other banks of 90,417 million roubles accounted for 8.0 per cent. of the RAB Group's total liabilities as compared to 105,578 million roubles, representing 13.0 per cent. of the RAB Group's total liabilities, and 192,010 million roubles, representing 26.8 per cent. of the RAB Group's total liabilities, as of 31 December 2010 and 2009, respectively.

As of 31 December 2011, the RAB Group had balances due to one foreign bank in the aggregate amount of 31,105 million roubles, or 34.4 per cent of the total due to other banks, as compared to balances due to one foreign bank in the aggregate amount of 29,254 million roubles, or 27.7 per cent. of the total due to other banks as of 31 December 2010 and balances due to two foreign banks in the aggregate amount of 45,836 million roubles, or 23.9 per cent. of the total due to other banks as of 31 December 2009.

Subordinated Debts

As of 31 December 2011, subordinated debts of the RAB Group totalled 57,192 million roubles as compared to 46,545 million roubles as of 31 December 2010 and 46,370 million roubles as of 31 December 2009. In September 2006, the Issuer issued US$ 500 million of subordinated bonds due September 2016. The RAB Group executed its option to prepay these subordinated bonds in September 2011. In June 2007, the RAB Group issued US$ 200 million of subordinated bonds maturing in June 2017 and bearing an interest rate of LIBOR plus 1.875 per cent. The RAB Group has an option to repurchase these subordinated bonds commencing in June 2012. In October 2008, the RAB Group raised 25,000 million roubles in subordinated debts from Vnesheconombank in accordance with Federal Law No. 173-FZ maturing in December 2019. In July 2010, Federal Law No. 173-FZ was amended to reduce the interest rate on this subordinated debt from 8.0 per cent. per annum to 6.5 per cent. per annum. In June 2011, the Issuer issued US$ 800 million of subordinated bonds maturing in June 2021 with a contractual interest rate of 6.0 per cent. per annum and yield to the next repricing date, i.e. in June 2016 at 8.3 per cent. per annum. RAB has the option to prepay these subordinated bonds at the nominal value in June 2016.

Promissory Notes Issued

As of 31 December 2011, 2010 and 2009, the RAB Group had outstanding promissory notes issued in an aggregate carrying amount of 20,129 million roubles, 9,874 million roubles and 12,567 million roubles, respectively, which in turn represented 1.8 per cent., 1.2 per cent. and 1.8 per cent. of the RAB Group's total liabilities, as of 31 December 2011, 2010 and 2009, respectively. The increase in the share of promissory notes issued in total liabilities was primarily due to an active promissory notes market in 2011, while the decreases in the share of promissory notes issued in the RAB Group's total liabilities in 2010 were mainly due to the significantly less active promissory notes market in that period and an increase in the RAB Group's total liability. The RAB Group had issued promissory notes denominated in roubles, U.S. dollars and Euro at a discount to nominal value with effective interest rates ranging from 0 per cent. per annum (for promissory notes issued on demand) to 11 per cent. per annum and maturity dates ranging from January 2012 to December 2016. As of 31 December 2011, promissory notes issued, which were initially purchased by one counterparty amounted to 13,969 million roubles or 69.4 per cent. of the total amount of outstanding promissory notes issued, as compared to 3,948 million roubles or 40.0 per cent. of the total amount of outstanding promissory notes issued in 2010 and 9,373 million roubles or 74.6 per cent. of the total amount of outstanding promissory notes issued in 2009.

Syndicated Loans

As of 31 December 2011 and 2010, the RAB Group fully redeemed its syndicated loans as compared to 7,570 million roubles, or 1.1 per cent. of the RAB Group's total liabilities, as of 31 December 2009. The RAB Group may increase the share of syndicated loans in its overall funding sources in the future, if the syndicated loans market recovers and borrowing on the syndicated loans market on commercially acceptable terms to the RAB Group becomes available.

In April 2007, the RAB Group obtained 2 tranches (tranche A and B) of syndicated loans in a total amount of US$520 million. Tranche A had a maturity date of October 2008 with a semi-annual coupon at a rate of LIBOR plus 0.3 per cent. per annum and was repaid by the RAB Group at maturity. Tranche B had a maturity date of April 2010 with a semi-annual coupon at a rate of LIBOR plus 0.4 per cent. per annum and was repaid by the RAB Group at maturity.

Assets

Set forth below are discussions of the RAB Group's loan portfolio, collateral of the RAB Group's loans, due from other banks, financial instruments designated at fair value through profit or loss, investment securities available for sale, investment securities held to maturity, and the assets of the disposal groups held for sale.

Loan Portfolio

The following table sets forth information on the RAB Group's loans and advances to customers before provision for loan impairment by type of borrower as of 31 December 2009, 2010 and 2011.

	2009	2010	2011
	(in millions of roubles)		
Loans to legal entities			
- Loans to corporates	503,568	615,385	796,450
- Lending for food interventions	42,666	44,514	33,256
- Deals with securities purchased under reverse-repo agreements	894	—	1,990
- Investments in agricultural cooperatives	702	655	509
Loans to individuals	66,527	85,031	147,403
Total loans and advances to customers (before impairment)	**614,357**	**745,585**	**979,608**
Less: Provision for loan impairment	(29,950)	(57,029)	(75,911)
Total loans and advances to customers	**584,407**	**688,556**	**903,697**

The key drivers for the increases in the overall loan portfolio of the RAB Group in 2011 and 2010 were the year-on-year increases in loans to corporates and loans to individuals, reflecting the RAB Group's focus on the growth of its loan portfolio.

Lending for food intervention is represented by loans to a company that is 100 per cent. owned by the federal government of the Russian Federation. See "*Business — Principal Activities — Lending — Loans for Grain Purchase Interventions*".

Investments in agricultural cooperatives represent contributions made by the RAB Group as part of its participation in the State Programme on Agribusiness Development (formerly the AID National Project). According to contracts entered into with cooperatives, the RAB Group receives fixed annual dividends at the rate of ½ of the CBR refinancing rate on the contributions made. The RAB Group's management has a right to make cooperative member contributions for a period of 5 years and at the end to withdraw its contributions. See "*Business — Principal Activities — Lending — State Programme on Agribusiness Development (Formerly the AID National Project)*".

As of 31 December 2011, 1,990 million roubles of loans advances to customers were effectively collateralised by securities purchased under reverse repo agreements with a fair value of 2,348 million roubles as compared to 2010, when no loans and advances to customers were collateralised by securities purchased under reverse repo agreements, and to 31 December 2009, when 894 million roubles of loans and advances to customers were effectively collateralised by securities purchased under reverse repo agreements with a fair value of 985 million roubles, which the RAB Group had the right to sell or repledge.

The following table sets forth information on the RAB Group's loans and advances to customers before provision for loan impairment by sector as of 31 December 2009, 2010 and 2011.

	As of 31 December					
	2009		2010		2011	
	Amount	% of total	Amount	% of total	Amount	% of total
	(in millions of roubles, except percentages)					
Loans						
Agriculture	392,916	64.0	467,876	62.7	543,731	55.5
Individuals	66,526	10.8	85,031	11.4	147,403	15.1
Manufacturing	82,608	13.4	99,002	13.3	126,716	12.9
Trading	40,039	6.5	54,179	7.3	85,529	8.7
Construction	22,034	3.6	25,898	3.5	35,111	3.6
Other	10,234	1.7	13,599	1.8	41,118	4.2
Total loans and advances to customers (before impairment)	**614,357**	**100.0**	**745,585**	**100.0**	**979,608**	**100.0**

The following table sets forth the RAB Group's net loan portfolio (loans and advances to customers, net of provision for loan impairment) by maturity as of 31 December 2009, 2010 and 2011.

	As of 31 December					
	2009		2010		2011	
	Amount	% of total	Amount	%of total	Amount	% of total
	(in millions of roubles, except percentages)					
Demand and less than 1 month	24,756	4.2	49,821	7.3	90,090	10.0
From 1 to 6 months	128,777	22.1	160,493	23.3	209,989	23.2
From 6 to 12 months	125,612	21.5	124,845	18.1	158,519	17.5
Over 12 months	305,262	52.2	353,397	51.3	445,099	49.3
Total	**584,407**	**100.0**	**688,556**	**100.0**	**903,697**	**100.0**

The following table sets forth the RAB Group's net loan portfolio by currency as of 31 December 2009, 2010 and 2011.

	As of 31 December					
	2009		2010		2011	
	Amount	%	Amount	%	Amount	%
	(in millions of roubles, except percentages)					
Roubles	562,107	96.2	664,249	96.5	870,359	96.3
U.S. dollars	15,204	2.6	17,880	2.6	27,293	3.0
Euro	7,026	1.2	6,362	0.9	5,993	0.7
Other	70	0.0	65	0.0	52	0.0
Total loans and advances to customers	**584,407**	**100.0**	**688,556**	**100.0**	**903,697**	**100.0**

As of 31 December 2011, 96.3 per cent. of the RAB Group's net loan portfolio was denominated in Russian roubles. This concentration is primarily the result of the composition of the RAB Group's customer base, which mainly comprises companies and individuals operating in the Russian agricultural sector and related sub-sectors. In most cases, such customers obtain proceeds and make payments in roubles and require rouble-denominated loans. Customers requiring foreign currency-denominated banking products and services are primarily those who purchase modern agricultural machinery and equipment outside of Russia.

The RAB Group seeks to monitor the credit quality of its outstanding loans on a regular basis. The following table sets forth information regarding the credit quality of the RAB Group's outstanding loans as of 31 December 2011.

	As of 31 December					
	Loans to corporates	Lending for food interventions	Reverse Repo Agreement	Investments in agricultural cooperatives	Loans to individuals	Total
	(in millions of roubles)					
Current and not impaired						
good financial position	—	33,256	1,990	—	—	35,246
Total current and not impaired	**—**	**33,256**	**1,990**	**—**	**—**	**35,246**
Collectively assessed for impairment						
Current						
good financial position	389,123	—	—	509	—	389,632
average financial position	193,421	—	—	—	—	193,421
included in portfolios of similar risk loans	441	—	—	—	143,244	143,685
Overdue						
overdue by: less than 6 days for legal entities, less than 31 days for individuals	9,427	—	—	—	1,002	10,429
Total collectively assessed for impairment	**592,412**	**—**	**—**	**509**	**144,246**	**737,167**
Individually assessed for impairment						
- watch list[(1)]	120,524	—	—	—	—	120,524
- poor financial position	2,972	—	—	—	—	2,972
- 6 to 30 days overdue	3,244	—	—	—	—	3,244
- 31 to 90 days overdue	8,452	—	—	—	470	8,922
- 91 to 180 days overdue	8,680	—	—	—	338	9,018
- 181 to 365 days overdue	16,324	—	—	—	394	16,718
- over 365 days overdue	43,842	—	—	—	1,955	45,797
Total individually assessed for impairment	**204,038**	**—**	**—**	**—**	**3,157**	**207,195**
Total loans and advances to customers (before impairment)	**796,450**	**33,256**	**1,990**	**509**	**147,403**	**979,608**
Provision for loan impairment	**(73,084)**	—	—	**(18)**	**(2,809)**	**(75,911)**
Total loans and advances to customers	723,366	33,256	1,990	491	144,594	903,697

(1) Loans included in the watch list are in the process of restructuring and/or renegotiation.

See "*Asset, Liability and Risk Management — Credit Risk*" for information on the RAB Group's credit risk management policies.

The following table sets forth information regarding the credit quality of the RAB Group's outstanding loans as of 31 December 2010.

	As of 31 December 2010				
	Loans to corporates	**Lending for food interventions**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
	(in millions of roubles)				
Current and not impaired					
good financial position	—	44,514	—	—	44,514
Total current and not impaired	**—**	**44,514**	**—**	**—**	**44,514**
Collectively assessed for impairment					
Current					
good financial position	316,256	—	—	—	316,256
average financial position	149,659	—	—	—	149,659
included in portfolios of similar risk loans	1,313	—	655	81,900	83,868
Overdue					
overdue by: less than 6 days for legal entities, less than 31 days for individuals	5,229	—	—	425	5,654
Total collectively assessed for impairment	**472,457**	**—**	**655**	**82,325**	**555,437**

	As of 31 December 2010				
	Loans to corporates	Lending for food interventions	Investments in agricultural cooperatives	Loans to individuals	Total
	(in millions of roubles)				
Individually assessed for impairment					
- watch list[1]	73,990	—	—	—	73,990
- poor financial position	3,372	—	—	—	3,372
- 6 to 30 days overdue	3,273	—	—	—	3,273
- 31 to 90 days overdue	8,241	—	—	238	8,479
- 91 to 180 days overdue	18,267	—	—	302	18,569
- 181 to 365 days overdue	10,296	—	—	529	10,825
- over 365 days overdue	25,489	—	—	1,637	27,126
Total individually assessed for impairment	**142,928**	—	—	**2,706**	**145,634**
Total loans and advances to customers (before impairment)	**615,385**	**44,514**	**655**	**85,031**	**745,585**
Provision for loan impairment	**(54,769)**	—	**(23)**	**(2,237)**	**(57,029)**
Total loans and advances to customers	**560,616**	**44,514**	**632**	**82,794**	**688,556**

(1) Loans included in the watch list are in the process of restructuring and/or renegotiation.

The following table sets forth information regarding the credit quality of the RAB Group's outstanding loans as of 31 December 2009.

	As of 31 December 2009[1]					
	Loans to corporates	Lending for food interventions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
	(in millions of roubles)					
Current and not impaired						
good financial position	—	42,666	894	—	—	43,560
Total current and not impaired	—	**42,666**	**894**	—	—	**43,560**
Collectively assessed for impairment						
Current						
good financial position	283,580	—	—	702	—	284,282
average financial position	156,025	—	—	—	—	156,025
included in portfolios of similar risk loans	618	—	—	—	63,928	64,546
overdue by: less than 6 days for legal entities, less than 31 days for individuals	5,096	—	—	—	380	5,476
Total collectively assessed for impairment	**445,319**	—	—	**702**	**64,308**	**510,329**
Individually assessed for impairment						
watch list[2]	23,828	—	—	—	—	23,828
poor financial position	2,841	—	—	—	—	2,841
6 to 30 days overdue	1,925	—	—	—	—	1,925
31 to 90 days overdue	5,193	—	—	—	314	5,507
91 to 180 days overdue	4,905	—	—	—	321	5,226
181 to 365 days overdue	7,815	—	—	—	681	8,496
over 365 days overdue	11,742	—	—	—	903	12,645
Total individually assessed for impairment	**58,249**	—	—	—	**2,219**	**60,468**
Total loans and advances to customers (before impairment)	**503,568**	**42,666**	**894**	**702**	**66,527**	**614,357**
Provision for loan impairment	**(28,439)**	—	—	**(8)**	**(1,503)**	**(29,950)**
Total loans and advances to customers	**475,129**	**42,666**	**894**	**694**	**65,024**	**584,407**

(1) In 2010, IFRS requirements were changed and the separate disclosure of the line item loans whose terms were renegotiated was no longer required. Consequently, the financial information provided with respect to 2009 above has been extracted from the 2010 Financial Statements in order to be presented on a comparable basis with the financial information with respect to 2010 and 2011. 43,454 million roubles of loans whose terms were renegotiated as of 31 December 2009, as extracted from the 2009

Financial Statements, has been re-apportioned to the following line items: good financial position, average financial position and included in portfolios of similar risk loans.

(2) Loans included in the watch list are in the process of restructuring and/or negotiation.

As of 31 December 2009, 2010 and 2011, the watch list included loans and advances to customers overdue from 6 to 180 days in the amount of 554 million roubles, 26,878 million roubles and 14,879 million roubles, respectively, and loans and advances to customers overdue more than 180 days in the amount of 2,259 million roubles, 7,869 million roubles and 46,439 million roubles, respectively.

The following table sets out an analysis of the RAB Group's provision for loan impairment relating to the RAB Group's gross loans and advances to customers as of 31 December 2009, 2010 and 2011.

	As of 31 December			Change from prior year	
	2009	**2010**	**2011**	**2010**	**2011**
	(in millions of roubles, except percentages)				
Current loans(1)	572,269	636,912	824,162	11.3	29.4
Past due instalments(1)	20,966	50,825	92,816	142.4	82.6
Current portion of past due loans(1)	21,122	57,848	62,630	173.9	8.3
Total loans and advances to customers (before impairment)	**614,357**	**745,585**	**979,608**	**21.4**	**31.4**
Less: provision for loan impairment	(29,950)	(57,029)	(75,911)	90.4	33.1
Total loans and advances to customers	**584,407**	**688,556**	**903,697**	**17.8**	**31.2**
Provision for loan impairment as a percentage of total loans and advances to customers (before impairment)	4.9	7.6	7.7		
Provision for loan impairment as a percentage of past due instalments and current portion of past due loans	71.2	52.5	48.8		
Past due instalments and current portion of past due loans as a percentage of total loans and advances to customers (before impairment)	6.9	14.6	15.9		
Non-performing loans(2)	26,367	56,520	71,533	114.4	26.6
Non-performing loans as a percentage of total loans and advances to customers (before impairment)	4.3	7.6	7.3		
Provisions for loan impairment as a percentage of non-performing loans	113.6	100.9	106.1		

(1) In 2010, IFRS requirements were changed and the separate disclosure of the line item loans whose terms were renegotiated was no longer required. Consequently, the financial information in respect of current loans, past due instalments and current portion of past due loans provided with respect to 2009 above has been extracted from the 2010 Financial Statements in order to be presented on a comparable basis with the financial information with respect to 2010 and 2011.

(2) Non-performing loans are represented by loans with principal and/or interest overdue by more than 90 days (except for loans in the category watch list, which are in the process of restructuring or renegotiation).

As of 31 December 2011, the provision for loan impairment as a percentage of total loans and advances to customers (before impairment) increased by 0.1 per cent. to 7.7 per cent as compared to 7.6 per cent. as of 31 December 2010 and 4.9 per cent. as of 31 December 2009. The increase in the provision for loan impairment as a percentage of total loans and advances to customers (before impairment) by 2.7 per cent. in 2010 as compared to 2009 was primarily a result of the impact of the global financial and economic crisis on the financial condition of the RAB Group's borrowers, as well as the effects of a drought emergency in several Russian regions. Borrowers in industry sectors such as food processing and in agricultural sectors such as farming and animal breeding were especially adversely affected during 2010. The increases in 2011 and 2010 compared to 2009 in non-performing loans and in past due instalments and current portion of past due loans, both in absolute amounts and as percentages of total loans and advances to customers (before impairment), also reflected these factors. The increase of the provision for loan impairment as a percentage of total loans and advances to customers (before impairment) by 0.1 per cent. was the lowest increase in the past five years.

The following table sets forth the analysis of the movements in the provision for loan impairment in 2010 and 2011.

	2010				2011			
	Loans to corporates	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
	(in millions of roubles, except percentages)							
Provision for loan impairment as of 1 January	**28,439**	**8**	**1,503**	**29,950**	**54,769**	**23**	**2,237**	**57,029**
Provision/(recovery of provision) for loan impairment during the year	27,742	15	734	28,491	22,000	(5)	572	22,567
Sale of loans	(1,405)	—	—	(1,405)	(3,203)	—	—	(3,203)
Loans and advances to customers written off during the year as uncollectible	(7)	—	—	(7)	(467)	—	—	(467)
Reclassification to assets of disposal groups held for sale	—	—	—	—	(15)	—	—	(15)
Provision for loan impairment as of 31 December	**54,769**	**23**	**2,237**	**57,029**	**73,084**	**18**	**2,809**	**75,911**

No provision for "Lending for food interventions" and "Reverse repo agreement" was recorded as of 31 December 2010 and 2011.

Collateral for the RAB Group's loans

The RAB Group has developed an internal methodology to determine the fair value of collateral pledged to secure its loans. The fair value of collateral is determined at the loan granting date and is reassessed subsequently at least quarterly. Actual proceeds from the realisation of collateral in respect of loans to corporate customers and individuals may significantly differ from the values disclosed below.

The following table sets forth the value of collateral in respect of loans to corporate customers individually assessed for impairment, calculated based on the RAB Group's methodology, as of 31 December 2009, 2010 and 2011.

	As of 31 December		
	2009	**2010**	**2011**
	(in millions of roubles)		
Collateral in respect of loans to corporate customers			
Real estate	33,496	91,083	94,603
Equipment	17,820	38,444	35,594
Goods in turnover	5,527	22,965	11,946
Motor vehicles	5,319	13,800	5,761
Farm animals, poultry	2,672	6,057	3,989
Future crop	1,459	6,929	3,607
Other assets	3,288	5,412	8,684
Total value of collateral in respect of loans to corporate customers	**69,581**	**184,690**	**164,184**

The financial effect of collateral is presented by disclosing collateral values separately for (i) those loans and advances to customers where collateral and other credit enhancements are equal to, or exceed, gross amount (before impairment) of the asset ("over-collateralised assets") and (ii) those loans and advances to customers where collateral and other credit enhancements are less than the gross amount (before impairment) of the asset ("under-collateralised assets").

The following table sets forth the effect of the RAB Group's collateral as of 31 December 2011.

	Over-collateralised assets		Under-collateralised assets	
	Loans and advances to customers (before impairment)	Fair value of collateral	Loans and advances to customers (before impairment)	Fair value of collateral
	(in millions of roubles)			
Loans to legal entities				
- Loans to corporates	544,897	1,168,542	251,553	25,268
- Lending for food interventions	31,087	31,087	2,169	446
- Deals with securities purchased under "reverse-repo agreements"	1,990	2,348	—	—
- Investments in agricultural cooperatives	—	—	509	—
Loans to individuals	18,543	35,597	128,860	770
Total	**596,517**	**1,237,574**	**383,091**	**26,484**

The following table sets forth the effect of the RAB Group's collateral as of 31 December 2010.

	Over-collateralised assets		Under-collateralised assets	
	Loans and advances to customers (before impairment)	Fair value of collateral	Loans and advances to customers (before impairment)	Fair value of collateral
	(in millions of roubles)			
Loans to legal entities				
- Loans to corporates	504,262	986,522	111,123	16,899
- Lending for food interventions	44,514	44,543	—	—
- Investments in agricultural cooperatives	—	—	655	—
Loans to individuals	7,125	15,287	77,906	391
Total	**555,901**	**1,046,352**	**189,684**	**17,290**

Due from Other Banks

The following table sets forth the RAB Group's due from other banks as of 31 December 2009, 2010 and 2011 analysed by secured and unsecured interbank lending and further analysed by type of collateral for secured interbank lending.

	As of 31 December		
	2009	2010	2011
	(in millions of roubles)		
Unsecured interbank loans	9,481	5,099	10,709
Interbank loans collateralised by:			
- guarantee deposits	24,374	24,566	25,962
- other assets	3,937	4,812	2,898
Total due from other banks	**37,792**	**34,477**	**39,569**

As of 31 December 2011, the RAB Group had a placement with one foreign bank (S&P rating A+) with an aggregate balance of 25,962 million roubles, which represented 65.6 per cent. of the total due from other banks.

As of 31 December 2010, the RAB Group had a placement with one foreign bank (S&P rating AA-) with an aggregate balance of 24,566 million roubles, which represented 71.3 per cent. of the total due from other banks.

As of 31 December 2009, the RAB Group had a placement with the one foreign bank (S&P rating AA-) with an aggregate balance of 24,374 million roubles, which represented 64.5 per cent. of the total due from other banks.

The following table sets forth information on the current and not impaired due from other banks by type of bank borrowers as of 31 December 2009, 2010 and 2011.

	As of 31 December		
	2009	2010	2011
	(in millions of roubles)		
Current and not impaired			
OECD banks and their subsidiary banks	24,380	24,566	25,962
Other non-resident banks	7,194	3,787	5,580
Top 30 Russian banks (by net assets) and their subsidiary banks	—	916	4,831
Other Russian banks	6,069	4,861	2,898
Total current and not impaired	**37,643**	**34,130**	**39,271**

The following table sets forth information on the movements in the provision for impairment of due from other banks in 2009, 2010 and 2011:

	As of 31 December		
	2009	2010	2011
	(in millions of roubles)		
Provision for impairment of due from other banks at 1 January	—	7	23
Provision/Recovery of provision) for impairment of due from other banks during the year	7	16	(15)
Provision for impairment of due from other banks at 31 December	**7**	**23**	**8**

Financial Instruments Designated at Fair Value through Profit or Loss

In 2008, the RAB Group introduced a new category of assets called "other securities at fair value through profit or loss" in its consolidated financial statements, which in 2009 was renamed to "other financial instruments at fair value through profit or loss" and in 2010 was renamed to "financial instruments designated at fair value through profit or loss". These financial instruments are not part of its trading book and are designated irrevocable at the initial recognition into this category. The RAB Group's management designates financial instruments into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the RAB Group's key management personnel.

The following table sets forth the carrying amount of the RAB Group's financial instruments designated at fair value through profit or loss as of 31 December 2009, 2010 and 2011.

	As of 31 December		
	2009	2010	2011
	(in millions of roubles)		
Credit Linked Note	700	825	848
Due from other banks	3,370	8,861	10,377
Total financial instruments designated at fair value through profit or loss	**4,070**	**9,686**	**11,225**

In May 2008, the RAB Group purchased a credit linked note (a "**CLN**") from an OECD bank in the nominal amount of 2,500 million roubles at the net price of 19.5 per cent. of nominal amount with maturity on 30 May 2023 and zero coupon. This CLN has an embedded Credit Default Swap (a "CDS") linked to RAB's own credit risk.

In February 2009, the RAB Group placed a deposit with another OECD bank in the nominal amount of US$ 100 million with maturity in February 2010 and interest rate of 11.5 per cent. per annum. The contract had an embedded CDS linked to the RAB's own credit risk. The deposit was closed at maturity.

In March 2010, the RAB Group placed funds with another OECD bank in the total amount of US$ 200 million with maturity in April 2014 and interest rate of 10.0 and 10.4 per cent. per annum. The contract has an embedded derivatives "first to default" that is linked to credit events associated with a quasi-sovereign issuer.

In April and August 2010, the RAB Group placed funds with another OECD bank in the total amount of US$ 107 million, with maturity dates in March 2013 and August 2015 and interest rates of 10.3 per cent. and 10.1 per cent. per annum, respectively. The contracts have embedded derivatives that are linked to the credit risk of a quasi-sovereign issuer.

In May 2011, the RAB Group placed funds with another OECD bank in the total amount of US$ 50 million, with maturity in May 2016, and interest rate of 0.6 per cent. The contract has an embedded option linked to the performance of the commodity index.

As of 31 December 2009, 2010 and 2011, the international credit ratings of the issuer of the CLN and counterparty banks were not less than BB-, as rated by S&P.

Investment Securities Available for Sale

The following table sets forth information on the RAB Group's investment securities available for sale portfolio as of 31 December 2009, 2010 and 2011.

	As of 31 December					
	2009	**%**	**2010**	**%**	**2011**	**%**
	(in millions of roubles, except percentages)					
Corporate bonds	3,449	44.2	7,139	45.5	44,083	57.6
Corporate Eurobonds	2,355	30.2	4,955	31.6	22,650	29.6
Federal loan bonds ("*OFZ*")	363	4.7	—	—	8,003	10.4
Municipal and sub-federal bonds	92	1.2	524	3.3	1,140	1.5
State Eurobonds	1,531	19.6	3,054	19.5	707	0.9
Corporate shares	10	0.1	15	0.1	12	0.0
Total debt investment securities available for sale	**7,800**	**100.0**	**15,687**	**100.0**	**76,595**	**100.0**

RAB Group's investment securities available for sale increased by 60,908 million roubles from 15,687 million roubles as of 31 December 2010 to 76,595 million roubles as of 31 December 2011, principally due to a 36,944 million roubles increase in corporate bonds and 17,695 million roubles increase in corporate Eurobonds.

The following table sets forth information on the credit quality of the RAB Group's investment securities available for sale portfolio as of 31 December 2011.

	As of 31 December 2011			
	Securities internationally rated not lower than BB− (S&P)[(1)]	**Securities internationally rated lower than BB− (S&P)[(1)]**	**Internationally unrated securities**	**Total**
	(in millions of roubles)			
Corporate bonds	35,368	5,466	3,249	44,083
Corporate Eurobonds	21,743	907	—	22,650
Federal loan bonds ("*OFZ*")	8,003	—	—	8,003
Municipal and sub-federal bonds	1,038	102	—	1,140
State Eurobonds	707	—	—	707
Total debt investment securities available for sale	**66,859**	**6,475**	**3,249**	**76,583**

(1) If a security's rating is unavailable, the issuer's rating is used. 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 agency. 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 Community and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Fitch is a credit rating agency established and operating in the European Community and registered in accordance with the CRA Regulation. S&P and Moody's are credit rating agencies established outside the European Community and are not registered under the CRA Regulation. The ratings issued by Moody's and S&P are endorsed in accordance with the CRA regulation by Moody's Investors Service Ltd. and Standard & Poor's Credit Market Services Europe Limited, respectively, each of which is established in the European Union and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation

is available on the European Securities and Market Authority's website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs).

The following table sets forth information on the credit quality of the RAB Group's investment securities available for sale portfolio as of 31 December 2010.

	As of 31 December 2010			
	Securities internationally rated not lower than BB− (S&P) [(1)]	Securities internationally rated lower than BB− (S&P) [(1)]	Internationally unrated securities	Total
	(in millions of roubles)			
Corporate bonds	5,482	201	1,456	7,139
Corporate Eurobonds	4,645	310	—	4,955
State Eurobonds	3,054	—	—	3,054
Municipal and sub-federal bonds	322	202	—	524
Total debt investment securities available for sale	**13,503**	**713**	**1,456**	**15,672**

(1) If a security's rating is unavailable, the issuer's rating is used. For more information see footnote 1 to the table above.

The following table sets forth information on the credit quality of the RAB Group's investment securities available for sale portfolio as of 31 December 2009.

	As of 31 December 2009			
	Securities internationally rated not lower than BB− (S&P) [(1)]	Securities internationally rated lower than BB− (S&P) [(1)]	Internationally unrated securities	Total
	(in millions of roubles)			
Corporate bonds	825	—	2,624	3,449
Corporate Eurobonds	1,835	520	—	2,355
State Eurobonds	1,531	—	—	1,531
Federal loan bonds ("*OFZ*")	363	—	—	363
Municipal and sub-federal bonds	92	—	—	92
Total debt investment securities available for sale	**4,646**	**520**	**2,624**	**7,790**

(1) If a security's rating is unavailable, the issuer's rating is used. For more information see footnote 1 to the table above.

The primary factor that the RAB Group considers in determining whether a debt security is impaired is its overdue status.

Corporate bonds are rouble-denominated bonds issued by large Russian companies. Corporate bonds are traded at a discount or premium to their face value and carry a coupon charged on the nominal value of the bond with interest payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As of 31 December 2011, these bonds had maturity dates ranging from January 2012 to January 2025, bore interest at stated rates ranging from 6.3 per cent. to 14.8 per cent. per annum and had yields to maturity or next repricing date ranging from 6.1 per cent. to 14.9 per cent. per annum, depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are U.S. dollar-denominated and rouble-denominated bonds issued by large Russian companies. As of 31 December 2011, these bonds had maturity dates ranging from April 2014 to September 2017, bore interest at stated rates ranging from 5.4 per cent. to 9.8 per cent. per annum and had yields to maturity or next repricing date ranging from 5.5 per cent. to 10.6 per cent. per annum, depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds ("*OFZ*") are represented by the state securities denominated in roubles issued by the Ministry of Finance of the Russian Federation. Federal loan bonds ("*OFZ*") are traded at a discount or premium to face value and carry a coupon charged on the nominal value of the bond with interest payable semi-annually. As of 31 December 2011, these bonds had maturity dates ranging from February 2013 to March 2018, bore interest at stated rates ranging from 6.7 per cent. to 12.0 per cent. per annum, payable semi-annually, and had yields to maturity ranging from 6.7 per cent. to 8.4 per cent. per annum, depending on the type of the bond issue and market conditions.

Municipal and sub-federal bonds are rouble-denominated bonds issued by Russian municipal and sub-federal authorities. Municipal and sub-federal bonds are traded at a discount or premium to their face value, carry a coupon charged on the nominal value of the bond with interest payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As of 31 December 2011, these bonds had maturity dates ranging from June 2012 to June 2017, bore interest at stated rates ranging from 7.6 per cent. to 9.3 per cent. per annum and had yields to maturity ranging from 6.8 per cent. to 9.0 per cent. per annum, depending on the type of the bond issue, the issuer and market conditions.

State Eurobonds are U.S. dollar-denominated and rouble-denominated bonds, issued by the Russian Federation. As of 31 December 2011, these bonds had maturity dates ranging from March 2018 to March 2030, bore interest at stated rates ranging from 7.5 per cent. to 7.9 per cent. per annum payable semi-annually, and had yields to maturity ranging from 4.6 per cent. to 7.6 per cent. per annum.

Investment Securities Held to Maturity

The following table sets forth information on the RAB Group's investment securities held to maturity portfolio as of 31 December 2009, 2010 and 2011. The significant increase in total investment securities held to maturity is primarily due to the RAB Group's reclassification of financial assets from the available-for-sale category as a result of the RAB Group's reassessment of its intention to held-to-maturity.

	As of 31 December					
	2009	**%**	**2010**	**%**	**2011**	**%**
	(in millions of roubles, except percentages)					
Corporate bonds	1,073	13.9	1,087	7.3	14,306	45.7
State Eurobonds	—	—	6,682	44.8	7,058	22.5
Municipal and sub-federal bonds	1,156	15.0	1,082	7.3	3,732	11.9
Federal loan bonds ("*OFZ*")	3,917	50.6	3,317	22.1	3,196	10.2
Corporate Eurobonds	1,586	20.5	1,473	9.9	1,564	5.0
Promissory notes	—	—	1,281	8.6	1,463	4.7
Total investment securities held to maturity	**7,732**	**100.0**	**14,922**	**100.0**	**31,319**	**100.0**

The following table sets forth information on the credit quality of the RAB Group's investment securities held to maturity portfolio as of 31 December 2011.

	As of 31 December 2011			
	Securities internationally rated not lower than BB− (S&P)(1)	**Securities internationally rated lower than BB− (S&P)**(1)	**Internationally unrated securities**	**Total**
	(in millions of roubles)			
Corporate bonds	13,476	—	830	14,306
State Eurobonds	7,058	—	—	7,058
Municipal and sub-federal bonds	3,328	404	—	3,732
Federal loan bonds ("*OFZ*")…	3,196	—	—	3,196
Corporate Eurobonds	1,564	—	—	1,564
Promissory notes	—	1,463	—	1,463
Total investment securities held to maturity	**28,622**	**1,867**	**830**	**31,319**

(1) If a security's rating is unavailable, the issuer's rating is used. For more information see footnote 1 to the table on the credit quality of the RAB Group's debt investment securities available for sale portfolio as of 31 December 2011.

The following table sets forth information on the credit quality of the RAB Group's investment securities held to maturity portfolio as of 31 December 2010.

	As of 31 December 2010		
	Securities internationally rated not lower than BB− (S&P) [(1)]	**Securities internationally rated lower than BB− (S&P)** [(1)]	**Total**
		(in millions of roubles)	
State Eurobonds	6,682	—	6,682
Federal loan bonds ("*OFZ*")	3,317	—	3,317
Corporate Eurobonds	1,473	—	1,473
Promissory notes		1,281	1,281
Corporate bonds	1,087	—	1,087
Municipal and sub-federal bonds	1,082	—	1,082
Total investment securities held to maturity	**13,641**	**1,281**	**14,922**

(1) If a security's rating is unavailable, the issuer's rating is used. For more information see footnote 1 to the table on the credit quality of the RAB Group's debt investment securities available for sale portfolio as of 31 December 2011.

The following table sets forth information on the credit quality of the RAB Group's investment securities held to maturity portfolio as of 31 December 2009.

	As of 31 December 2009		
	Securities internationally rated not lower than BB− (S&P) [(1)]	**Securities internationally rated lower than BB− (S&P)** [(1)]	**Total**
		(in millions of roubles)	
Federal loan bonds ("*OFZ*")	3,917	—	3,917
Corporate Eurobonds	1,586	—	1,586
Corporate bonds	1,073	—	1,073
Municipal and sub-federal bonds	763	393	1,156
Total investment securities held to maturity	**7,339**	**393**	**7,732**

(1) If a security's rating is unavailable, the issuer's rating is used. For more information see footnote 1 to the table on the credit quality of the RAB Group's debt investment securities available for sale portfolio as of 31 December 2011.

Corporate bonds are rouble-denominated bonds issued by large Russian companies. Corporate bonds are traded at a discount or premium to their face value and carry a coupon charged on the nominal value of the bond with interest paid quarterly, semi-annually or annually, depending on the type of the bond issue and the issuer. As of 31 December 2011, these bonds had maturity dates ranging from October 2012 to July 2023, bore interest at stated rates ranging from 7.0 per cent. to 15.0 per cent. per annum and had yield to maturity or next repricing date ranging from 6.6 per cent. to 9.8 per cent. per annum, depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in U.S. dollars. As at 31 December 2011, these bonds have maturity dates in April 2020, annual coupon rate of 5.0 per cent. per annum, payable semi-annually, and have a yield to maturity of 4.6 per cent. per annum.

Municipal and sub-feral bonds are rouble-denominated bonds issued by Russian municipal and sub-federal authorities. Municipal and sub-federal bonds are traded at a discount or premium to their face value, carry a coupon charged on the nominal value of the bond with interest paid quarterly or semi-annually, depending on the type of the bond issue and the issuer. As of 31 December 2011, these bonds had maturity dates ranging from June 2012 to December 2015, bore interest at stated rates ranging from 7.0 per cent. to 14.0 per cent. per annum and had yield to maturity ranging from 7.1 per cent. to 8.9 per cent, per annum, depending on the type of the bond issue, the issue, the issuer and the market conditions.

Federal loan bonds ("*OFZ*") are represented by the state securities denominated in roubles issued by the Ministry of Finance of the Russian Federation. As of 31 December 2011, federal loan bonds ("*OFZ*") had maturity dates ranging from July 2012 to February 2036, bore interest at stated rates ranging from 6.1 per cent. to 8.0 per cent. per annum payable quarterly or semi-annually, and had yield to maturity ranging from 6.0 per cent. to 8.2 per cent. per annum, depending on the type of the bond issue and market conditions.

Corporate Eurobonds are U.S. dollar-denominated bonds issued by large Russian companies. As of 31 December 2011, these bonds had maturity dates ranging from January 2012 to August 2037, bore interest at stated rates ranging from 6.7 per cent. to 9.6 per cent. per annum payable semi-annually, and had yield to maturity or next repricing date ranging from 3.5 per cent. to 8.5 per cent. per annum, depending on the type of the bond issue, the issuer and market conditions.

Promissory notes are represented by U.S. dollar-denominated promissory notes at a discount to nominal value issued by one Russian bank. As at 31 December 2011 these promissory notes had maturity date in November 2013 and yield to maturity 9.0 per cent. per annum.

Disposal Groups Classified as Held for Sale

In the near-term, the RAB Group plans to withdraw its shareholding from, *inter alia*, the following companies: OJSC Rassvet, OJSC Lujskiy Combine Fodder Factory and LLC Bashkirskaya saharnaya kompaniya. RAB Group is currently looking for an interested investor for the purposes of selling its shares and interests in the above companies. In the 2011 Financial Statements, these planned for disposal companies were accounted for as disposal groups held for sale.

In the statement of financial position as of 31 December 2011, assets of these planned for disposal companies are classified as assets of the disposal groups held for sale. Among major classes of assets of the disposal groups held for sale are:

	As of 31 December	
	2010	**2011**
	(in millions of roubles)	
Premises and equipment	2,122	2,861
Trade receivables	364	1,119
Inventory	125	745
Loans and advances to customers	93	108
Cash and cash equivalents	12	6
Other	133	262
Total assets of the disposal groups held for sale	**2,849**	**5,101**

The table below sets forth some of the major classes of liabilities directly associated with the disposal groups held for sale.

	As of 31 December	
	2010	**2011**
	(in millions of roubles)	
Trade payables	498	639
Deferred income tax liability	309	301
Due to other banks	158	—
Customer accounts	16	—
Other	34	342
Total liabilities directly associated with the disposal groups held for sale	**1,015**	**1,282**

In the statement of comprehensive income for the year ended 31 December 2011, cumulative income relating to these disposal groups held for sale was recognized as part of gains net of losses from non-banking activity.

	As of 31 December	
	2010	**2011**
	(in millions of roubles)	
Sales of goods	1,363	3,845
Cost of goods sold	(1,240)	(3,276)
Administrative and other operating expenses	(199)	(436)
Interest income	93	27
Interest expenses	(32)	(79)
Other income	138	311
Other expenses	(120)	(222)

	As of 31 December	
	2010	2011
	(in millions of roubles)	
Total income directly associated with the disposal groups held for sale	**3**	**170**

Disposal and Acquisition of Subsidiaries

In June 2011 the RAB Group completed disposal of its subsidiary Chelyabinskiy Commercial Land Bank (the "**CCLB**") and earned 21 million roubles of gain on disposal.

In August 2011, the RAB Group acquired 100 per cent. of shares in Closed Joint-Stock Company "Insurance Company – GazGarant", which was later renamed to Closed Joint-Stock Company "RSHB – Insurance" for 61 million roubles.

Capital Adequacy

RAB's capital adequacy ratio (the "**CAR**") is calculated in accordance with the international framework for capital measurement and capital standards for banking institutions set by the Basel Committee on Banking Supervision. Since 2010, RAB has calculated the value of CAR based on Basel II. Thus, the CAR was calculated on the basis of Basel I for 2009 and on the basis of Basel II for the years 2010 and 2011. The following table sets forth the principal components of RAB's CAR as of 31 December 2009 (as calculated based on Basel I) and 2010 and 2011 (each as calculated based on Basel II).

	As of 31 December		
	2009	2010	2011
	(Calculated in Accordance with Basel I)[1]	(Calculated in Accordance with Basel II)[2]	(Calculated in Accordance with Basel II)[2]
	(in millions of roubles except percentages)		
Tier I capital			
Share capital	106,973	108,798	148,798
Retained earnings	6,572	6,851	7,017
Goodwill	(298)	—	(8)
Total Tier I capital	**113,247**	**115,649**	**155,807**
Tier II capital			
Revaluation reserves	848	832	152
Subordinated debts	46,370	46,545	57,192
Total Tier II capital	**47,218**	**47,377**	**57,344**
Total capital	**160,465**	**163,026**	**213,151**
Total Risk-Weighted Assets (unaudited)	**773,810**	**872,070**	**1,182,842**
Capital Adequacy Ratios			
Total Tier I capital divided by total risk-weighted assets	14.6%	13.3%	13.2%
Risk Adjusted Capital Ratio[3]	20.7%	18.7%	18.0%

(1) Total risk-weighted assets are determined as the sum of weighted banking and trading book values. Banking book value takes into account assets and off-balance-sheet exposure weighted according to credit risk and is calculated as the sum of the values of assets and off-balance-sheet items after each such value is multiplied by the relevant risk factor. Weighting factors for assets and conversion factors for off-balance-sheet items are determined in accordance with the Basel framework. Trading book value takes into account assets and off-balance-sheet exposure weighted according to market risks, i.e. interest rate, equity, and commodity risks. RAB uses the standardised approach to market risks assessment, which involves separate assessment of specific and general market risks.

(2) Total risk-weighted assets are determined by multiplying the capital requirement for market risk and operational risk by 12.5 and adding the resulting figures to the sum of risk-weighted assets for credit risk. Risk-weighted assets for credit risk are calculated as the sum of weighted banking and trading book values. Banking book value takes into account assets and off-balance sheet exposure weighted according to credit risk and is calculated as the sum of the values of assets and off-balance sheet items after each such value is multiplied by the relevant risk factor. Weighting factors for assets and conversion factors for off-balance sheet items are determined in accordance with the Basel framework. Trading book value takes into account assets and off-balance sheet exposure weighted according to market risks, i.e. interest rate, equity, and commodity risks. RAB uses the standardised approach to market risks assessment, which involves separate assessment of specific and general market risks.

(3) Total Tier I capital plus total Tier II capital divided by total risk-weighted assets.

RAB's total risk-weighted assets increased by 310,772 million roubles, or 35.6 per cent., to 1,182,842 million roubles as of 31 December 2011 from 872,070 million roubles as of 31 December 2010. Despite the rapid growth in total risk-weighted assets, RAB maintained a CAR significantly above the capital standards set by the Basel Committee on Banking Supervision. This level was achieved largely due to a significant increase in total RAB's equity from capital contributions from the Russian Government in the amount of 45,000 million roubles made in February 2009, 825 million roubles made in February 2010, 1,000 million roubles made in December 2010 and 40,000 million roubles made in December 2011.

The CBR requires banks to maintain a capital adequacy ratio of 10.0 per cent. of total risk-weighted assets, computed based on statutory accounting records.

Contingencies and Commitments

Certain contingencies and commitments are anticipated by the RAB Group:

Legal Proceedings. From time to time and in the normal course of business, claims against the RAB Group are received by courts. As at 31 December 2011, based on its own estimates and both internal and external professional advice, the RAB Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for such losses has been made in the 2011 Financial Statements.

Tax Legislation. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the RAB Group. Consequently, tax positions taken by management and the formal documentation supporting the RAB Group's tax positions may be successfully challenged by relevant authorities. The Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Capital Expenditure Commitments. As of 31 December 2011, the RAB Group had contractual capital expenditure commitments totalling 135 million roubles as compared to 307 million roubles as of 31 December 2010 and 175 million roubles as of 31 December 2009.

In 2011, RAB invested 1.88 billion roubles in the development of its information and technology systems, as compared to 1.72 billion roubles in 2010 and 1.09 billion roubles in 2009, based on statutory accounting records. The amount of such investments is currently expected to be 3.0 billion roubles in the first half of 2012. RAB's expenditure on software in 2011, based on statutory accounting records, amounted to 407.2 million roubles, of which 323.5 million roubles were spent on software for the head office and 83.7 million roubles were spent on software for the regional branches. RAB plans to spend 495.7 million roubles on software in the first half of 2012, with 441.3 million roubles allocated for the software for the head office and 54.4 million roubles for the software for the regional branches.

Contractual Obligations

Financial Liabilities

The following table sets forth a maturity analysis of the RAB Group's undiscounted financial liabilities as of 31 December 2011.

	Payments Due by Period					
	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
	(in millions of roubles)					
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(5,223)	(20,569)	(16,714)	(51,799)	(79,554)	(173,859)
- outflow	5,440	19,102	15,969	53,215	65,867	159,593

	Payments Due by Period					
	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
	(in millions of roubles)					
Net settled derivative financial instruments (liabilities)	386	—	—	—	—	386
Due to other banks	948	3,880	11,232	52,113	27,507	95,680
Customer accounts	151,076	252,654	140,738	82,113	7,758	634,339
Promissory notes issued	888	13,365	5,695	405	660	21,013
Other borrowed funds	1,573	26,818	37,611	193,386	160,173	419,561
Subordinated debts	-	8,107	1,581	6,341	60,392	76,421
Other financial liabilities	2,563	100	1,387	-	187	4,237
Off-balance sheet financial liabilities						
Sureties issued	20,732	—	—	—	—	20,732
Guarantees issued	7,736	—	—	—	—	7,736
Letters of credit	1,428	—	—	—	—	1,428
Other credit related commitments[1]	36,368	—	—	—	—	36,368
Total potential future payments for financial obligations	**223,915**	**303,457**	**197,499**	**335,774**	**242,990**	**1,303,635**

(1) Other credit related commitments include commitments to extend credit that are contingent upon customers maintaining specific credit standards.

The following table sets forth a maturity analysis of the RAB Group's undiscounted financial liabilities as of 31 December 2010.

	Payments Due by Period[1]					
	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
	(in millions of roubles)					
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(308)	(8,877)	(36,045)	(23,664)	(81,748)	(150,642)
- outflow	377	9,362	34,439	23,540	75,238	142,956
Net settled derivative financial instruments (liabilities)	31	—	—	—	—	31
Due to other banks	21,753	9,458	7,285	61,787	27,659	127,942
Customer accounts	119,173	161,625	91,715	18,920	7,604	399,037
Promissory notes issued	855	2,046	5,785	1,167	700	10,553
Other borrowed funds	762	21,504	29,652	127,663	144,492	324,073
Subordinated debts	-	1,003	17,075	9,409	34,714	62,201
Other financial liabilities	1,498	-	797	27	435	2,757
Off-balance sheet financial liabilities						
Guarantees issued…	320	—	—	—	—	320
Letters of credit	835	—	—	—	—	835
Other credit related commitments[2]	24,497	—	—	—	—	24,497
Total potential future payments for financial obligations	**169,793**	**196,121**	**150,703**	**218,849**	**209,094**	**944,560**

(1) The financial information for 2010 presented above has been extracted from the 2011 Financial Statements.
(2) Other credit related commitments include commitments to extend credit that are contingent upon customers maintaining specific credit standards.

The tables above show the distribution of financial liabilities as of 31 December 2011 and 2010 by their remaining contractual maturity. The amounts disclosed in the tables are the contractual undiscounted cash flows of the RAB Group's financial liabilities and off-balance credit related commitments. Such undiscounted cash flows differ from the amounts included in the statement of financial position, since the amount in the statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented by related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

Overdue liabilities, including term deposits undrawn by the RAB Group's customers are categorised as demand and less than 30 days.

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

Operating Lease Commitments

The table below sets forth the minimum lease payments under non-cancellable operating leases of premises of the RAB Group, where the RAB Group is the lessee, by maturity as of 31 December 2009, 2010 and 2011. The increase in total operating lease commitments as of 31 December 2011 was primarily due to the higher rent payments for some of the RAB Group's offices as compared to 31 December 2010.

	As of 31 December		
	2009	**2010**	**2011**
	(in millions of roubles)		
Not later than 1 year	1,531	1,676	2,433
Later than 1 year and not later than 5 years	3,591	3,679	6,977
Later than 5 years	2,713	2,391	3,591
Total operating lease commitments	**7,835**	**7,746**	**13,001**

Compliance with covenants

The RAB Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the RAB Group including an increase of the borrowing costs and an announcement of default. The RAB Group's management believes that the RAB Group is in compliance with the covenants.

Credit Related Commitments

Credit related commitments consist of sureties issued, undrawn credit lines, import letters of credit and issued guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, sureties and standby letters of credit, which represent irrevocable assurances that the RAB 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 RAB Group on behalf of a customer authorising a third party to draw drafts on the RAB Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. In respect of credit risk on commitments to extend credit, the RAB Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The RAB Group monitors the term to maturity of credit-related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The following table sets forth the RAB Group's outstanding credit-related commitments as of 31 December 2009, 2010 and 2011.

	As of 31 December		
	2009	2010	2011
	(in millions of roubles)		
Sureties issued	35,059	—	20,732
Guarantees issued	247	320	7,736
Letters of credit	734	835	1,428
Undrawn credit lines	887	—	—
Total credit-related commitments	**36,927**	**1,155**	**29,896**

As at 31 December 2011, sureties issued are represented by financial guaranties to the CBR for one state-owned Russian bank with a rating of not less than BB- (S&P), while as of 31 December 2009 - for two large Russian banks with ratings of not less than BAA1 (Moody's). There were no such sureties issued as at 31 December 2010.

The following table sets forth the RAB Group's credit related commitments by currency as of 31 December 2009, 2010 and 2011.

	As of 31 December		
	2009	2010	2011
	(in millions of roubles)		
Russian roubles	36,189	356	28,749
Euro	605	291	1,024
U.S. dollars	60	508	23
Other currencies	73	—	100
Total	**36,927**	**1,155**	**29,896**

As of 31 December 2011, the RAB Group had 29,896 million roubles in outstanding credit-related commitments, as compared to 1,155 million roubles as of 31 December 2010 and 36,927 million roubles as of 31 December 2009, reflecting principally the sureties for loans to other banks from the CBR issued by RAB in 2009 and 2011. The total outstanding contractual amount of sureties issued, undrawn credit lines, letters of credit and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Derivative Financial Instruments

The RAB Group uses derivative financial instruments to hedge against fluctuations in the U.S. dollar/rouble exchange rate by entering into foreign currency swaps and entering into arrangements with foreign banks pursuant to which the RAB Group makes term deposits in foreign currency with foreign banks and accepts term deposits in roubles from foreign banks. It sometimes retains funding in U.S. dollars and does not therefore require hedges for these amounts.

The following tables set forth fair values of currencies receivable or payable under foreign exchange forward contracts and swaps entered into by the RAB Group as of 31 December 2009, 2010 and 2011. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value.

As of 31 December 2011, receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of 46,486 million roubles and 41,122 million roubles, respectively.

	As of 31 December 2011		
	Contracts with positive fair value	Contracts with negative fair value	Total
	(in millions of roubles)		
Foreign exchange swaps with settlement dates of more than 30 working days: fair values at the end of the reporting period			
US$ receivable on settlement (+)	122,903	9,519	132,422
Russian roubles payable on settlement (−)	(101,774)	(9,826)	(111,600)
Swiss francs receivable on settlement (+)	5,411	—	5,411
Russian roubles payable on settlement (−)	(3,684)	—	(3,684)
Euro receivable on settlement (+)	—	2,770	2,770
Russian roubles payable on settlement (−)	—	(2,816)	(2,816)
Japanese yen receivable on settlement (+)	4,317	—	4,317
Russian roubles payable on settlement (−)	(3,877)	—	(3,877)
Foreign exchange forwards with settlement dates from 2 to 30 working days: fair values at the end of the reporting period			
Russian roubles receivable on settlement (+)	—	28,270	28,270
US$ payable on settlement (−)	—	(28,629)	(28,629)
US$ receivable on settlement (+)	—	3,860	3,860
Russian roubles payable on settlement (−)	—	(3,877)	(3,877)
Foreign exchange futures with settlement dates of more than 30 working days: fair value at the end of the reporting period			
US$ receivable on settlement (+)	—	966	966
Russian roubles payable on settlement (−)	—	(976)	(976)
Total net fair value	**23,296**	**(739)**	**22,557**

As of 31 December 2010, receivables and payables on settlement of foreign exchange swaps included balances with one foreign bank in the amount of 52,878 million roubles and 43,137 million roubles, respectively.

	As of 31 December 2010[(1)]		
	Contracts with positive fair value	Contracts with negative fair value	Total
	(in millions of roubles)		
Foreign exchange swaps with settlement dates of more than 30 working days: fair values at the end of the reporting period			
US$ receivable on settlement (+)	95,172	21,373	116,545
Russian roubles payable on settlement (−)	(76,548)	(21,883)	(98,431)
Swiss francs receivable on settlement (+)	5,313	—	5,313
Russian roubles payable on settlement (−)	(3,824)	—	(3,824)
Japanese yen receivable on settlement (+)	4,364	—	4,364
Russian roubles payable on settlement (−)	(3,898)	—	(3,898)
Foreign exchange forwards with settlement dates from 2 to 30 working days: fair values at the end of the reporting period			
Russian roubles receivable on settlement (+)	31	3,954	3,985
US$ payable on settlement (−)	(31)	(3,966)	(3,997)
US$ receivable on settlement (+)	14,257	13,430	27,687
Russian roubles payable on settlement (−)	(14,215)	(13,449)	(27,664)
Total net fair value	**20,621**	**(541)**	**20,080**

(1) The financial information for 2010 presented above has been extracted from the 2011 Financial Statements.

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

New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later periods and which the RAB Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement.

IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The RAB Group is considering the implications of the standard, the impact on the RAB Group and the timing of its adoption by the RAB Group.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).

IFRS 10, replaces all of the guidance on control and consolidation in IAS 27, *Consolidated and separate financial statements*, and SIC-12, *Consolidation - special purpose entities*. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The RAB Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 11, Joint Arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).

IFRS 11, replaces IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-Monetary Contributions by Ventures*. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The RAB Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).

IFRS 12, applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28, *Investments in associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interest in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interest, and detailed disclosures of interests in unconsolidated structured entities. The RAB Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).

IFRS 13, aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The RAB Group is currently assessing the impact of the standard on its consolidated financial statements.

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).

IAS 27, was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, *Consolidated Financial Statements*. There is no impact of the amended standard on the RAB Group's consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).

The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The RAB Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures — Transfers of Financial Assets — Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011).

The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user of an entity's financial statements to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The RAB Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income.

The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income". The RAB Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013).

The amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The RAB Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013).

The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014).

The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. These include clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. The RAB Group is considering the implications of the amendments, the impact on the RAB Group and the timing of theirs adoption by the RAB Group.

Other revised standards and interpretations.

The amendments to IFRS 1, First-time adoption of IFRS, relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these consolidated financial statements. The amendment to IAS 12, *Income taxes*, which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these consolidated financial statements. IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, which considers when and how to account for the benefits arising from the stripping activity in mining industry, will have no impact on these consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the RAB Group's consolidated financial statements.

BUSINESS

Overview

Russian Agricultural Bank, or RAB, is a state-owned bank organised as an open joint stock company under the laws of the Russian Federation. RAB provides a wide range of banking services mainly to small businesses and individuals operating in the Russian agricultural sector. According to Interfax Centre for Macroeconomic Analysis, a division of Interfax International Information Group, RAB was ranked as the fourth largest Russian bank in terms of total assets as of 1 April 2012. As of 1 April 2012, RAB's banking branch network consisted of the head office in Moscow, 78 regional branches and 1,518 additional offices throughout the Russian Federation.

Profit maximisation is not the only or even the most significant goal for RAB. RAB's business focus and strategic objectives are determined by its role as the principal financial agent of the Russian Government in the implementation of state credit and finance policy in the agricultural sector. See "— *Strategy*" below.

The RAB operates both as a commercial bank, providing banking services to companies and individuals operating in the agricultural sector and as an agent of the Russian Government, participating in the implementation of state programmes of support of the agricultural sector. RAB's principal activities are corporate and retail banking operations conducted in the Russian Federation, with an emphasis on lending to companies and individuals operating in the agricultural sector.

The RAB Group has prepared its consolidated financial statements in accordance with IFRS since 2001. As of 31 December 2011, the RAB Group had total assets of 1,284,426 million roubles. In the year ended 31 December 2011, the RAB Group generated net interest income of 53,615 million roubles and profit for the year of 58 million roubles.

The SPMA, which is the Russian federal government agency responsible for management of state property, holds 100 per cent. of the share capital of RAB.

RAB has been a member of the system of mandatory insurance of retail deposits in the Russian Federation since 14 March 2005.

RAB currently has a Baa1 long-term foreign currency deposits rating (outlook stable), Prime-2 short-term foreign currency deposits rating (outlook stable), and E+ financial strength rating (outlook stable) from Moody's and a national long-term rating of Aaa.ru, from Moody's Interfax Rating Agency (a Russian subsidiary of Moody's). RAB has long-term BBB (outlook stable), short-term F3, national long-term AAA (RUS) (outlook stable), 2 support and b+ viability ratings from Fitch. 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 agency. 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 Community and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. Fitch is a credit rating agency established in the European Community and registered under the CRA Regulation. Each of Moody's and Moody's Interfax Rating Agency is a credit rating agency established outside the European Community and is not registered under the CRA Regulation. The ratings issued by Moody's and Moody's Interfax Rating Agency are endorsed in accordance with the CRA regulation by Moody's Investors Service Ltd., which is established in the European Union and registered under the CRA Regulation. The list of credit rating agencies registered in accordance with the CRA Regulation is available on the European Securities and Market Authority's website (http://www.esma.europa.eu/page/List-registered-and-certified-CRAs).

RAB is recorded in the Unified State Registry of Legal Entities of the Russian Federation under the registration number 1027700342890. RAB's legal address is 3 Gagarinsky Lane, 119034 Moscow, Russian Federation, its principal office is located at 1 Arbat, 119019 Moscow, Russian Federation and its telephone number is + 7 (495) 662 1599. The current charter of RAB, as amended, was approved by SPMA's resolution on 2 December 2011.

History

RAB was incorporated as an open joint stock company on 24 April 2000 pursuant to the Decree of the President of the Russian Federation No. 75-rp dated 15 March 2000 (the "**Decree No. 75-rp**") by the state corporation Agency on Restructuring of Credit Organisations ("**ARCO**"), which acted as RAB's founder and contributed 375 million roubles to its share capital.

RAB's incorporation marked the beginning of a new period in the history of Russian agricultural banks, which have existed in Russia since 1783. It was established in the aftermath of a major financial crisis in 1998, during which the private agricultural bank SBS-Agro (formed as a result of the privatisation of one of the then-largest state banks Agroindustrial Bank (*Agroprombank*)), went bankrupt. RAB was established to address the need for specialised financing of the Russian agricultural sector and related sub-sectors and to create efficient mechanisms for the financial support of companies operating in the Russian agricultural sector.

RAB was registered with the CBR on 24 April 2000 under registration number 3349. In accordance with the Russian Government Decree No. 394-p of 21 March 2001, all of the shares in RAB were transferred to the Russian Fund of Federal Property.

In June 2000, the CBR granted RAB banking licence No. 3349 which authorised RAB to perform all types of banking operations, except for retail operations. In December 2002, the CBR granted RAB retail banking licence No. 3349.

In 2002, RAB was selected as a state agent in connection with the Russian Government's programme for the financial rehabilitation of agricultural companies. See "— *Principal Activities- Debt collection services*".

Since its incorporation, RAB has developed its banking branch network to provide banking services to companies and individuals operating in the agricultural sector across the Russian Federation. In 2002, RAB acquired a 76.27 per cent. shareholding in CCLB, a regional bank with six additional offices (at the time of acquisition) operating in the Chelyabinsk region of the Russian Federation. In 2003, RAB acquired a further 23.2 per cent. stake in CCLB. See "— *Competitive Strengths — Network of Regional Branches and Additional Offices*".

In November 2004, RAB established Agrotorg principally for the purpose of providing intermediary services in sales of agricultural machinery and equipment or agricultural products acquired by RAB from its loan customers through foreclosure. RAB owns 99.9997 per cent. of Agrotorg's share capital.

In May 2005, RAB received licences from the FSFM for broker, dealer and depository activities in the Russian securities market. In December 2006, RAB received a licence from the FSFM for intermediary activities in futures and options transactions in commodities. In July 2007, the CBR granted RAB general banking licence No. 3349 which superseded the previously issued licences by the CBR. This general banking licence allows RAB to, among other things, perform retail banking operations, open branches abroad and purchase shares of foreign banks in addition to banking operations it already had the right to perform.

The RAB Group Financial Statements include majority-owned subsidiaries of RAB, which comprise several grain storage companies and food processing companies, trading companies and other agricultural companies. As of 31 December 2011, RAB's ownership share in its subsidiaries ranged from 75 per cent. to 99.9997 per cent. RAB's shareholdings in most of these subsidiaries were acquired from the RAB Group's debtors in connection with loan restructuring and overdue debts. As it was difficult to sell pledged property, the Bank accepted title to assets from the relevant business entities.

The Bank's main objectives relating to its participating interest in subsidiaries include:

- Increasing the effectiveness of asset management by increasing the amount of loans repaid, improving the quality of RAB's credit portfolio and advancing RAB's general financial position.

- Economical, beneficial and quick sale of troubled assets within a short period of time at a price that is as close as commercially reasonable to the level of the concerned troubled debt.

- Fulfillment of social tasks through the restoration of business strength, preservation of workplaces, and decrease of social tension.

In June 2009, RAB joined the Eurasian Association of Agricultural Loan ("**EvrAzASK**") established by the agricultural banks of Armenia, Azerbaijan, Georgia, Kyrgyzstan, Mongolia, Russia, Tajikistan, Turkmenistan and headquartered in Minsk, the Republic of Belarus. The purpose of EvrAzASK is to coordinate the activities of agricultural banks involved in credit and finance activities within the agricultural industry. Through its participation in EvrAzASK, RAB is seeking to increase trade volumes between Russian and foreign agricultural manufacturers, develop inter-regional cooperation, increase RAB clients' awareness of potential cooperation opportunities with partners from EvrAzASK member countries, and create more favourable conditions for implementing export-import and trade financing projects.

In December 2010, RAB sold its 26.15 per cent. share in Limited Liability Company Agro Standard ("**Agro Standard**") to another shareholder of Agro Standard. In June 2011 the RAB Group completed disposal of its subsidiary CCLB and earned 21 million roubles of gain on disposal. As at 31 December 2011 the RAB Group has classified the assets and liabilities related to companies in Bashkortostan and Leningrad Region as disposal groups held for sale. In 2012, RAB also disposed of a number of its subsidiaries which were acquired from the borrowers as part of loan restructuring processes. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Disposal Groups Classified as Held for Sale*".

Relationship with the Russian Government

The status, tasks and functions of RAB are determined by Russian federal laws, Decree No. 75-rp and its charter. According to paragraph 17 of RAB's charter, the principal purpose of RAB's activities, among other things, is the practical implementation of Russian Government credit and finance policy in the agricultural sector, as well as the creation of an efficient system for servicing the financial needs of the agricultural sector.

RAB is a state-owned bank, with 100 per cent. of its shares held by the Russian Federation through the SPMA.

Since RAB's establishment in 2000, the Russian Government has supported RAB's operational development by funding increases in RAB's share capital on 15 separate occasions. The most recent share capital increase in the amount of 40 billion roubles occurred in December 2011 pursuant to Decree No. 3008-r of the SPMA dated 2 December 2011. The placement report in relation to the 15th additional issue of shares was registered with the CBR on 29 December 2011.

In addition to direct capital contributions, the Russian Government also supports RAB through providing it with access to unsecured borrowings from the CBR and the Russian Treasury, making funding available in other ways, such as through a 25 billion rouble subordinated loan made by state-owned Vnesheconombank in October 2008, and through its assistance to borrowers participating in subsidised lending programmes. See "*— Competitive Strengths — State Ownership and Financial Support from the Russian Government*".

RAB does not directly report to any particular government ministry and does not have any indirect support or privileges from the Russian Government in the form of subsidies or favourable tax treatment, although RAB's activities relating to its participation in state programmes are coordinated with the relevant Russian ministries. For example, RAB cooperates with the Ministry of Agriculture in connection with the implementation of the State Programme on Agribusiness Development, formerly the AID National Project, as well as in connection with lending for procurement of grain under the price stabilisation programme. See "*— Principal Activities — Lending — State Programme on Agribusiness Development (formerly the AID National Project)*" and "*— Principal Activities — Lending — Loans for grain purchase interventions*". RAB also cooperates with the Russian Ministry of Finance in connection with the debt collection programme and with state, regional and local authorities in connection with its lending activities, especially in connection with subsidised lending programmes. See "*— Principal Activities — Debt Collection Services" and "— Principal Activities — Lending — Subsidised lending*".

As an entity that uses budgetary funds, RAB's activities are audited on a regular basis by the State Audit Chamber of the Russian Federation (the "**SAC**"), which conducts comprehensive reviews of RAB's use of budgetary funds and evaluates whether such funds were spent in accordance with the terms and the purposes for which they were provided. The SAC, however, is not allowed to directly influence RAB's business activities and operations.

The Russian Government exercises effective control over RAB's activities through the ownership of 100 per cent. of RAB's share capital. This allows the Russian Government to determine the composition of RAB's Supervisory Board, which in turn appoints members of RAB's Management Board, and to appoint the Chairman of RAB's Management Board. All members of RAB's Supervisory Board are nominated by the Russian Government through the SPMA. Members of RAB's Supervisory Board are required to vote at the meetings of the Supervisory Board in accordance with directives issued by the SPMA. Generally, RAB's Supervisory Board approves RAB's annual budget, high-level policies and the issuance of loans that exceed certain financial thresholds. RAB's Management Board is responsible for the day-to-day activities of RAB. See "*Asset, Liability and Risk Management — Credit Risk — Lending policies and procedures — Lending Procedures*".

While the Russian Federation, through SPMA, owns 100 per cent of RAB's capital, it is not liable for the obligations of RAB, except in limited circumstances in which, pursuant to general provisions of civil and corporate law, a shareholder may be held liable for obligations of a bank it controls if the shareholder leads its controlled bank into bankruptcy.

Although the Concept of RAB Development, a development plan produced by RAB and the Russian Ministry of Agriculture, contemplates that RAB may be partially privatised by 2017, RAB is not aware of any intention of the Russian Government to privatise RAB in the near future. Even if a partial privatisation occurs, the Concept of RAB Development contemplates that the Russian Government will hold a 50 per cent. plus one share stake in RAB at least until 2015. RAB's management currently expects that there will be no significant changes in RAB's ownership structure in the next two or three years. After this period, it is possible that up to 25 per cent. of RAB's shares might be sold to one or more strategic investors. It is also currently contemplated that the ownership share of strategic investors might be further increased at some point prior to 2020 to almost 50 per cent., but that the Russian Government will continue to hold a majority ownership position in RAB for the foreseeable future.

Although the Concept of RAB Development was agreed informally with the Russian Government and approved by RAB's Supervisory Board in January 2008, it is not binding in any way. See "*Risk Factors — Risks Related to RAB's Business and the Banking Sector — The interests of RAB's controlling shareholder may conflict with those of the Noteholders" and "Risk Factors — Risks Related to RAB's Business and the Banking Sector — The Russian Government may at its sole discretion privatise RAB, which may result in RAB's future equity funding being materially decreased*".

Strategy

Profit maximisation is not the only or the most significant goal for RAB. RAB's business focus and strategic objectives are determined by its role as the principal financial agent of the Russian Government in the implementation of the Russian Government's credit and finance policy in the agricultural sector. RAB's principal goal is to increase the availability of affordable credit to companies and individuals operating in the agricultural sector and related sub-sectors in order to support the development of this sector of the Russian economy, which the Russian Government views as strategically significant. To achieve this goal, RAB plans in the medium term to maintain its position as one of the leading financial institutions in the Russian Federation as measured by both total assets and share capital, to expand its banking services to small businesses and individuals operating in the agricultural sector and related sub-sectors, to expand its network of regional branches and additional offices and to develop new products and lines of business tailored to the specific requirements of its target customers. At the same time, RAB intends to maintain prudent policies in respect of management of operational costs and continue to improve its risk management standards, allowing it to manage the expansion of its operations efficiently and without incurring undue risk.

Strengthen Market Position

RAB plans to strengthen its market position and aims to increase its market share in agricultural sector lending. RAB plans to achieve this by increasing lending to those sub-sectors of the Russian agricultural sector and regions in which the demand for banking products remains largely unsatisfied by using its extensive network of regional branches and additional offices, as well as by improving the quality of its banking services and broadening the range of products and services provided to its customers. In particular, RAB seeks to increase its share in the subsidised lending market, including subsidised lending to farmers and individuals involved in producing agricultural products on household land plots. RAB's management believes that more active participation in subsidised lending programmes will allow it to increase its loan portfolio and improve the quality of its assets. See "— *Principal Activities — Lending — Subsidised lending*". RAB also plans to participate in other state programmes that support the development of the agricultural sector, including increased lending to livestock and dairy industries and trade finance. Furthermore, in 2011, RAB started to implement an aggressive strategy for retail lending, a sector where margins are generally higher and the overall quality of the portfolio is more stable than in the corporate lending sector. RAB plans to continue to increase its presence in the retail lending sector in 2012, however, it does not plan to do so at the level seen in 2011.

Implement Policies for Management of Growth of Operations

As part of RAB's strategy of implementing and maintaining prudent policies to efficiently manage the expansion of its operations, RAB plans to introduce more stringent controls over its costs. RAB also intends to continue to invest in its information technology systems to improve the effectiveness of its controls over existing operations and to support further growth of its network of additional offices and the introduction of additional products and new lines of business. See "— *Information Technology*". RAB also expects to improve existing and to launch new educational and training programmes for its employees to support the expansion of its operations. See "— *Employees*".

Develop New Products and Lines of Business

RAB plans to continue to develop new products and business lines tailored to the specific requirements of its target customers, including the following:

Lending to agricultural consumer and credit cooperatives

As part of its participation in the State Programme on Agribusiness Development, RAB plans to increase lending to existing and newly-created agricultural consumer and credit cooperatives. RAB believes that by increasing lending to agricultural consumer and credit cooperatives, it will improve the availability of affordable credit to small businesses and individuals operating in the agricultural sector and related sub-sectors. See "— *Principal Activities — Lending — State Programme on Agribusiness Development (formerly the AID National Project) — Lending to Agricultural Cooperatives*".

Lending secured by mortgages on agricultural land

Due to the limited market for agricultural land in the Russian Federation, lending secured by mortgages on agricultural land is relatively rare. However, as part of the State Programme on Agribusiness Development, RAB has started to offer loans to agricultural producers secured by their agricultural land. RAB has also conducted extensive analysis and prepared draft amendments to existing legislation aimed at facilitating the development of the agricultural land mortgage system. See "— *Principal Activities — Lending — State Programme on Agribusiness Development (formerly the AID National Project) — Mortgage Lending*".

Developing retail deposit-taking operations

RAB entered the retail deposit-taking market in 2004. Because of the adverse impact of the turmoil in the global financial markets on many of its other sources of funding, RAB has made the development of this activity one of its priorities. Customer accounts of individuals increased from 81,347 million roubles as of 31 December 2009 to 127,691 million roubles as of 31 December 2010 and further increased to 151,253 million roubles as of 31 December 2011. This high rate of growth was achieved, to a large extent, due to the state-owned status of RAB, which management believes benefits from the perception by the Russian population that state-owned banks are more reliable than private banks.

Development of retail business

In addition to its core business of lending to the Russian agricultural sector, the RAB Group has increased its focus on the development of retail business and fee and commission-based products and services.

As of 31 December 2011, the consumer loan portfolio amounted to 15.0 per cent. of the RAB Group's gross loan portfolio (before provision for loan impairment). The RAB Group's loans and advances to individuals before provision for loan impairment increased by 18,504 million roubles, or 27.8 per cent., to 85,031 million roubles as at 31 December 2010 from 66,527 million roubles as at 31 December 2009 and by 62,372 million roubles, or 73.4 per cent., to 147,403 million roubles as at 31 December 2011 from 85,031 million roubles as at 31 December 2010. RAB plans to increase the volumes of its consumer lending to individuals residing in small towns and rural areas who are involved in agricultural production by offering various types of consumer loans.

Total fee and commission income increased by 1,423 million roubles, or 41.7 per cent., to 4,834 million roubles in 2011 from 3,411 million roubles in 2010 as compared to 3,244 million roubles in 2009. The increase in 2011 compared to 2010, was primarily due to increases in commission on cash transactions and agency fees for sale of insurance contracts. See "— *Principal Activities — Lending — Consumer lending programmes*".

Issuing cards and related Internet services and cooperation with insurance providers

In October 2007, RAB became a principal member of VISA™ International and, in March 2008, of MasterCard™ Europe. At the beginning of 2008, RAB started issuing its own debit cards and, from September 2008, it started issuing VISA™ branded debit cards and, from July 2009, RAB started issuing MasterCard™ branded debit cards. RAB started issuing its own credit cards from February 2009. With a view to providing high quality payment card services, RAB established a network of ATMs in its regional branches and additional offices, with 2,687 ATMs and 3,916 point-of-sale terminals installed as of 31 December 2011. RAB currently plans to increase the number of its ATMs by approximately 298 and the number of point-of-sale terminals by approximately 918 by the end of 2012. In addition, RAB is also considering cooperation agreements with some large Russian banks with developed ATM networks aimed at offering RAB's clients beneficial terms of service when performing transactions through ATMs of such banks.

In April 2009, RAB introduced the "Internet-office" service for its debit card customers. The service allows customers to receive monthly bank statements electronically, sign up for new services (such as SMS text notifications), make payments to providers of various services (such as mobile phones, Internet, cable television and security systems), and reduce or expand the geographic area in which payment cards can be used (for example in cases of foreign travel). In 2010, RAB extended the functionality of the Internet-office and customers can now perform most operations directly from their mobile phone via "Mobile Banking". Moreover, in 2010, RAB implemented the Verified by Visa certification program, which provides RAB's customers with the ability to make payments on the Internet safely.

Also in 2010, RAB received certification of its compliance with international standards of information security in PCI DSS. Demonstration of PCI DSS compliance creates an additional competitive advantage due to the positive assessment by international payment systems, and shows that RAB is working to minimize operational and reputational risks relating to the payment cards service.

In 2011, a number of projects were conducted jointly with MasterCard™ and VISA™ such as service VISA Fast Funding, technology VerifiedByVisa and MasterCard SecureCode. Also, certification of service Mastercard ATM PIN management was implemented.

Furthermore, in 2011 RAB further developed its relationships with insurance companies that provide insurance in respect of collateral used by RAB's borrowers. RAB plans to continue to develop its relationships with insurance companies with a view to increasing commission income earned from cooperation with insurance providers.

Increased participation in financing of infrastructure development projects and other large-scale investment projects in rural areas of the Russian Federation

Russia's physical infrastructure is currently in very poor condition and largely dates back to Soviet times. Particularly affected are pipeline, rail and road networks, power generation and transmission systems and communication systems. The Russian Government has launched a number of infrastructure modernisation programmes, such as a large-scale reform of the electricity sector, and large capital investment will be needed to implement these programmes. RAB views existing and proposed infrastructure development projects as an opportunity to expand into a new area of business and intends to much more actively participate in financing of those projects that affect rural areas of the Russian Federation. The Russian Government also intends to implement other measures improving the quality of life of the Russian rural population such as, for instance, the development of social services and improving retail trade in rural areas. RAB currently expects to actively participate in financing of large-scale state programmes targeting the development of rural territories.

Competitive Strengths

RAB believes that it has a number of competitive strengths, including:

State Ownership and Financial Support from the Russian Government

Since RAB's formation in 2000, the Russian Government has increased RAB's share capital 15 times to a total amount of 148,048 million roubles. These equity contributions have enabled the RAB Group to increase rapidly the size of its loan portfolio despite RAB's relatively low level of profitability.

In addition to direct capital contributions, the Russian Government provides other forms of support to RAB, which were particularly important during the global financial crisis. As of 1 April 2011, the total limit for unsecured borrowings RAB had with the Ministry of Finance of the Russian Federation was 190.4 billion roubles. Such borrowings are provided on an auction basis. Moreover, the Russian Government adopted the Federal Law No. 173-FZ, which allowed the Russian Government (through the state-owned Vnesheconombank) to make a subordinated loan to RAB in October 2008 in the amount of 25 billion roubles with a 6.5 per cent. interest rate and a maturity date in December 2019.

The Russian Government also provides critical support to the growth of the RAB Group's lending operations through its assistance to borrowers participating in subsidised lending programmes. Subsidised lending involves the compensation by federal authorities (frequently combined with additional compensation by regional authorities) of a portion of the interest expenses incurred by borrowers. The amount of the federal-level subsidy for corporate entities is limited to 80 per cent. of the refinancing rate of the CBR, which refinancing rate as of 1 April 2012 was 8.0 per cent., with a subsidy of up to 100 per cent. available for corporate entities involved in livestock and dairy industries. The amount of the federal-level subsidy for farmers and individuals involved in producing agricultural products on household land plots is currently 95 per cent. of the refinancing rate of the CBR. The loans may be further subsidised by regional authorities. RAB's management believes that the RAB Group's loans to borrowers who participate in these subsidised loan programmes permit the RAB Group to increase its loan portfolio and also to improve the quality of its loan portfolio, as punctual payments on subsidised loans are a condition to the compensation of the borrower's interest expenses by the federal authorities.

Although the Russian Government does not guarantee any obligations of RAB, management believes the RAB Group benefits from the perception of the Russian population that state-owned banks are more reliable than private banks. This belief is largely due, in management's view, to the consequences of the Russian financial crisis in 1998, in which many of the largest Russian private banks collapsed. During the recent global financial crisis, many privately-owned Russian banks experienced a large number of deposit withdrawals. RAB, however, was one of the very few Russian banks in which the aggregate balance of all customer accounts of individuals increased every month during 2009 when the Russian financial system was particularly adversely affected by the global economic and financial crisis.

Expertise in Lending to the Agricultural Sector

RAB's credit policy provides that at least 70 per cent. of its loan portfolio must consist of loans to borrowers in the agricultural sector and related sub-sectors. RAB estimates that as of 31 December 2011 the share of loans to borrowers in the agricultural sector and related sub-sectors stood at 75.9 per cent. of its total loan portfolio (based on statutory accounting records). This high degree of specialisation has enabled the RAB Group to develop considerable expertise in lending to agricultural producers, agricultural commodity traders, food processing enterprises and other companies that produce goods for, or provide services to, the agricultural sector. Many of its managers in regional branches and additional offices came to RAB with a background in agricultural lending and a network of relationships with local clients and were able to further develop their skills and strengthen their client relationships while working for RAB. RAB believes that the quality of its assets demonstrates the RAB Group's commitment to managing its credit risk effectively.

Relatively Low Level of Competition

The RAB Group operates in an environment in which there is relatively little competition from other banks. Profit margins achievable from operations in rural areas of the Russian Federation are generally much lower than from operations in urban areas. In addition, to be able to compete effectively with RAB everywhere in the Russian Federation, any competitor would have to create a very large network of regional and local offices to be able to reach the Russian rural population effectively, which RAB believes would be expensive given the relatively low profit margins from operations in such areas. Therefore, RAB believes the barriers to entry in this business are high. RAB's management believes that the only current significant competitor of RAB in lending to the Russian agricultural sector and related sub-sectors is state-owned savings bank Sberbank.

Wide Territorial Coverage

As of 1 April 2012, RAB had the second largest network of branches and offices in the Russian Federation with 78 regional branches and 1,518 additional offices located in substantially all of the federal districts of the Russian Federation, including all major agricultural regions. This territorial coverage allows RAB to maintain competitive levels of accessibility to its services for its target customers located in different regions of the Russian Federation. The size of the RAB Group's network, and the decision-making autonomy of its regional branches, which generated 94.5 per cent. of the RAB Group's loan portfolio that was outstanding as of 31 December 2011 (based on statutory accounting records), allows the RAB Group to maintain close relationships with its customers and therefore better understand their needs and address their concerns.

Network of Regional Branches and Additional Offices

RAB is developing its network of regional branches and additional offices with a view to providing banking services to small businesses and individuals operating in the agricultural sector across the Russian Federation. These include both regional branches offering a wide range of banking services, as well as additional offices, which offer a more limited range of banking services.

RAB currently plans to open approximately 27 additional offices and close 18 additional offices in 2012. See "*Risk Factors — Risks Related to RAB's Business and the Banking Sector — The RAB Group's loan portfolio and/or network of regional branches and additional offices may not continue to grow, or may grow more slowly, which may have a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects*". The development of its network of regional branches and additional offices should allow RAB to increase further the volume of its operations by expanding its customer base in regions in which demand for banking services has been traditionally unsatisfied. RAB does not plan to significantly increase the volume of operations performed by its head office located in Moscow.

When RAB opens a new branch in a new region, RAB enters into cooperation agreements with regional governmental authorities. These agreements represent non-binding commitments of the relevant governmental authorities and RAB to co-operate with a view to providing affordable credit to borrowers operating in the agricultural sector and related sub-sectors, as well as to develop joint support programmes of the agricultural sector. As of 31 December 2011, RAB had such agreements with governmental authorities of 78 regions of the Russian Federation in which it conducts its operations.

In July 2007, the CBR granted RAB general banking licence No. 3349, which superseded the previously issued licences. In addition to the banking operations RAB had the right to perform under its previous licences, this general banking licence allows RAB to open offices outside Russia and purchase shares of foreign banks.

In March 2009, RAB opened a representative office in Minsk, the capital of the Republic of Belarus. The main purpose of this representative office is to facilitate business contacts established between Russian and Belarusian companies. This representative office is also expected to support RAB's initiatives in Belarus, including investment projects, the assistance of clients in Belarus, identification of partners for joint projects both in Belarus and in the Russian Federation and assistance with performance of obligations under bilateral and multilateral agreements to which RAB is a party.

In May and June 2009, RAB opened a representative office in Tajikistan and Kazakhstan, respectively. In March 2010, RAB opened a representative office in Azerbaijan.

In March 2012, the Supervisory Board of RAB approved the opening of a representative office in Armenia.

Principal Activities

Overview

RAB provides a wide range of banking services mainly to small businesses and individuals operating in the Russian agricultural sector.

RAB's principal activities are lending (including subsidised lending) to small businesses and individuals operating in the agricultural sector and related sub-sectors, deposit taking and cash settlement services. RAB's credit policy provides that at least 70 per cent. of its loan portfolio shall consist of loans to companies and individuals operating in the Russian agricultural sector and related sub-sectors. RAB also engages in foreign exchange transactions and securities trading as an ancillary activity.

A significant proportion of RAB's lending operations consists of "subsidised" lending, whereby (depending on the purpose of a loan) borrowers are compensated by Russian federal and/or regional authorities for a portion of the interest expense on loans made to them.

Aside from originating the loans, RAB's role in this process is limited to assistance in the collection of the relevant documents and does not involve RAB providing funds that constitute federal or regional subsidies. Management believes that the subsidised lending programme allows RAB to improve the credit quality of its loans, as punctual payments on subsidised loans are a condition to the compensation of the borrower's interest expenses by the Russian federal and regional authorities. See "— *Lending — Subsidised lending*".

RAB also acts as an agent of the Russian Federation in connection with the state's programme of financial rehabilitation of agricultural companies established by Federal Law No. 83-FZ "On Financial Rehabilitation of Agricultural Enterprises" dated 9 July 2002, as amended (the "**Financial Rehabilitation Law**"). In its role as a state agent, RAB maintains the accounts of agricultural companies participating in the state's restructuring programme in respect of debts owed to the state and monitors their compliance with the terms of the relevant debt restructuring agreements. RAB receives an annual fee from the federal budget in connection with the performance of this function, which is not dependent on the amount of funds RAB recovers.

RAB also seeks to develop new products and services. In particular, these include lending secured by mortgages on agricultural land, lending to agricultural consumer and credit cooperatives, lending to companies and individuals involved in the livestock and dairy industries, lending for residential construction secured by mortgages, issuing payment cards and developing related Internet services.

RAB is licensed to take deposits and provide other banking services to Russian individuals and is seeking to significantly increase its market share in the retail deposits market. RAB plans to increase its volumes of lending to individuals residing in small towns and rural areas involved in agricultural production. See "— *Lending — Consumer Lending Programmes*". As part of this programme, RAB also plans to develop lending to individuals involved in producing agricultural products on household land plots ("*lichnoye podsobnoye khozyaistvo*"). RAB considers the development of this lending programme to be strategically important for its business and estimates that there is currently an unsatisfied demand for these products in the market. In certain sub-sectors of the Russian agricultural sector, such as the production of certain vegetables, the substantial majority of those products are produced by individuals involved in producing agricultural products on household land plots.

The RAB Group substantially increased the amounts of deposits and current accounts held for clients during 2010 and 2011. The largest increases were in customer accounts of individuals, which increased from 81,347 million roubles as of 31 December 2009 to 127,691 million roubles as of 31 December 2010 and to 151,253 million roubles as of 31 December 2011; in customer accounts held by state and public organisations, which increased from 57,818 million roubles as of 31 December 2009 to 79,633 million roubles as of 31 December 2010 and to 197,463 million roubles as of 31 December 2011; and in customer accounts held by financial services and pension funds, which increased from 22,673 million roubles as of

31 December 2009 to 33,260 million roubles as of 31 December 2010 and to 88,081 million roubles as of 31 December 2011. RAB offers current or demand accounts as well as term deposits to its clients.

Lending

RAB seeks to be the main financial institution for lending to small businesses and individuals operating in the agricultural sector. RAB's credit policy requires that at least 70 per cent. of RAB's loan portfolio consists of loans to borrowers operating in the agricultural sector and related sub-sectors.

RAB offers its clients lending products, including, but not limited to, loans, credit lines, mortgages and letters of credit.

Loan portfolio

Historically, RAB mainly provided short-term loans to small businesses and, to a lesser extent, to individuals operating in the agricultural sector. In the past, loans usually had a maturity of approximately one year. Starting in 2006, RAB significantly increased the proportion of its loan portfolio that represented loans with maturity in excess of one year, although the proportion of such loans in the total loan portfolio began to decrease in 2008. Currently, RAB provides a large volume of medium-term (with a maturity of up to three years) and long-term (with a maturity of more than three years) loans. Loans to individuals secured by residential mortgages and loans secured by mortgages on agricultural land plots may be provided for terms of up to 25 years. See "— *Consumer Lending Programmes*". As of 31 December 2011, loans and advances to customers (after provision for loan impairment) amounted to 903,697 million roubles as compared to 688,556 million roubles as of 31 December 2010 and 584,407 million roubles as of 31 December 2009. As of 31 December 2011, the RAB Group's average loan size (before provision for loan impairment) in corporate lending was approximately 11.7 million roubles, and in retail lending was approximately 125 thousand roubles. Substantially all loans made by RAB bear fixed interest rates.

Due to the specialised nature of RAB's business and in line with its credit policy, its loan portfolio is characterised by high levels of industry concentration. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations for Years Ended 31 December 2009, 2010 and 2011 — Liquidity and Capital Resources — Loan portfolio*". RAB seeks to minimise risks inherent in the high levels of industry concentration by diversification of its loan portfolio both by region and by sub-sector of the Russian agricultural sector in order to balance risks relating to the business activities of its borrowers and to minimise the risk that a large proportion of RAB's customers would not be able to repay their loans as a result of a global financial crisis affecting certain regions or sub-sectors of the agricultural sector. See "*Asset, Liability and Risk Management — Credit Risk*". In addition, RAB intends to increase lending to companies operating in the fish-farming industry, the timber industry and food processing industry, which RAB believes will allow it to further diversify its loan portfolio. See "*— Lending — Other lending programmes*".

RAB's credit policy requires that loans generally be secured by pledges of collateral (it is currently required that all loans with maturity of over one year be secured by pledges of collateral) and/or guarantees or other third party credit support arrangements, including guarantees and/or other third party credit support arrangements issued by federal, regional or local authorities. RAB also takes pledges of future crops as collateral. Currently, the majority of RAB's loans, other than overdrafts and certain loans to individuals, are secured loans.

RAB's current policy requires that substantially all pledged collateral be insured against loss and damage, although in the past, this was required only for certain collateral such as future crops, livestock and machinery and equipment.

In the year ended 31 December 2009, the RAB Group acquired a number of subsidiaries from its borrowers as part of loan restructuring. The shares of the acquired subsidiaries are managed by Agrotorg, one of the RAB Group's subsidiaries. In December 2010, RAB sold its 26.15 per cent. share in Agro Standard to another shareholder of Agro Standard. In June 2011 RAB completed disposal of its subsidiary CCLB and earned 21 million roubles of gain on disposal. In 2012, RAB also disposed of a number of its subsidiaries which were acquired from the borrowers as part of loan restructuring processes. See "*Risk Factors — The inability of RAB to assess credit risk accurately may result in a material adverse effect on the RAB Group's business, financial condition, results of operations and prospects*".

Subsidised lending

One of RAB's target customer groups is borrowers participating in subsidised lending programmes. Subsidised lending involves the compensation by Russian federal and regional authorities of up to a specified amount of the interest expense incurred by borrowers. Generally, in order for a borrower to receive compensation from the relevant budget, a loan must be granted for the purchase of agricultural machinery or equipment, seeds, fodder, livestock or other similar purposes. The borrower must also have a good credit history and be in a stable financial condition. Aside from making the loans, the role of RAB in the subsidised lending programme is limited to assistance in the collection of relevant documents and does not involve RAB providing funds that constitute federal or regional subsidies.

The State Programme on Agribusiness Development provides for the possibility of compensation to borrowers from the Russian federal budget of a portion of the interest expense on certain loans. Additional compensation may be provided from the applicable regional budget. The State Programme on Agribusiness Development outlines the types of loans subject to such interest expense compensation and provides for exact percentages of state subsidies for each category of loans subject to interest expense compensation and categories of borrowers that have the right to participate in the subsidised lending programme.

To improve the financial stability of private farms, several measures of state support for the beginner farmers and the development of family livestock farms have been implemented since 1 January 2012. Measures to support the beginner farmers include, *inter alia*, government support in the form of subsidized interest rates on their short-term and long-term borrowings in the amount of 95 per cent. of the refinancing rate of the CBR. RAB's management believes that subsidised lending allows RAB to improve the quality of its loan portfolio, as punctual payments on subsidised loans are a condition to the compensation of the borrower's interest expenses by the federal and regional governments.

Loans for purchases of modern machinery and equipment

RAB's programme of financing purchases of brand new and used modern agricultural machinery and equipment facilitates the implementation of the Russian Government's policy of upgrading the technological base of agricultural producers and providing them with means to acquire modern, efficient machinery. This programme contemplates the provision of loans both in roubles and other currencies for financing purchases of machinery produced both in Russia and abroad.

RAB provides these loans for terms up to ten years. Substantially all loans made by RAB bear fixed interest rates. The acquired agricultural machinery and equipment is pledged as collateral for the loans. Purchased agricultural machinery and equipment is required to be insured with insurance proceeds payable to RAB. Under current policy, loans are generally made for amounts between 40 and 70 per cent. of the price of the purchased machinery or equipment depending on its type (with loans for self-propelled agricultural machinery typically covering up to 90 per cent. of the price of such machinery), with the remainder funded either by the borrower's own funds or by funds derived from short-term loans granted by RAB. Some loans currently made, as well as previously made loans, were for amounts in excess of those thresholds. RAB engages in subsidised lending for these types of loans.

Under the programme, producers and suppliers of the machinery and equipment purchased by borrowers are required to be approved by RAB or to have a framework agreement in place with RAB.

To facilitate the acquisition of agricultural machinery and equipment by Russian agricultural companies under the programme, since the middle of 2005, RAB has entered into facility and cooperation agreements with numerous foreign banks and credit agencies. As of 31 December 2011, the aggregate amount drawn down by RAB under these agreements was approximately U.S.$ 422.9 million, and the average loan size was approximately U.S.$ 3.3 million.

Loans for grain purchase interventions

In order to maintain price stability in the Russian grain market, the Russian Government has established a scheme whereby grain is bought ("grain purchase interventions") or sold ("commodity interventions") depending on its price in the grain market. The purchased grain forms a so-called stabilisation or intervention fund. The procedures for grain purchase and commodity interventions as well as procedures for storage and insurance of the grain and establishment of the upper and lower price limits are regulated by the Rules for the State Grain Purchase and Commodity Interventions for Regulation of Prices on the Agricultural Products Market approved by the Decree of the Russian Government No. 580 dated 3 August 2001, as amended.

Loans for grain purchase interventions are granted by RAB to state agents participating in the state price stabilisation programme. Loans made under this programme are issued through the head office of RAB. Loan maturities are generally three years. Such loans bear a fixed interest rate determined by the Supervisory Board of RAB. These loans are collateralised by pledges of the purchased grain. The purchased grain is insured with insurance proceeds payable to RAB.

Repayment of principal on such loans is made from the proceeds of the sale of grain from the stabilisation fund and payments of interest are made from budget funds allocated to the financing of the procurement of grain for price stabilisation for a particular year. All settlements in connection with sales of grain are performed through the relevant agent's account opened with RAB.

In case the agent is unable to repay the loan, RAB determines the procedures for repayment in consultation with the Ministry of Agriculture.

As part of its participation in the programme of financing grain purchase interventions, from September 2005 to April 2012, RAB entered into 18 facility agreements with OJSC "United Grain Company" (formerly known as the Federal State Unitary Enterprise "Federal Agency for Regulation of Food Market") (the "**UGC**") permitting UGC to borrow an aggregate amount of up to 48.2 billion roubles. An aggregate amount of approximately 33.3 billion roubles has been drawn down under 18 facilities as of 1 April 2012. UGC had drawn down and later repaid certain amounts under these facilities and the facilities are non-revolving.

In October 2009, the Russian Government included a number of agricultural products in its programme on purchase interventions which now may be implemented in respect of sweet butter, liquid milk, powdered milk and fat cheese. The RAB Group expects to participate in the financing of these programmes when the Russian Government starts implementing these programmes.

Consumer lending programmes

RAB's consumer lending programmes consist of lending to individuals involved in producing agricultural products on household land plots, residential mortgage lending, automotive lending and consumer lending. As of 31 December 2011, RAB's consumer loan portfolio amounted to 15.0 per cent. of the RAB Group's gross loan portfolio, as compared to 11.4 per cent. of the RAB Group's gross loan portfolio as of 31 December 2010 and 10.8 per cent. of the RAB Group's gross loan portfolio as of 31 December 2009. RAB plans to increase the share of its consumer lending in the total loan portfolio by offering various types of consumer loans described in further detail below.

Lending to individuals involved in producing agricultural products on household land plots

Lending to individuals involved in producing agricultural products on household land plots involves providing fixed interest rate loans with maturities that typically are of up to five years. The aim of these loans is the development of the production, processing and sale of agricultural products.

Targeted loans under this programme are granted for purchases of fodder, seeds, making of payments for leased land, purchases of machinery, livestock, land plots and the construction and reconstruction of premises used in production or processing operations and to fund other expenses incurred in connection with personal farm production operations. RAB engages in subsidised lending for these types of loans.

Residential mortgage lending

Lending to individuals to fund purchases or construction of residential buildings consists of providing long-term loans with maturities that typically are of up to 25 years bearing a fixed interest rate. These loans are provided for the purchase or construction of residential buildings, for a land plot with further building construction or the purchase of share participations in cooperatives involved in the construction of residential buildings.

Loans for the purchase of residential buildings are secured by mortgages on the purchased buildings. Loans for the purchase of residential buildings generally do not exceed 85 per cent. of the total price of the purchased residential buildings.

Automotive Lending Programme

The automotive lending programme involves providing fixed interest rate loans with maturities that typically are of up to five years. Loans are provided for the purchase of a car of foreign or domestic production, with a maximum authorised mass not exceeding 3,500 kilograms. The funds are issued for the acquisition of new or used cars. The purchased car is pledged as collateral.

Consumer lending

Consumer lending consists of targeted loans and general-purpose loans. Consumer lending to individuals is represented by various types of loans that bear fixed interest rates with maturities of up to 10 years. The most in-demand consumer lending programmes are "Consumer loan", "General-purpose consumer loan secured by real estate" and "Consumer loan without collateral".

Targeted loans include:

- "Gardener" (for purposes related to the development of farm growers and gardeners);
- "Gasification of housing in rural areas" (for purposes related to developing infrastructure for providing gas for housing in rural areas);
- "Educational" (for purposes related to the payment for education); and
- Others ("Engineering services", etc).

RAB offers a special lending programme for people of retirement age (loan "Pension"), which allows to get a loan of up to 100 thousand roubles for any purpose such as the development of private farming, gasification, treatment, purchase of medical supplies, repairs, etc.).

In addition, RAB's borrowers who have a positive credit history with RAB, may get a loan under the "Reliable client" programme, which allows these reliable borrowers to take out a loan at a lower interest rate.

State Programme on Agribusiness Development (formerly the AID National Project)

In November-December 2005, the Ministry of Agriculture of the Russian Federation completed the development of the AID National Project, which is a Russian National Priority Project on Agribusiness Development. The AID National Project was replaced by the State Programme on Agribusiness Development on 7 August 2007. The State Programme on Agribusiness Development (and its predecessor the AID National Project) contemplates state support of the agricultural sector through the development of agricultural credit and consumer cooperatives, support of livestock and dairy industries, development of lending secured by agricultural land mortgages and certain other measures. RAB is actively participating in this project.

The State Programme on Agribusiness Development, among other things, authorised the Russian Government to increase RAB's share capital by up to 5.7 billion roubles in 2008 and by up to 1 billion roubles in each year during the 2009-2012 period.

Since December 2005, for the purposes of implementing the AID National Project and subsequently the State Programme on Agribusiness Development, RAB has entered into cooperation framework agreements with a number of regions of the Russian Federation. These framework agreements provided for the possibility of RAB lending specified amounts to small businesses and individuals involved in the agricultural production and related sub-sectors within the respective regions. The obligations of RAB under the framework agreements with the regions represent non-binding commitments of RAB.

As part of its participation in the AID National Project and its successor programme, the State Programme on Agribusiness Development, RAB has developed and offers such products as loans to livestock and dairy farms, loans secured by agricultural land mortgages and loans to agricultural consumer and credit cooperatives.

Loans to Livestock and Dairy Farms

RAB plans to take an active role in lending to the livestock and dairy industries by extending loans for the construction and modernisation of livestock complexes and purchases of livestock. This role was declared to be one of the main priorities under the State Programme on Agribusiness Development. Such loans bear interest at fixed rates and have a maturity of up to eight years. Interest expenses of the borrowers under such loans are eligible for federal and regional interest expense subsidies, provided the applicable conditions are satisfied. See "— *Subsidised Lending*" above.

Mortgage Lending

In pursuit of its strategic objective to develop new lines of business and as part of its continued participation in the State Programme on Agribusiness Development, RAB is developing the framework for lending secured by mortgages of agricultural land. As of 31 December 2011, the aggregate amount of such loans issued by RAB was approximately 101.3 billion roubles. These loans bear interest at fixed rates, have maturities ranging from three to eight years and are provided to agricultural producers for the development of agricultural land. RAB plans to further increase the number of loans secured by agricultural land plots. See "*Risk Factors — Risks Related to RAB's Business and the Banking Sector — The RAB Group's inability to recover on security, guarantees and other third party support arrangements may lead to losses*".

The development of the market for agricultural land plots has historically been impeded by various factors, including recent laws relating to land transactions, the absence of a uniform land cadastre, the need to properly establish lot lines for a large percentage of land plots and the absence of a developed system of land valuation. In connection with the State Programme on Agribusiness Development (formerly the AID National Project), RAB has conducted extensive analyses and prepared draft amendments to the existing legislation aimed at facilitating the development of the agricultural land mortgage system.

Lending to Agricultural Cooperatives

As part of its participation in the State Programme on Agribusiness Development, RAB participates actively in lending to existing and newly created agricultural consumer and credit cooperatives. Loans extended as part of this programme bear interest at fixed rates. As of 31 December 2011, RAB extended 994 loans to agricultural cooperatives in the aggregate amount of 5.4 billion roubles based on statutory accounting records.

Investments in agricultural cooperatives represent contributions made by RAB as part of its participation in a national project called the "Development of the Agro-Industrial Sector". According to contracts with cooperatives, RAB receives fixed annual dividends at the rate one half of the rate of refinancing of the CBR of the contributions made. The RAB Group's management has a right to make cooperative member contributions for a period of 5 years and, at the end of that period, to withdraw its contributions. As of 31 December 2011, RAB made capital contributions to agricultural credit cooperatives in the aggregate amount of 509 million roubles.

In March 2012, the Ministry of Agriculture approved the "Support to the beginner farmers for the period 2012-2014" Programme in the amount of 10,438 million roubles. To facilitate its implementation, RAB has launched a large-scale outreach programme – "Be a farmer". As part of this programme, RAB experts will provide financial consulting service to farmers and help them choose the most appropriate loan products as well as assist them in developing a business plan to start a farm business.

Other lending programmes

In addition to lending services provided to companies operating in the agricultural sector and related sub-sectors, RAB has recently started offering loans to companies operating in the fish farming industry.

The loans to fish farming companies are issued for, among other things, (i) construction, reconstruction and modernisation of fish farms, (ii) the purchase of fishing boats, cutters and fish processing equipment, and (iii) the purchase of fish food, fuel and lubricants. These loans bear interest at fixed rates, typically have maturities of up to eight years and are generally secured by fish biomass, cutters, boats and fishing equipment. As of 31 December 2011, RAB issued loans to the fish farming industry in the aggregate amount of approximately 13.9 billion roubles based on statutory accounting records.

RAB started offering lending services to companies operating in the timber industry in 2008, typically with maturities of up to 5 years. As of 31 December 2011, RAB issued loans to the timber industry in the aggregate amount of approximately 7 billion roubles based on statutory accounting records.

RAB engages in subsidised lending to the fish farming, the timber and the food processing industries.

Trade Finance

In order to raise additional funds in the international market, RAB offers a wide range of international financing to its clients, based on global banking standards and best practices. For trade and export finance origination, RAB uses instruments such as bilateral interbank loans, post-financing and discounting letters of credit**.**

RAB believes that it has the necessary resources, experienced personnel and infrastructure to offer trade and structured finance services to its customers on favourable conditions. RAB has a wide correspondent network that permits RAB to make payments quickly and without intermediaries. RAB is accredited in all major international export credit agencies, which makes lower-cost resources available for the longer term for international financing and ensures RAB's competitiveness in this area.

RAB's main focus is on intensifying activity in the field of trade and export finance and maintaining its competitive position. In particular, management believes that there is a strong opportunity for growth in the pre-export and export finance operations provided by RAB to Russian agricultural producers, using the full scope of trade finance and trade-related financing instruments. RAB aims to increase and diversify its non-interest income and ensure the availability of financial resources for agricultural producers and those employed in related subsectors, which export their products abroad. RAB's management also believes that structured and trade finance transactions show a high efficiency of RAB's operations and provide an additional source of non-interest income.

As of 31 December 2011, the aggregate value of letters of credit issued by RAB was 1,428 million roubles as compared to 835 million roubles as of 31 December 2010 and 734 million roubles as of 31 December 2009. As of 31 December 2011, the aggregate value of guarantees issued by RAB was 7,736 million roubles as compared to 320 million roubles as of 31 December 2010 and 247 million roubles as of 31 December 2009.

Debt Collection Services

Following the collapse of the Soviet Union, the Russian Government provided designated financial support to legal entities operating in the agricultural sector.

Financing was provided to regional commercial banks under a three-tier lending programme, whereby the Russian Ministry of Trade and Development selected legal entities to which financing should be provided, the Russian Ministry of Finance disbursed credit resources from the Russian federal budget to regional commercial banks, and such regional commercial banks then passed through these funds to the selected legal entities, administered the loans and monitored their repayment.

Following the Russian financial crisis in 1998, many legal entities that obtained funds from the Russian federal budget through the Russian Ministry of Finance under this programme suffered significant financial problems and were unable to service their debt obligations. In addition, the majority of Russian regional commercial banks participating in the programme and SBS-Agro declared bankruptcy and went into liquidation.

Since 2001-2002, Vnesheconombank, RAB, and OJSC Russian Bank for Development ("**RBD**") have acted as debt collection agents of the Russian Government, recovering loans previously extended from the Russian federal budget and extra-budgetary sources to legal entities under special financial rehabilitation programmes. Recovery of loans granted to entities engaged in the agricultural sector is performed in accordance with the Financial Rehabilitation Law. Vnesheconombank is responsible for the recovery of loans issued in connection with foreign trade operations, RAB is responsible for the recovery of loans granted to entities engaged in the agricultural sector and RBD is responsible for the recovery of all other loans.

The agricultural companies participating in the debt restructuring programme maintain accounts at RAB, which monitors their compliance with the terms of the debt restructuring agreements. These loans are not assigned to RAB and do not form part of its assets. RAB undertakes no credit risk in respect of these loans.

RAB receives an annual fee for acting as the agent of the Russian Government. The amount of the fee is determined by the Russian Government on an annual basis and is not dependent on the amount of loans RAB recovers. RAB enters into agreements with the respective state agency (currently, the Ministry of Finance) that specify the terms of its appointment for a particular year as well as the exact amount of its annual fee.

In 2011, RAB received 25 million roubles in fees based on statutory accounting records from the Russian Government for its debt collection services, in accordance with the Government Regulation No. 1171 "On the Implementation of the Federal Law On the Federal Budget for 2011 and for the Period of 2012 and 2013" dated 28 December 2010, as amended, (the "**Budget Law**"). The Budget Law provides, among other things, that RAB will receive an annual fee for the performance of its debt collection services performed in 2012.

Other Services

RAB also provides its customers traditional banking services such as bank guarantees, letters of credit, cash settlement services, maintenance of accounts and deposit taking. RAB is not engaged in fund or asset management.

As of 31 December 2011, funds in customer accounts amounted to 607,295 million roubles as compared to 386,279 million roubles as of 31 December 2010 and 230,303 million roubles as of 31 December 2009. RAB seeks to continue to expand its deposit taking activities as it believes they are an efficient source of funding.

Transactions in Securities

RAB engages in proprietary trading in securities, including trading in the Russian Government and municipal debt securities, corporate debt securities, promissory notes and equity securities. The RAB Group's gains less losses on its investment securities portfolio, which consists of gains less losses from trading securities and gains less losses from disposal of investment securities available for sale adjusted for impairment of investment securities available for sale, amounted to 248 million roubles in the year ended 31 December 2011 as compared to 1,098 million roubles and 159 million roubles in the years ended 31 December 2010 and 31 December 2009, respectively. See "*Risk Factors — Proprietary securities and currency operations may expose the RAB Group to market volatility*".

RAB's securities operations are secondary to its lending activities. RAB does not engage in securities trading as a primary profit earning activity, but conducts such operations primarily for the purposes of short-term liquidity management.

Foreign Exchange Operations

RAB engages in foreign exchange transactions for its own account. RAB uses foreign exchange operations mainly to manage its foreign exchange exposures and to manage its liquidity position. In the year ended 31 December 2011, the RAB Group had a gains less losses from dealing in foreign currency of 82 million roubles as compared to 289 million roubles and 472 million roubles in the years ended 31 December 2010 and 31 December 2009, respectively. For further discussion see "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Results of Operations for the Years Ended 31 December 2008, 2009 and 2010 — Foreign exchange translation losses net of gains*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Results of Operations for the Years Ended 31 December 2009, 2010 and 2011 — Gains less losses arising from dealing in foreign currency; net effect of changes in line items related to currency fluctuations and foreign exchange operations of the RAB Group*".

Employees

As of 31 December 2011, the total number of the RAB Group's employees was 35,699 as compared to 36,120 as of 31 December 2010 and 33,134 as of 31 December 2009. As of 31 December 2011, approximately 93.8 per cent. of RAB's employees were located in its regional branches and additional offices. RAB expects the number of the RAB Group's employees to increase further as its business in its existing regional branches expands. RAB intends to focus its hiring initiatives on attracting and retaining highly skilled employees at these regional branches.

RAB considers the quality and commitment of its personnel to be one of the key factors for its future development. RAB seeks employees with knowledge of the banking industry as well as an understanding of both the agricultural sector and lending to borrowers operating in various sub-sectors of the agricultural sector.

The rapid growth of RAB's activities, as well as the nature of its business, requires its staff to regularly develop their knowledge and skills. RAB organises training courses and seminars for employee development and plans to continue and further develop education and training programmes for its employees. RAB has launched education programmes for heads and deputy heads of its branches at the Russian Public Service Academy. Executives of RAB's additional offices are able to take courses at the banking schools (colleges) of the CBR. RAB also seeks to recruit students with strong academic records and to this end has entered into an agreement with the Moscow Timiryazev Agricultural Academy for the purpose of identifying potential recruits for RAB. RAB plans to enter into similar agreements with other leading educational institutions.

RAB uses both internal and external educational and training activities for its employees. Internal educational and training programmes include specialised programmes for improving relevant skills of particular groups of employees, seminars, conferences and forums, which are complemented by training in respect of particular banking products and management programmes, IT training, round table discussions, secondments, case studies and role playing and mentoring.

In 2011, over 10,671 RAB employees, of which 997 were employees of the head office and remainder of which worked in regional branches and additional offices, participated in various educational and training courses and seminars. Furthermore, in 2011, 1,322 RAB employees were involved in external educational and training activities, of which approximately 249 employees were the employees of the head office.

In 2008, RAB created a special administrative unit responsible for corporate training and education within its Personnel Department, which was called the Corporate University. As of 31 December 2011, RAB had opened seven learning centres of the Corporate University affiliated with regional branches in five of the seven federal districts of the Russian Federation. In 2011, 7,404 RAB employees participated in educational and training courses offered by these learning centres.

In addition, in 2008, RAB began to implement a system of long-distance education and training for its employees. As of 31 December 2011, 21,154 RAB employees, including 373 employees of the head office, participated in training courses and testing as part of the long-distance learning education system.

RAB makes all mandatory contributions to the Russian Social and Pension Funds in accordance with applicable Russian legislation so that pensions are duly granted to its former employees.

RAB provides its employees with social support payments using funds accumulated in a special fund for social welfare. Payments are made on occasions such as death of an employee's family member and are aimed at providing targeted social support.

There is no trade union for employees of RAB and RAB has not entered into any collective employment agreements with any trade unions.

Information Technology

RAB considers information technology ("**IT**") to be an integral part of its operations and is committed to continue investing in IT to support the efficient growth of its operations.

RAB has developed and improved its IT development strategy by implementing a number of key automation projects and introducing automated information systems (in particular, introducing a customer relationship management system ("**CRM**"), front office retail lending system and an HR management system). Moreover, RAB's IT development strategy provides for the development of a technical platform, including the creation of a data center, development and reservation of telecommunication systems.

RAB held a tender in 2010, and a third-party contractor, Accenture, was contracted to assess the achievement of targets contemplated by the IT development strategy and planning measures aimed at developing RAB's IT systems.

Based on the report produced by Accenture, RAB's automated systems department has prepared proposals for further improving RAB's IT systems and implementing the IT transformation program through 2016.

The suggested IT transformation program has been approved by RAB's Management Board and a tender is currently being held to select a partner for RAB to implement the program.

In the second half of 2011, RAB started implementing the "Conveyor of Credit Decisions" project. The purpose of this project is to implement a new decision-making procedure with respect to credit applications by using a scoring system, upgrade the quality of evaluation of retail client risks, maximise the quality of the retail loan portfolio, minimise internal fraud operational risks and reduce operational costs in the process of retail lending. These goals are reached by implementing the following automatic informational systems: the scoring system (Experian NBSM), the anti-fraud system (Experian Hunter), and the special analytical system (SAS Credit Scoring).

During the first stage of this project (from March 2012 until to the second quarter of 2013) RAB plans to develop and implement, within the whole network of RAB's branches, the decision-making procedure in line with new standards for group retail credit products, which will process up to 75 per cent. of all retail clients' credit applications. At the second stage (from the second quarter of 2013 until the beginning of the fourth quarter of 2013) a new decision-making procedure will be used for all retail products based on the practicality of using the scoring system.

In an effort to ensure high reliability, accessibility and continued operation of service applications, RAB's IT infrastructure employs duplex server equipment and data storage systems and enterprise-level clustering solutions and data back-up systems. The virtualization technology employed allows for creating a flexible dynamic IT infrastructure. RAB's corporate telecommunication network combines all its business units and regional offices into one information space and is based on high-speed terrestrial and back-up satellite communication channels. RAB's processing center meets the requirements of the PCI DSS standard. Furthermore, RAB complies in all material respects with the standards covering means of controlling information technologies approved by the CBR in 2005.

In 2011, RAB invested 1.88 billion roubles in the development of its information and technology systems, as compared to 1.72 billion roubles in 2010 and 1.09 billion roubles in 2009, based on statutory accounting records. The amount of such investments is currently expected to be approximately 3.0 billion roubles in the first half of 2012. RAB's expenditure on software in 2011, based on statutory accounting records, amounted to 407.2 million roubles, of which 323.5 million roubles were spent on software for the head office and 83.7 million roubles were spent on software for the regional branches. RAB plans to spend 495.7 million roubles on software in the first half of 2012, with 441.3 million roubles allocated for the software for the head office and 54.4 million roubles for the software for the regional branches.

RAB has used the unified information technology system ABS-Bisquite since 2000, which serves as a single platform for its regional branches and additional offices and allows RAB to conduct almost all operations on a real-time basis. RAB's regional branches and additional offices can receive or provide information to the head office on most business transactions on a real-time basis. For operations issuing cards, the ordinary update interval is either on demand or every hour.

RAB also uses Diasoft systems for accounting for and handling of its securities operations. RAB has implemented a system of remote servicing of its clients using the "Bank-Client" system. As of 1 April 2012, 20,466 of RAB's clients are serviced using the "Bank-Client" system. RAB also has an agreement with Microsoft for the supply of software necessary for RAB to effectively operate its computer systems.

The data back-up system was created to store back-up copies of segments of RAB's information system. Symantec NetBackup software is used for back-up copying and RAB's management believes it meets all of its requirements for productivity, stability, promptness and safety of back-up copying. The back-up is performed on a daily, weekly and monthly basis.

In 2011, the following automatic information systems were implemented:

- An automatic system of human resources management, based on the SAP HCM platform in respect of "organisational management" and "human resources record keeping";
- A centralised system of remote bank service based on the BSS platform; and
- Automatic systems of monetary funds management based on the Kondor+ platform for front office money market management.

Property

In 2007, the RAB Group changed its accounting policy with respect to premises. The RAB Group revalued its premises used in banking activity at fair value for the first time as of 31 December 2007. This change in accounting policy was applied prospectively in accordance with IAS 16, *Property, Plant and Equipment*. In recent years, this class of fixed assets has been subject to regular revaluation in accordance with IAS 16. Deferred tax related to the revaluation of premises was recognised directly in equity.

The table below sets forth certain information regarding RAB's real property interests as of 31 December 2011.

Type of property	Number	Square meters
Headquarters		
Owned	1	4,249,9
Leased	6	30,735,4
Regional branch offices		
Owned	66	92,366.0
Leased	186	70,056.0
Additional offices		
Owned	73	19,621.0
Leased	1,651	342,518.6
Representative offices		
Owned	0	0
Leased	4	246.9
Uncompensated use	2	473.2

In addition, as of 31 December 2011, RAB had real property interests in respect of 68 properties with a total area of 95,870.8 square meters that it had obtained in satisfaction of debtors' obligations under defaulted loans.

As of 1 April 2012, the net book value of RAB's real property interests was 9,547 million roubles, as calculated based on statutory accounting records the majority of which was in respect of RAB's head office at 3 Gagarinsky Lane in Moscow.

Insurance

Currently RAB maintains voluntary insurance on buildings and premises owned by it and on motor vehicles. RAB has also entered into a number of agreements for insurance of real estate leased from the CBR and ATMs containing cash.

Since 14 March 2005, RAB has been a member of the mandatory insurance of individual deposits system created by the Retail Deposit Insurance Law.

RAB also implements a special policy with respect to insurance of collateral provided by its borrowers in connection with its lending operations. It requires that insurance coverage of posted collateral cover as many risks as are reasonably practicable. RAB also currently requires that substantially all collateral be insured, with insurance proceeds payable to RAB with an insurer approved by RAB, although in the past, only certain types of collateral were required to be insured.

Also RAB has entered into a number of agreements for insurance of its own real estate, leased assets of the Central Bank and ATM with loaded cash.

RAB has started developing its insurance business and in August 2011 the RAB Group acquired 100 per cent. of shares in Closed Joint-Stock Company "Insurance Company – GazGarant", which was later renamed as Closed Joint-Stock Company "RSHB – Insurance". The main objective of RSHB-Insurance is to provide high quality insurance services to both corporate entities and the retail segment. Providing customers with integrated financial services and achieving a leading position in the agricultural insurance segment are among the strategic objectives. At the end of 2011, RSHB-Insurance was admitted to the All-Russian Insurance Association, which pools the professional participants of the insurance market at the federal level and represents their interests in relations with Russian and foreign organisations and government. See "*Asset, Liability and Risk Management — Credit Risk — Collateral*".

Litigation

From time to time, RAB has been and continues to be the subject of legal proceedings and adjudications in the ordinary course of its business. However, there have not been any governmental, legal or arbitration proceedings, including pending or threatened proceedings, of which RAB is aware, during the previous 12 months before the date of this Base Prospectus which may have, or have had in the recent past, a material adverse effect on RAB's or the RAB Group's business, results of operations, financial position or prospects.

ASSET, LIABILITY AND RISK MANAGEMENT

The purpose of the RAB Group's asset, liability and risk management (collectively, "**risk management**") strategy is to evaluate, monitor and manage the size and concentration of the risks arising in the context of the RAB Group's activities. The principal categories of risk inherent in the RAB Group's business are credit risk, market risk, liquidity risk and operation risk.

The RAB Group's risk management organisation is divided among those bodies that are responsible for establishing risk management policies and procedures and those bodies the function of which is to implement those policies and procedures, including monitoring and controlling risks and risk limits on an ongoing basis.

The RAB Group's main tools of risk management are:

- quantitative and qualitative assessment of risks;
- limitation of risks values by setting and monitoring limits, ratios and indicators;
- risks insurance/hedging;
- establishing provisions to cover risks;
- diversification;
- standardisation of procedures and formalisation of processes;
- collective decision-making system and clear lines of authority; and
- internal control system.

Risk Management Organisational Structure

The Supervisory Board adopted the current risk management policy in March 2010. In connection with this policy, the Management Board reviews and approves regulations and procedures relating to the implementation of this policy. These regulations and procedures are revised and updated on a regular basis. The current risk management policy describes the principal objectives of RAB's risk management as well as fundamental principles of the allocation of responsibilities among RAB's bodies responsible for implementation and control of the execution of RAB's risk management policy. The risk management policy also sets forth the methods used in assessment of various types of risks and internal regulations in respect of procedures used in risk monitoring and control.

The main stages of the risk management process include the following:

- risk identification;
- qualitative and quantitative assessment of a risk;
- determination of an acceptable level of risk both in general and in respect of various types of instruments;
- selecting methods available to address risks;
- risk monitoring, including monitoring compliance with established limits and restrictions; and
- monitoring compliance with established risk management procedures.

Decision Making

Risk management is implemented by Bank's management, committees and officers in accordance with their authority. With the adoption of the new risk management policy, all risk officers report directly to the head office, and no longer report to regional offices.

The Supervisory Board

The Supervisory Board approves RAB's various policies on key issues, including general risk management policy and the annual control plan for the Internal Control Service. The Supervisory Board also reviews quarterly consolidated reports on financial and operational risks as well as reports prepared by the Internal Control Service. In addition, the Supervisory Board approves lending transactions that exceed the limit set for the Management Board, as well as transactions that are required by Russian legislation to be approved by the Supervisory Board. See "*Management — Supervisory Board*".

The Management Board

The Management Board is appointed by the Supervisory Board and has the overall responsibility for the management of the RAB Group's operations, except for (i) matters that fall within the exclusive competence of the Supervisory Board or are decided at a General Meeting of Shareholders and (ii) approval of lending transactions, or a credit limit in respect of a single borrower or a group of affiliated borrowers, that exceed the limit set for the Management Board (currently 4 billion roubles). The Management Board has the authority to approve lending transactions and set limits in respect of a single borrower or a group of affiliated borrowers in the aggregate amount of up to the limit set for the Management Board. See "*Management — Management Board*".

In addition to the Supervisory Board and the Management Board, the following committees have been established in order to supervise and manage RAB's operations.

Credit Committee

The Credit Committee of RAB's head office is appointed by the Management Board and acts in accordance with the Regulations on the Credit Committee, which also decides on the number of members of the Credit Committee. The Credit Committee meets as needed upon the Credit Committee's or its Chairman's decision. The Credit Committee is responsible for the implementation of RAB's credit policy, minimisation of credit risks and ensuring the effectiveness of RAB's lending operations. Since April 2010, the Credit Committee is also responsible for approving lending transactions and setting limits in respect of a single borrower or a group of affiliated borrowers in excess of established limits for regional branches but not exceeding 2 billion roubles, and the preparation of proposals for improving the RAB Group's credit policy. This includes, among other things, the establishment and modification of criteria used by RAB in the analysis of asset quality and asset classification by risk category, the development of procedures for the creation and use of provisions, the establishment of minimum interest rates for the RAB Group's loans and the review of the results of inspections of RAB by regulatory bodies and the Internal Control Service.

In addition to the Credit Committee of the head office, RAB also has credit committees at the regional branch and credit committees at the additional office level in which limits on credit operations are set and promptly reviewed. Credit committees of regional branches also approve lending transactions of additional offices in excess of the established credit limits of such additional offices.

ALCO Committee (the Resource Committee)

The ALCO Committee (the Resource Committee) is appointed by the Management Board and acts in accordance with the Regulations on the Resource Committee. The ALCO Committee meets as needed but normally meets at least once per week. The ALCO Committee reviews proposals to be considered by the Management Board and prepares materials for the Management Board on such matters as (i) implementation and modification of the RAB Group's limits policy, (ii) adoption of methods for measuring financial risks, (iii) approval of standard form agreements pursuant to which new funding is provided to the RAB Group and foreign exchange and money market transactions and transactions in securities are carried out, and (iv) the determination of the investment policy governing RAB's transactions on foreign exchange, money and securities markets. The ALCO Committee also performs other functions, including setting limits for branches, within the scope of its responsibilities delegated by the Management Board.

Bad Debt Management Committee

The Bad Debt Management Committee's members, including its Chairman, are appointed by the Chairman of the Management Board. The Bad Debt Management Committee comprises representatives of the Asset Management Department, the Security Department and the Legal Department, as well as representatives of other departments based on a determination by the Chairman of the Management Board. The Bad Debt Management Committee is responsible for reviewing and addressing matters relating to RAB's activities aimed at the recovery of bad debt. The Bad Debt Management Committee implements an operational consideration and elaboration of issues related to the Bank's activities on return of bad debts.

Implementation

Implementation of RAB's risk management policy is conducted by the Risk Department, the Treasury Department, the Credit Department, the Retail Development Department, the Marketing and Lending Process Management Department, the Problem Assets Management Department, the Internal Control Service and other divisions of the Bank.

Risk Department

The Risk Department is responsible for the development and operation of a comprehensive risk management system designed to timely identify, assess, monitor and minimise risks. The Department is also charged with designing and improving RAB's methods and approaches to risk management, such as risk assessment modelling, a system of limitations on operations that may involve risk, and monitoring and minimisation of risks relating to individual operations, departments and business segments. The Risk Department also provides independent analysis and assessment of all non-standard and large credit transactions and securities transactions in excess of limits established by the Board.

The Risk Department is also responsible for assessing liquidity and market risks (foreign exchange risk, interest rate risk and securities portfolio risk). The Department also monitors compliance with various types of limits (including structural, position, liquidity, credit risk and individual limits) on lending, securities and foreign exchange transactions. The Department also monitors compliance with various types of limits established by the RAB Group and prepares risk assessment reports for the Management Board on a daily and monthly basis, as well as reports on compliance with the RAB Group's limits policy.

Risk assessment and control services at the regional branch level are responsible for assisting management bodies of the respective regional branch in administering its regional risk management system.

Treasury Department

The Treasury Department is responsible for:

- the management of RAB's resources in accordance with established risk limitations and policies;
- the management of RAB's asset structure;
- funding RAB's active transactions, including transactions on interbank lending and foreign exchange markets;
- managing interest rate risk;
- managing exchange rate risk;
- the management of RAB's liquidity position; and
- the allocation of funds among RAB's regional branches.

The Treasury Department operates both at the head office and at the regional branch level.

Lending Departments

The Credit Department is responsible for determining the credit policy for corporate clients and for setting credit limits for regional branches and additional offices. The Corporate Business Department is also responsible for the assessment and supervision of over-the-limit and non-standard lending transactions. In addition, the Corporate Business Department oversees the execution and performance of non-standard transactions.

Marketing and Lending Process Management Department

The Marketing and Lending Process Management Department is responsible for creating and implementing the unified policy of the Bank on the methodology of credit, improvement of the forms, methods and tools for lending of corporate borrowers and ensure repayment of loans, developing new lending products, maintenance of regulatory and procedural framework for ensuring repayment of loans and credits, assessment of security, special lending programs purchase of machinery and equipment, unification of work units engaged in interaction with corporate clients, optimizing the rates for the Bank's services to corporate clients, maintenance regulatory basis for working with insurance companies.

The Problem Assets Management Department

The Problem Assets Management Department is responsible for ensuring uniform policy for the Bank's work with problem assets, for regulatory and methodological support of work with the problem debt of corporate borrowers, for legal support of work with problem debts, for development and implementation of a mechanism of financial recovery for troubled borrowers, for business support of troubled borrowers and for the coordination of work of branches with bad debts of corporate borrowers.

Internal Control Service

The Internal Control Service is responsible for monitoring and assessing compliance with internal procedures at all levels of the RAB Group's management. This monitoring is performed on a daily basis. The Internal Control Service also reports to the Supervisory Board on a semi-annual basis and makes recommendations with respect to the efficiency of risk management procedures. The Internal Control Service operates both at the head office level and the regional branch level. The Internal Control Service conducts its reviews in accordance with the annual Internal Control Plan approved by the Supervisory Board.

Credit Risk

The RAB Group is exposed to credit risk, which is the risk that a borrower or counterparty will be unable to pay amounts when due, in part or in full. Credit risk arises mainly in the context of the RAB Group's lending activities. The RAB Group uses the same credit policies in incurring off-balance sheet obligations as it does for on-balance sheet financial instruments.

Management of the credit process is based on the RAB's credit policy for 2008-2012 approved by the Supervisory Board, and Priorities in the Credit Policy of the Russian Agricultural Bank approved in 2010 (which are collectively referred to as "**Credit Policy**"). During implementation of credit programs and investments priority is given to agricultural borrowers and related sectors of the economy which are associated with servicing the needs of agricultural producers.

Risks of portfolio concentration by sectors are regulated by:

- credit during the whole turnover cycle of agricultural products (production, storage, processing and sales to final consumers);
- various specialty of borrowers in different regions;
- combination of several types of farm production for agricultural producers;
- diversification of investments in highly efficient projects of other sectors of the economy; and
- one borrower's risk.

RAB manages risk by limiting the portfolio concentration by region, types of loans and individual borrowers.

Authorised bodies of Bank establish and promptly review the limits on lending operations for Regional branches and additional offices. If the size of the proposed loan exceeds the credit limit set for the additional office, the committee with the appropriate powers (or the credit committee of the regional branch, Credit Committee of the head office or the Management Board or Supervisory Board) takes a decision on the loan application after the preliminary review committee of the lower level. See "— *Lending Policies and Procedures — Lending procedures*".

Authorised bodies of Bank approve the internal regulations, which specify a formalised description of risk assessment procedures, procedures for granting and maintenance of credit products. The purpose of the adoption of these documents is the implementation and use of proven uniform lending standards.

As an essential factor to minimise credit risk Bank uses:

- security for the performance of the borrowers' obligations - mortgages, inventory items, vehicles, other liquid assets, bank guarantees, surety and other forms of collateral. Collateral can be provided both by the borrower or a third party;

- insurance of property interests of borrowers from losses due to poor harvests, death of animals, natural disasters, damage and theft of property, plant and working capital, are the subject of credit or collateral. RAB engages the premium insurance companies to provide insurance services for the specified property.

Credit risk assessment on loans and portfolios of loans are made on the basis of a comprehensive and objective analysis of the borrower, taking into account its financial condition, quality of service the debt, as well as all the information available to the Bank such as information about the external liabilities of the borrower, the functioning of market in which it operates (qualitative evaluation) and etc.

Quantitative assessment is expressed in the amount of reserves formed in accordance with the requirements of the CBR (the Regulations № 254-P dated 26 March 2004, as amended, and № 283-P dated 20 March 2006, as amended) and the relevant RAB's internal documents (Regulation № 67-P and № 57-P), as well as in accordance with IFRS.

Control and monitoring system of credit risk in the Bank based on the principles of the preliminary analysis of the current and subsequent monitoring of credit risk by the relevant departments of the Bank and provide centralised control of credit departments of the Bank, the regional branches, additional offices within the limits of their authority.

RAB complies with exposure limits established by the CBR.

Lending Policies and Procedures

RAB's lending policy and procedures are set out in the Credit Policy and in a number of RAB's internal regulations. RAB's Credit Policy is aimed at the creation of a well-balanced loan portfolio as well as the implementation of state programmes of support and development of the agricultural sector. The main principles of the Credit Policy are:

- implementation of a well-balanced policy in respect of the profitable allocation of own, borrowed and state resources at acceptable level of risk;

- optimal use of RAB's network of regional branches and additional offices in the selection, assessment and implementation of lending projects with a view to providing affordable credit to borrowers operating in the agricultural sector and related sub-sectors;

- diversification of RAB's client base by type of customers;

- regional diversification of RAB's loan portfolio taking into account the volume of agricultural production by a particular region as compared to the total volume of agricultural production in the Russian Federation, the level of cooperation with the regional authorities, climate conditions and areas of agricultural specialisation;

- improvement of risk assessment and control systems, and creation and maintenance of adequate databases containing information on lending operations of RAB as well as in respect of its clients;

- strict compliance with lending limits set by RAB;
- extension of credit to stable, financially sound companies operating in the agricultural sector and related sub-sectors, as well as to companies that have undergone financial restructuring;
- extension of credit to financially sound companies who have a diversified product line; and
- product diversification of its borrower portfolio taking into account the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers).

Lending procedures

As most of RAB's lending operations are performed through its banking branch network, most loan applications are processed by its regional branches and additional offices. Lending by regional branches and additional offices is required to be performed within the limits set out by the appropriate RAB bodies, and such limits are revised from time to time. The lending limits established for RAB's regional branches and additional offices are monitored on a regular basis. When establishing lending limits for its regional branches and additional offices, RAB takes into account the volume of transactions consummated by the relevant regional branch, the quality of the loan portfolio originated and managed by such regional branch, as well as RAB's overall strategy in the region.

According to RAB's internal regulations, the head office can establish (i) the maximum lending limit on the aggregate loan portfolio that may be originated by a regional branch or additional office (including the maximum lending limit per one type of loan product); and (ii) the maximum lending limit applicable to a regional branch in relation to a single borrower (including maximum lending limit per category of borrowers).

Currently, the lending limits for individual regional branches and additional offices vary significantly. As of 1 April 2012, the limits per single borrower or group of related borrowers ranged from 10 million roubles to 800 million roubles. Lending limits for additional offices cannot exceed the limits of the relevant regional branches. Not all additional offices have the ability to make lending decisions. Before any additional office is granted such powers, formal appraisal of the employees of such additional office as to their knowledge of lending policies and procedures and other relevant documentation is required to be conducted. In the event that the amount of a loan exceeds the lending limit set for the additional office, the loan application is submitted for review and approval by the credit committee of the regional branch, the Credit Committee, the Management Board or the Supervisory Board, as applicable, upon preliminary review by the subordinate credit committee. See "— *Risk Management Organisational Structure — Decision Making*" above.

Loan applications are prioritised depending on the following factors: (i) use of loan proceeds; (ii) sources of loan repayment; (iii) financial position and credit history of the borrower; (iv) economic conditions of the relevant agricultural sub-sector and region; (v) availability of acceptable collateral; and (vi) other factors.

Below is a list of key stages of a lending transaction:

- developing standard requirements for the borrower;
- developing requirements in respect of the collateral and quality assurance procedures in respect of its quality;
- assessing the risk at the initial analysis stage;
- structuring of the lending transaction;
- decision-making by the appropriate RAB body;
- execution of the lending transaction;
- monitoring of the lending transaction;
- managing the lending process; and

- monitoring established lending limits and restrictions, as well as creating accurate and timely impairment provisions.

Loan applications must be submitted together with the borrower's corporate documents, financial statements, documents confirming title to, and value of, the collateral, certain "know your customer" information and other supporting documents. In addition, borrowers must submit evidence of an insurance policy covering collateral from insurers with an established relationship with RAB.

Loan applications are reviewed by security services and the legal department of the respective additional office and / or regional offices or at the head office and processed by RAB's relevant credit committee. If the size of the proposed loan exceeds the credit limit set for the additional office, then a committee with the appropriate powers (or the credit committee of the regional branch, Credit Committee of the head office or the Management Board or Supervisory Board) takes a decision on the loan application after the preliminary review by the committee of the lower level. See "*Organisational Structure of risk management — Decision Making*"

Prior to approval of the loan application by the Credit Committee/Committee of Risk Department, the risk assessment and control service at the regional branch conducts its own independent evaluation of risks associated with a particular loan transaction and presents its conclusions detailing the results of such evaluation in the form of an independent report for consideration of the approving body.

Collateral

The Credit Policy requires that loans generally be secured by pledges of liquid collateral (it is currently required that all loans with maturity of over one year be secured by pledges of collateral) and/or guarantees or suretyships, including guarantees or suretyships from regional and local authorities. As of 31 December 2011, over 85.0 per cent. of the collateral by value that RAB had accepted was in the form of the following: real estate (at 57.6 per cent.), machinery and equipment (at 21.7 per cent.) and goods in turnover (at 7.3 per cent.). RAB accepts collateral in the form of livestock, future harvest, cars, motor vehicles, agricultural machinery and equipment, construction in progress and real estate.

If livestock or crop values decrease (as per official government price statistics), then RAB may require borrowers to increase collateral. Collateral generally must be insured by one of RAB's approved insurance companies with RAB named as the loss payee. Moreover, RAB can require borrowers to insure assets not included in the collateral in order to provide increased stability and security. See "*Business — Insurance*" and "*Risk Factors — Risks Related to RAB's Business and the Banking Sector — Insurance coverage may not adequately cover the RAB Group's assets or those pledged to it by borrowers*".

RAB's internal policy documents allow it to issue unsecured loans in the following limited cases: (i) overdrafts issued to legal entities and (ii) overdrafts and loans issued to individuals pursuant to the Sel'skoye Podvorie Programme — loans up to 50 thousand roubles (or equivalent in foreign currency) under the programmes "consumer loans"; "loans to the individual farmers" and "reliable customer".

Monitoring of the loan portfolio

RAB monitors its credit exposure with respect to its loan portfolio on a regular basis through a centralised risk management system involving risk assessment and monitoring throughout all stages of the lending process from loan application evaluation to repayment of the loan.

RAB monitors the financial condition and creditworthiness of the borrower throughout the life of the loan. At the head office level, a specialised unit of the Marketing and Lending Process Management Department is responsible for monitoring the loan portfolio, which includes inspections, analyses and preparation of reports. RAB's various divisions at the regional branch level evaluate credit risks by monitoring the servicing of loans by borrowers, monitoring the financial standing and market position of borrowers and conducting regular assessments of the sufficiency of posted collateral.

RAB's centralised monitoring system allows the head office to monitor adherence by local and regional branches and additional offices to the loan limits applicable to them. RAB conducts regular inspections of regional branches and additional offices on an annual schedule approved by the Supervisory Board.

Provisioning policy

For internal and CBR regulatory purposes, RAB applies a methodology based on RAS to calculate loan provisioning and to determine expected losses. Under CBR guidelines, loans that are not grouped together to form homogenous loan portfolios are divided into the following five categories: (i) standard (0 per cent. provision); (ii) non-standard (1-20 per cent. provision); (iii) doubtful (21-50 per cent. provision); (iv) problem loans (51-100 per cent. provision); and (v) bad loans (100 per cent. provision). RAB also creates provisions by reference to homogeneous loan portfolios (i.e., groups of loans consolidated on the basis of a certain credit risk criteria (for example, type of credit product or the borrowers' industry sector or region of operation)). Under CBR regulations, homogeneous loan portfolios are divided into the following five categories: (i) category I (0 per cent. provision); (ii) category II (3 per cent. provision of the aggregate value of homogeneous loan portfolio); (iii) category III (3-20 per cent. provision of the aggregate value of homogeneous loan portfolio); (iv) category IV (20-50 per cent. provision of the aggregate value of homogeneous loan portfolio); and (v) category V (50 and more per cent. provision of the aggregate value of homogeneous loan portfolio). RAB reports its loan provisions to the CBR on a monthly basis using these standards.

However, in the event RAB believes that provisioning pursuant to the CBR guidelines would not be sufficient for a particular loan, it may, after careful consideration of all the circumstances, apply a more conservative approach to its provisioning.

The provisioning methodology described above differs from the provisioning methodology under IFRS. Under IFRS, RAB estimates credit risk in relation to an individual loan or a homogeneous loan portfolio on the basis of a professional judgement upon completion of a comprehensive review of the borrower's activities taking into account its financial position, debt service history, as well as other information available to RAB with respect to any other potential risks relating to the borrower.

RAB considers the loan as impaired if the following events occur:

- *for loans issued to legal entities, including individual entrepreneurs and sole farmers*: (i) significant financial difficulty of the borrower, as evidenced by a deterioration in the financial position of the borrower from the moment the loan was issued from good or average to poor (in accordance with the methodology of evaluation and analysis of the RAB Group's borrowers' financial position taking into consideration their industry, organisational and legal specifics); or (ii) a breach of the loan agreement pursuant to which the principal or interest is overdue by more than 5 days;

- *for loans issued to individuals*: (i) significant financial difficulty of the borrower, as evidenced by a deterioration in the borrower's financial position from the moment the loan was issued from good to poor (for example, a loss of, or a significant decrease in, the value of, or the potential income generated by (if applicable), the asset using which the individual intended to repay the debt, termination of labour relations between the borrower and his or her employer when the borrower has no savings sufficient to repay the loan, existence of a criminal court decision resulting in the borrower's imprisonment that came into effect, or the existence of documentary evidence that the license of the financial institution with which some or all of the borrower's funds are deposited is revoked if the borrower's inability to withdraw such deposit(s) may impact the borrower's ability to repay his or her loan to the RAB Group); (ii) a breach of the loan agreement pursuant to which the principal or interest is overdue by more than 5 days.

The RAB Group uses estimates based on historical loss experience and objective evidence of impairment in the loan portfolio when assessing its future cash flows.

As of 31 December 2011, the RAB Group's provision for loan impairment as a percentage of gross loans and advances to the customers was 7.7 per cent. as compared to 7.6 per cent. as of 31 December 2010 and 4.9 per cent. as of 31 December 2009.

Although the RAB Group monitors non-current loans and seeks to enforce its security interests as appropriate, the RAB Group's overdue loans continue to accrue interest, until such time as they are written off or otherwise extinguished.

Loan portfolio analysis by credit quality

The RAB Group estimates credit risk on the basis of professional judgment following the completion of a comprehensive review of the borrower's activities, taking into account its financial standing, debt service quality as well as all other information available to the RAB Group related to any other risks of the borrower.

In reviewing the borrower's financial position, the RAB Group applies a system of coefficients according to which the borrower's financial position is assessed as follows:

- "good", if the total score in evaluation of financial position using the coefficient approach is 53 or more;

- "average", if the total score in evaluation of financial position using the coefficient approach ranges between 25 and 52 (inclusive); and

- "poor", if the total score in evaluation of financial position using the coefficient approach is less than 25.

In accordance with the effective methodology of financial assets impairment evaluation, the RAB Group includes loans, for which there is no identified loss event or a borrower/debtor default, into the category "collectively assessed for impairment".

For a discussion of the RAB Group's provisions, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Results of Operations for the Years Ended 31 December 2009, 2010 and 2011 — Interest income, interest expense, net interest income and provision for loan impairment*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources*".

Market Risk

Activity of RAB is exposed to market risk arising from open interest rate, foreign currency and securities portfolio positions, all of which are exposed to market volatility.

The general principles of RAB's market risk management are established in the Risk Management Policy approved by RAB's Supervisory Board. The goal of the RAB Group's market risk management policy is to limit and reduce the amount of possible losses that may be incurred by RAB in the context of its activities due to negative changes in exchange rates, interest rates and performance of equity and debt capital markets.

RAB manages market risks by establishing limits on maximum exposures in respect of particular financial products and limitation of losses for several types of operations in the open market, as well as by diversification of financial instruments used by RAB to hedge market risks and manage its short-term liquidity and by limits on the amount invested in various individual instruments or portfolios of instruments. In addition, RAB makes use of stop loss limits to manage exposure to risks associated with a dealer's closure of a specific position. However, the use of this approach does not prevent losses outside of these limits in the event of significant market movements.

Market risk management is performed by the Supervisory Board, Management Board and the ALCO Committee of RAB. Monitoring and ongoing management of RAB's market risk management policy is performed by the Treasury Department, Risk Department, Capital Markets Department, Operations Department, Financial Institutions Department. The Risk Department prepares daily and monthly reports for the Management Board covering the magnitude of the accepted market risks and compliance with the limits related to market risk management.

In order to assess exchange rate risk and securities portfolio risk, and to seek to minimise potential losses, the RAB Group uses VaR analysis. This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved methodology for assessment of foreign exchange risk and methodology for assessment of securities portfolio risk and provided by the Risk

Department to RAB's management and heads of interested units in compliance with the existing internal regulatory documents.

RAB calculates VaR on the basis of a 95 per cent. confidence level with the evaluation period of one day. Therefore, VaR shows the maximum loss that is expected to be received from the open position during one trading day with a 95 per cent. probability.

Together with VaR, RAB calculates ES indicator (Expected ShortFall), also called Expected Tail Loss or Conditional VaR, which estimates the expected value of the losses in excess of VaR.

To estimate the quality of VaR models RAB conducts back-testing based on historical data on a monthly basis.

Although VaR is a valuable tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one-day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in many cases but may not be the case in a situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95 per cent. confidence level does not take into account losses that may occur beyond this level. There is a 5 per cent. probability that the loss could exceed the VaR;
- technological changes; and
- VaR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency Risk

The RAB Group is exposed to the effect of fluctuations in foreign currency exchange rates on its financial position and cash flows. RAB's exchange rate risk is calculated as an aggregate of open positions of RAB, which is limited by CBR mandatory guidelines. RAB strictly regulates all foreign exchange operations and sets a variety of open currency position limits, including an aggregate limit for open positions for all currencies as well as separate limits for each type of currency, which cannot exceed 10 per cent. of RAB's total Tier I and Tier II capital per currency type and 20 per cent. of RAB's total Tier I and Tier II capital on an aggregate basis. RAB also has separate limits for the head office and regional branches and sets limits in respect of certain types of foreign exchange operations. The risks arising in connection with open positions are also monitored using various types of quantitative analysis principally on the basis of VaR analysis. Reports on the level of exchange rate risk are issued on the basis of the approved methodology for exchange rate risk evaluation and provided by the Treasury Department to the Management Board and the ALCO Committee of RAB in compliance with internal regulatory documents.

In order to manage its exchange rate risk, RAB enters into currency swaps and arrangements with foreign banks pursuant to which RAB makes term deposits in foreign currency with foreign banks and accepts term deposits in roubles from foreign banks. Foreign exchange derivative financial instruments, including forward contracts, entered into by RAB are generally traded in an over-the-counter market with professional market counterparties on standard contract terms and conditions.

The following table shows possible changes in financial results and equity during one day, as of 31 December 2009, as a result of possible fluctuations in exchange rates, evaluated on the basis of VaR and Expected ShortFall methods.

	As of 31 December 2009
	(in millions of roubles)
(Short) position	(1,249)
VaR	16
Expected Short Fall	26

The following table shows possible changes in financial results and equity during one day, as of 31 December 2010, as a result of possible fluctuations in exchange rates, evaluated on the basis of VaR and Expected ShortFall methods.

	As of 31 December 2010
	(in millions of roubles)
(Short) position	(1,068)
VaR	9
Expected ShortFall	11

The following table shows possible changes in financial results and equity during one day, as of 31 December 2011, as a result of possible fluctuations in exchange rates, evaluated on the basis of VaR and Expected Short Fall methods.

	As of 31 December 2011
	(in millions of roubles)
(Short) position	(35)
VaR	2
Expected ShortFall	3

Interest Rate Risk

RAB is exposed to interest rate risk. Interest margins may increase or decrease as a result of changes in market interest rates.

The sources of interest rate risk are:

- mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk);
- mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk);
- changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes); and
- use of option transactions together with traditional interest rate instruments sensitive to interest rate fluctuations (loans, mortgage loans and securities) that may lead to a risk of loss in case of default by one of the parties (option risk).

The majority of the RAB Group's assets and liabilities have fixed interest rates. RAB manages its interest rate risk by approving the financial instruments used in its operations and by limiting the ability of its customers to prepay their outstanding obligations without RAB's consent.

RAB also regularly monitors interest rate risk by means of interest rate gap analysis, which is the principal method for assessing interest rate risk and is based on ordering assets and liabilities sensitive to interest rates into a number of time bands. Interest rate risk is assessed at least once a month using the interest rate gap analysis method. The consolidated interest rate risk position of RAB is reported to the ALCO Committee on a monthly basis.

The tables below are based on management reports on RAB's interest rate risk as of the stated dates, which were prepared in accordance with the Interest Rate Risk evaluation methodology approved by RAB. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on the RAS with the assumption of stability of the structure of RAB's assets and liabilities.

In evaluating the RAB Group's exposure to interest rate risk, CCLB's risk was assumed to be immaterial due to an insignificant share of its assets and liabilities in the RAB Group's consolidated statement of financial position. Evaluation and monitoring of CCLB's interest risk are carried out on the basis of regulatory documents applicable to the RAB Group.

The table below summarises the RAB Group's exposure to interest rate risk as of 31 December 2009 by showing the RAB Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

	As of 31 December 2009						
	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
	(in millions of roubles)						
Total interest-bearing financial assets[(1)]	107,776	80,160	130,588	136,170	216,472	214,735	885,901
Total interest-bearing financial liabilities[(1)]	125,590	160,428	94,717	89,655	105,491	207,247	783,128
Sensitivity gap	**(17,814)**	**(80,268)**	**35,871**	**46,515**	**110,981**	**7,488**	**102,773**
Cumulative sensitivity gap	**(17,814)**	**(98,082)**	**(62,211)**	**(15,696)**	**95,285**	**102,773**	

(1) Total interest-bearing financial assets and total interest-bearing financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAS.

The table below summarises the RAB Group's exposure to interest rate risk as of 31 December 2010 by showing the RAB Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates.

	As of 31 December 2010						
	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
	(in millions of roubles)						
Total interest-bearing financial assets[(1)]	83,313	83,673	105,389	171,807	245,424	252,650	942,256
Total interest-bearing financial liabilities[(1)]	100,699	111,641	132,739	163,084	151,178	183,152	842,493
Sensitivity gap	**(17,386)**	**(27,968)**	**(27,350)**	**8,723**	**94,246**	**69,498**	**99,763**
Cumulative sensitivity gap	**(17,386)**	**(45,354)**	**(72,704)**	**(63,981)**	**30,265**	**99,763**	

(1) Total interest-bearing financial assets and total interest-bearing financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAS.

The table below summarises the RAB Group's exposure to interest rate risk as of 31 December 2011 by showing the RAB Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual re-pricing or maturity dates.

	As of 31 December 2011						
	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	Due between 1 and 3 years	More than 3 years	Total
	(in millions of roubles)						
Total interest- bearing financial assets[(1)]...	212,593	136,996	116,685	168,666	339,439	314,256	1,288,635
Total interest-bearing financial liabilities[(1)]	109,718	198,283	175,403	171,616	301,365	199,962	1,156,347
Sensitivity gap	**102,875**	**(61,287)**	**(58,718)**	**(2,950)**	**38,074**	**114,294**	**132,288**
Cumulative sensitivity gap	**102,875**	**41,588**	**(17,130)**	**(20,080)**	**17,994**	**132,288**	

(1) Total interest-bearing financial assets and total interest-bearing financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAS.

Securities included in the tables above are presented by maturity (re-pricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

As of 31 December 2009, if interest rates at that date had been 100 basis points lower or higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been 412 million roubles higher or lower, respectively.

As of 31 December 2010, if interest rates at that date had been 100 basis points lower or higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been 592 million roubles higher or lower, respectively.

As of 31 December 2011, if interest rates at that date had been 100 basis points lower or higher with all other variables held constant, net interest income (with consideration of the time factor) for the year would have been 12 million roubles higher or lower, respectively.

Securities Portfolio Risk

Securities portfolio risk is the risk of changes in the value of securities held by the RAB Group as a result of market price movements. Management believes that corporate shares of Russian companies carry the greatest risk exposure in the RAB Group's securities portfolio.

The table below sets forth the amount of corporate shares in the investment securities available for sale portfolio of the RAB Group and the relevant percentage of the total portfolio of the RAB Group such amount represented for the years ended 31 December 2009, 2010 and 2011.

	As of 31 December					
	2009	%	2010	%	2011	%
	(in millions of roubles, except percentages)					
Corporate shares	10	0.1	15	0.1	12	0.0

There were no corporate shares in the trading securities portfolio as of 31 December 2009, 2010 and 2011.

The Management Board sets a number of limits on certain types of operations aimed at achieving a profit-to-risk balanced securities portfolio composition. RAB has the following limits in place: securities portfolio and sub-portfolio limits, issuer limits and stop-loss limits. Pursuant to its general risk management policy, RAB also uses instruments such as repurchase agreements and forward and swap transactions in managing its trading securities portfolio risk.

The RAB Group's trading securities portfolio limits are subject to ongoing review and adjustments and are monitored on a daily basis by the Treasury Department, the Capital Markets Department and the Risk Department. The established limits may be adjusted by the Management Board depending on market conditions. Ongoing adjustments of these limits are also undertaken in the event of negative changes in the quality of the composition of the RAB Group's securities portfolio. The Risk Department performs subsequent monitoring of compliance with the limits.

VaR analysis and analysis using Expected Shortfall measures are the principal methods used by RAB for monitoring securities portfolio risk. The RAB Group conducts securities portfolio risk assessments by means of these types of quantitative analysis on a daily basis and, depending on the results of the analysis that explain the effects of market developments on the RAB Group's securities portfolio, revises applicable limits.

Liquidity Risk

Liquidity risk is the risk of mismatches between maturities of assets and liabilities, which may result in RAB being unable to meet its obligations in a timely manner. The RAB Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing interbank loans and deposits, term deposits and issued securities, guarantees, loan draw downs and from margin and other calls on cash settled derivative instruments. The RAB Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

RAB manages liquidity risk on the basis of the following principles:

- allocation of responsibilities in respect of liquidity management between RAB's management bodies, departments and divisions and specific executive officers;
- establishing limits in order to ensure an optimal liquidity level and taking into account the RAB Group's financial position;
- giving priority to maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- seeking to achieve optimal matching of the volumes and maturities of the RAB Group's funding with the volumes and maturities of its assets.

The responsibility for liquidity management rests with RAB's Management Board, the ALCO Committee and the Treasury, and is shared in accordance with the allocation of responsibility among those bodies. The Treasury is responsible for current (short-term) liquidity management. Medium-term and long-term liquidity management is carried out and relied on information provided and proposals prepared by the Risk Department.

The liquidity risk management methods include:

- estimates the daily payment position by cash flow analysis;
- analysis of the dynamics and prediction of the mandatory liquidity ratios;
- estimates the structure and quality of assets and liabilities;
- limitation of active operations in the directions;
- analysis of gaps in the maturity of assets and liabilities of the RAB Group based on the most likely time of their demand / redemption by major currencies;
- analysis of the RAB Group's exposure to liquidity risk, taking into account of the stress factors in various scenarios, covering both standard and more difficult market conditions.

For the purposes of managing current (short-term) liquidity, RAB's managing bodies mainly evaluate RAB's cash flow position to determine the net liquidity position and analyse values of, dynamics of, trends in and forecasts of mandatory liquidity ratios. In order to manage medium- and long-term liquidity, the managing bodies principally analyse mandatory liquidity ratios and evaluate mismatches (liquidity gaps) between RAB's assets and liabilities.

Liquidity is managed through purchases and sales of securities, interbank borrowing and lending and intraday and overnight borrowing from the CBR. RAB also uses issues of debt instruments to manage its liquidity.

In addition to limits set by RAB to manage its liquidity risk, it is also subject to mandatory liquidity ratios established by the CBR. The Treasury prepares forecasts in respect of RAB's ability to comply with liquidity requirements set by the CBR on a daily basis. These forecasts are prepared for RAB as a whole taking into account the liquidity position of its regional branches. RAB sets and monitors on a daily basis liquidity sub limits for its regional branches. For the purposes of additional monitoring of current liquidity, RAB has established indicative liquidity ratios, which are monitored by the Risk Department on a regular basis.

The table below sets out the maturity analysis of the RAB Group's undiscounted financial liabilities as of 31 December 2010 and 31 December 2011. The amounts disclosed in the table are the contractual undiscounted cash flows of the RAB Group's financial liabilities and off-balance sheet credit related commitments. Such undiscounted cash flows differ from the amounts included in the consolidated statement of financial position, since the consolidated statement of financial position amounts are based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented by related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing as of the reporting date. Foreign currency payments are translated using the spot exchange rate as of the reporting date.

Overdue liabilities, including term deposits undrawn by the RAB's customers are categorised as demand and less than 30 days. The date of maturity of certain assets, for which there is no contractual maturity date, is the expected date of disposal.

The table below sets out the maturity analysis of the RAB Group's undiscounted financial liabilities as of 31 December 2010.

	As of 31 December 2010[(1)]					
	Demand and less than 30 days	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
	(in millions of roubles)					
Financial liabilities						
Gross settled derivative financial instruments						
— inflow	(308)	(8,877)	(36,045)	(23,664)	(81,748)	(150,642)
— outflow	377	9,362	34,439	23,540	75,238	142,956
Net settled derivative financial instruments (liabilities)	31	—	—	—	—	31
Due to other banks	21,753	9,458	7,285	61,787	27,659	127,942
Customer accounts	119,173	161,625	91,715	18,920	7,604	399,037
Promissory notes issued	855	2,046	5,785	1,167	700	10,553
Other borrowed funds	762	21,504	29,652	127,663	144,492	324,073
Subordinated debts	—	1,003	17,075	9,409	34,714	62,201
Other financial liabilities	1,498	—	797	27	435	2,757
Off-balance sheet financial liabilities						
Guarantees issued	320	—	—	—	—	320
Letters of credit	835	—	—	—	—	835
Other credit related commitments[(2)]	24,497	—	—	—	—	24,497
Total potential future payments for financial obligations	**169,793**	**196,121**	**150,703**	**218,849**	**209,094**	**944,560**

(1) The financial information for 2010 presented above has been extracted from the 2011 Financial Statements.

(2) Other credit related commitments include commitments to extend credit that are contingent upon customers maintaining specific credit standards.

The table below sets out the maturity analysis of the RAB Group's undiscounted financial liabilities as of 31 December 2011.

	As of 31 December 2011					
	Demand and less than 30 days	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
	(in millions of roubles)					
Financial liabilities						
Gross settled derivative financial instruments						
— inflow	(5,223)	(20,569)	(16,714)	(51,799)	(79,554)	(173,859)
— outflow	5,440	19,102	15,969	53,215	65,867	159,593
Net settled derivative financial instruments (liabilities)	386	—	—	—	—	386
Due to other banks	948	3,880	11,232	52,113	27,507	95,680
Customer accounts	151,076	252,654	140,738	82,113	7,758	634,339
Promissory notes issued	888	13,365	5,695	405	660	21,013
Other borrowed funds	1,573	26,818	37,611	193,386	160,173	419,561
Subordinated debts	-	8,107	1,581	6,341	60,392	76,421
Other financial liabilities	2,563	100	1,387	—	187	4,237
Off-balance sheet financial liabilities						
Sureties issued	20,732	—	—	—	—	20,732
Guarantees issued	7,736	—	—	—	—	7,736
Letters of credit	1,428	—	—	—	—	1,428
Other credit related commitments[(1)]	36,368	—	—	—	—	36,368
Total potential future payments for financial obligations	223,915	303,457	197,499	335,774	242,990	1,303,635

(1) Other credit related commitments include commitments to extend credit that are contingent upon customers maintaining specific credit standards.

See Note 33 to the 2011 Financial Statements and Note 35 to the 2010 Financial Statements for information on the future minimum lease payments under non-cancellable operating lease commitments where the RAB Group is a lessee and capital expenditure commitments.

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

The RAB Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the RAB Group monitors expected maturities.

The tables presented below are based on the management reports on RAB's liquidity risk at the stated dates that were issued in accordance with the net liquidity gap methodology approved by RAB. These reports are prepared using information extracted from the accounting system, which is based on RAS.

In evaluating the RAB Group's liquidity risk, CCLB's risk was assumed to be immaterial due to an insignificant share of its assets and liabilities in the RAB Group's consolidated statement of financial position. Evaluation and monitoring of the subsidiary bank's liquidity risk are carried out on the basis of regulatory documents applicable to the RAB Group.

The table below sets out a summary analysis of the RAB Group's liquidity risk as of 31 December 2009.

	As of 31 December 2009							
	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
				(in millions of roubles)				
Total financial assets[(1)]	142,639	72,699	136,582	136,989	226,337	222,204	20,882	958,332
Total financial liabilities[(1)]	132,041	143,681	90,059	95,385	114,886	260,471	—	836,523
Net liquidity gap	**10,598**	**(70,982)**	**46,523**	**41,604**	**111,451**	**(38,267)**	**20,882**	**121,809**
Cumulative liquidity gap	**10,598**	**(60,384)**	**(13,861)**	**27,743**	**139,194**	**100,927**	**121,809**	

(1) Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAS.

The table below sets out a summary analysis of the RAB Group's liquidity risk as of 31 December 2010.

	As of 31 December 2010							
	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
				(in millions of roubles)				
Total financial assets[(1)]	138,516	77,425	106,128	175,921	255,616	258,207	42,489	1,054,302
Total financial liabilities[(1)]	143,975	99,962	89,495	164,073	188,906	229,389	—	915,800
Net liquidity gap	**(5,459)**	**(22,537)**	**16,633**	**11,848**	**66,710**	**28,818**	**42,489**	**138,502**
Cumulative liquidity gap	**(5,459)**	**(27,996)**	**(11,363)**	**485**	**67,195**	**96,013**	**138,502**	

(1) Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAS.

The table below sets out a summary analysis of the RAB Group's liquidity risk as of 31 December 2011.

	As of 31 December 2011							
	Demand and less than 30 days	Due between 31 and 90 days	Due between 91 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Overdue	Total
				(in millions of roubles)				
Total financial assets[(1)]	262,869	135,061	120,662	179,511	342,473	318,885	72,234	1,431,695
Total financial liabilities[(1)]	164,881	188,073	117,141	189,420	319,816	266,434	—	1,245,765
Net liquidity gap	**97,988**	**(53,012)**	**3,521**	**(9,909)**	**22,657**	**52,451**	**72,234**	**185,930**
Cumulative liquidity gap	**97,988**	**44,976**	**48,497**	**38,588**	**61,245**	**113,696**	**185,930**	

(1) Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAS.

Individual reports on liquidity gap are prepared and analysed by RAB's head office and regional branches on a daily basis, and consolidated reports on liquidity gap are prepared and analysed at least weekly. On a monthly basis, RAB's Management Board and the ALCO Committee review consolidated data on RAB's liquidity position as part of their review of risks report.

RAB's management believes that the matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the RAB Group. It is unusual for banks to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the RAB Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors and the past experience of the RAB Group indicate that these customer accounts provide a long-term and stable source of funding for the RAB Group.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the RAB Group does not generally expect the third party to draw funds under these types of agreements. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements since many of these commitments will expire or terminate without being funded.

Geographical Risk Concentration

In the tables below, assets, liabilities and credit-related commitments have been classified according to the country in which the counterparty is located. Cash, premises and equipment have been classified according to the country in which they are physically held.

The table below sets out the geographical concentration of the RAB Group's assets and liabilities as of 31 December 2009.

	As of 31 December 2009			
	Russia	OECD	Other countries	Total
	(in millions of roubles)			
Assets				
Cash and cash equivalents	47,422	47,534	2	94,958
Mandatory cash balances with the CBR	2,974	—	—	2,974
Trading securities	18,022	—	—	18,022
Repurchase receivable	3,467	—	—	3,467
Financial Instruments designated at fair value through profit or loss	—	4,070	—	4,070
Derivative financial instruments	—	28,289	—	28,289
Due from other banks	6,069	24,380	7,343	37,792
Loans and advances to customers	584,407	—	—	584,407
Investment securities available for sale	7,800	—	—	7,800
Investment securities held to maturity	7,732	—	—	7,732
Deferred income tax asset	400	—	—	400
Goodwill	298	—	—	298
Intangible assets	1,023	—	—	1,023
Premises and equipment	27,446	—	—	27,446
Current income tax prepayment	229	—	—	229
Other assets	11,269	1	487	11,757
Total assets	**718,558**	**104,274**	**7,832**	**830,664**
Liabilities				
Derivative financial statements	37	130	—	167
Due to other banks	104,371	87,320	319	192,010
Customer accounts	230,303	—	—	230,303
Promissory notes issued	12,567	—	—	12,567
Other borrowed funds	57,643	158,841	—	216,484
Syndicated loans	—	7,570	—	7,570
Deferred income tax liability	1,815	—	—	1,815
Other liabilities	7,841	1	—	7,842
Subordinated debts	25,000	21,370	—	46,370
Total liabilities	**439,577**	**275,232**	**319**	**715,128**
Net balance sheet position	**278,981**	**(170,958)**	**7,513**	**115,536**
Credit related commitments	**36,927**	**—**	**—**	**36,927**

The table below sets out the geographical concentration of the RAB Group's assets and liabilities as of 31 December 2010.

	As of 31 December 2010			
	Russia	OECD	Other countries	Total
	(in millions of roubles)			
Assets				
Cash and cash equivalents	80,504	496	10	81,010
Mandatory cash balances with the CBR	3,468	—	—	3,468
Trading securities	3,563	—	—	3,563
Repurchase receivable	15,240	—	—	15,240
Financial instruments designated at fair value through profit or loss	—	9,686	—	9,686
Derivative financial instruments	42	20,579	—	20,621
Due from other banks	5,777	24,566	4,134	34,477
Loans and advances to customers	688,556	—	—	688,556
Investment securities available for sale	15,687	—	—	15,687
Investment securities held to maturity	14,922	—	—	14,922
Deferred income tax asset	1,930	—	—	1,930
Intangible assets	1,563	—	—	1,563
Premises and equipment	25,985	—	—	25,985
Current income tax prepayment	191	—	—	191
Other assets	11,050	1	1	11,052
Assets of the disposal groups held for sale	2,847	2	—	2,849
Total assets	**871,325**	**55,330**	**4,145**	**930,800**
Liabilities				
Derivative financial statements	31	510	—	541
Due to other banks	31,825	73,498	255	105,578
Customer accounts	375,817	7,473	2,989	386,279
Promissory notes issued	9,874	—	—	9,874
Other borrowed funds	88,457	169,102	—	257,559
Deferred income tax liability	1,405	—	—	1,405
Current income tax liability	17	—	—	17
Other liabilities	4,389	—	—	4,389
Subordinated debts	25,000	21,545	—	46,545
Liabilities directly associated with disposal groups held for sale	1,014	1	—	1,015
Total liabilities	**537,829**	**272,129**	**3,244**	**813,202**
Net position in on-balance sheet position	**333,496**	**(216,799)**	**901**	**117,598**
Credit related commitments	**1,155**	**—**	**—**	**1,155**

The table below sets out the geographical concentration of the RAB Group's assets and liabilities as of 31 December 2011.

	As of 31 December 2011			
	Russia	OECD	Other countries	Total
	(in millions of roubles)			
Assets				
Cash and cash equivalents	130,071	3,883	5	133,959
Mandatory cash balances with the CBR	8,417	—	—	8,417
Repurchase receivable	2,369	—	—	2,369
Financial instruments designated at fair value through profit or loss	—	11,225	—	11,225
Derivative financial instruments	—	23,296	—	23,296
Due from other banks	8,019	25,962	5,588	39,569
Loans and advances to customers	903,697	—	—	903,697
Investment securities available for sale	76,595	—	—	76,595
Investment securities held to maturity	31,319	—	—	31,319
Deferred income tax asset	5,531	—	—	5,531
Intangible assets	1,531	—	—	1,531
Premises and equipment	25,093	—	—	25,093
Current income tax prepayment	820	—	—	820
Other assets	15,903	1	—	15,904
Assets of the disposal groups held for sale	5,099	2	—	5,101
Total assets	**1,214,464**	**64,369**	**5,593**	**1,284,426**
Liabilities				
Derivative financial statements	386	353	—	739

Due to other banks	13,424	75,772	1,221	90,417
Customer accounts	600,925	6,168	202	607,295
Promissory notes issued	20,129	—	—	20,129
Other borrowed funds	111,344	231,155	—	342,499
Deferred income tax liability	1,322	—	—	1,322
Current income tax liability	7	—	—	7
Other liabilities	6,762	7	—	6,769
Subordinated debts	25,004	32,188	—	57,192
Liabilities directly associated with disposal groups held for sale	1,281	1	—	1,282
Total liabilities	**780,584**	**345,644**	**1,423**	**1,127,651**
Net position in on-balance sheet position	**433,880**	**(281,275)**	**4,170**	**156,775**
Credit related commitments	**29,896**	**—**	**—**	**29,896**

Operational Risk

RAB defines operational risk as the risk of direct or indirect loss resulting from inadequate or ineffective internal processes or methodologies, people and systems or from external events. This definition includes legal risk and reputational risk. Examples of events that are included under this definition of operational risk are losses from external or internal fraud, actions of RAB's personnel, computer systems failures, inefficient internal control systems, settlement errors, model errors or natural disasters.

RAB has internal control systems in respect of operational risks in place that comply with CBR requirements in all material respects. The Internal Control Service, Risk Department and the Chief Accountant monitor and control various types of operational risk and report to the Management Board. In addition, RAB has established a sub-division to systematise the identification, classification and management of operational risk at the level of its head office, regional branches and additional offices. In order to reduce operational risks and potential losses due to emergency situations Management Board approved a plan to ensure continuity of financial and economic activities RAB during emergencies, which is regularly tested by Head Office and the regional level. RAB also prepares and submits internal controls reports to the CBR. RAB's branches are fully integrated within its internal control monitoring system. RAB believes that an effective monitoring process is essential for adequately managing operational risk. Regular monitoring activities offer the advantage of quickly detecting and correcting deficiencies in the policies and procedures for managing operational risks, which can reduce the potential frequency and/or severity of loss events. RAB's management is informed on a quarterly basis regarding losses resulting from operational risk and other events related to operational risk. On a monthly basis, relevant sub-divisions of regional branches prepare analytical reports describing operational risks by indicating risk factors and types of losses, as well as RAB's activities that may be directly affected by operational risk. When preparing analytical data for evaluating and forecasting the level of operational risk, the respective bodies use the results of internal assessment by RAB's risk management officers and profit and loss statements. When performing the assessment, RAB's risk management officers focus on the concentration of operational risk in banking transactions and the evaluation of quality and adequacy of the existing internal procedures. Following the appraisal of RAB's business activities, RAB's risk management officers submit proposals aimed at minimising operational risk and an action plan.

RAB maintains servers with back-up systems in a separate office. It does not have a disaster recovery centre at a separate site away from the head office. In addition, RAB is in compliance in all material respects with CBR standards on information technology system controls, which the CBR adopted in 2005.

Anti-Money Laundering Procedures

RAB's anti-money laundering procedures are based on, and are in compliance in all material respects with, the relevant Russian legislation. See "*Appendix A — Overview of the Russian Banking Sector and Regulation in the Russian Federation — Legislative Framework for the Russian Banking Sector — The Anti-Money Laundering Law*". RAB has procedures and operative documents aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy and internal control procedures and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting any suspicious activities to the Federal Service for Financial Monitoring of the Russian Federation. These procedures aim to, among other things, minimise the risk to RAB of being used as a vehicle for money laundering or terrorist financing and protect RAB from the financial and reputational risks inherent in associations with money laundering or terrorist financing activities and ensure that banking services are provided only to *bona fide* clients.

Anti-money laundering procedures include "know-your-customer" procedures that require clear identification of clients, verification of their identity and appraisal of the risk of their engaging in money laundering and/or terrorist financing. If the risk of particular clients engaging in money laundering and/or terrorist financing is determined to be significant based on profiling, the activities of such clients are monitored on a regular basis. RAB identifies transactions that must be monitored and reported pursuant to Russian anti-money laundering legislation. Such legislation requires RAB to monitor and report such transactions to the Federal Service for Financial Monitoring of the Russian Federation *via* the CBR.

RAB maintains a database containing information on all clients and transactions they engage in, which facilitates identification of unusual transactions. In addition, RAB verifies each client's identity, legal status and authority to engage in particular transactions. RAB does not enter into business relationships with clients that refuse to provide sufficient identity and authority information. RAB pays particular attention to obtaining information about its bank counterparties and does not enter into banking relationships (including interbank lending and deposit taking and operating correspondent bank accounts) with shell banks.

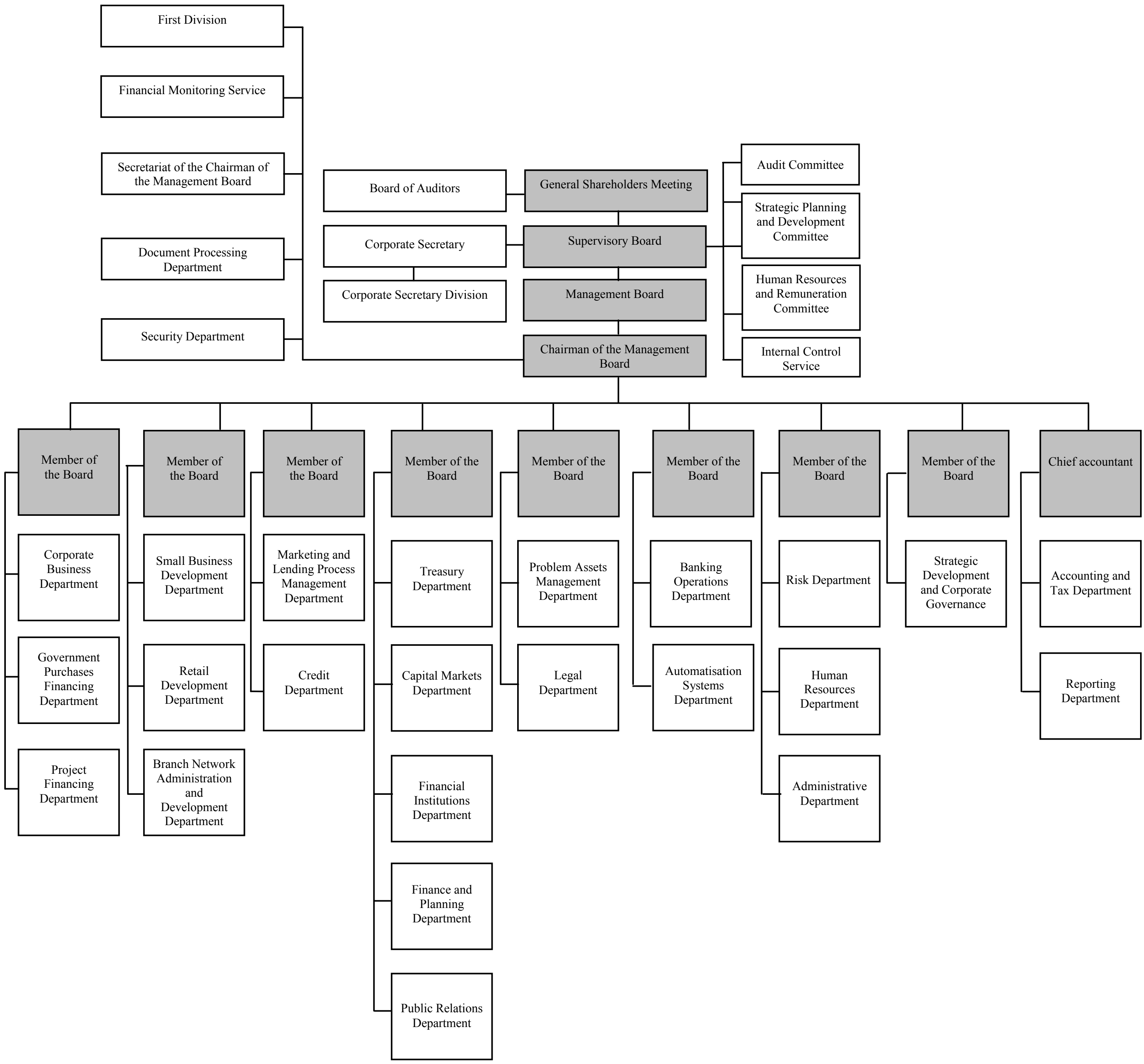
RAB keeps all information obtained as a result of applying its anti-money laundering procedures confidential, except where it is required to report it to the Federal Service for Financial Monitoring of the Russian Federation.

RAB's Financial Monitoring Service monitors client transactions and the activities of all of RAB's departments for compliance with relevant Russian anti-money laundering legislation. RAB's other departments notify the Financial Monitoring Service of suspicious transactions, using the criteria set out in RAB's internal anti-money laundering regulations. The Financial Monitoring Service pays particular attention to transactions involving large sums or significant amounts of cash. If monitoring indicates that a client may be engaged in money-laundering or terrorist financing, the level of monitoring of such client is increased. Activities are analysed on an ongoing basis, which allows detection of money-laundering schemes. If necessary, the Financial Monitoring Service obtains additional information about a particular transaction's purpose and/or suspends suspicious transactions.

RAB's Financial Monitoring Service also provides education and training of personnel regarding RAB's anti-money laundering procedures.

MANAGEMENT

A diagrammatic overview of the management structure of RAB is set out below:



The highest level of management and the ultimate decision making body of RAB is the General Shareholders' Meeting. This is followed by the Supervisory Board that is responsible for the general management of RAB, including strategy coordination and general supervision. The Supervisory Board elects the members of the Management Board, which is the collective executive body. The General Shareholder's Meeting appoints the Chairman of the Management Board, who presides at meetings of the Management Board and, together with the latter, is responsible for the day-to-day operations of RAB. A brief description of each of the General Shareholders' Meeting, the Supervisory Board, the Management Board and the Chairman of the Management Board is set out below.

General Shareholders' Meeting

The authority of a General Shareholders' Meeting includes, among other matters:

- amendment of RAB's charter or approval of a new charter;
- reorganisation or liquidation of RAB, appointment of a liquidation commission and approval of preliminary and final liquidation balances;
- appointment and removal of the members of the Supervisory Board;
- appointment and removal of the Chairman of the Management Board;
- appointment of RAB's auditor;
- determination of the number, nominal value and class/type of authorised shares and the rights granted by such shares;
- appointment and removal of the members of the Internal Audit Commission;
- approval of RAB's annual reports and financial statements;
- distribution of RAB's profits (including payment of dividends);
- approval of certain interested party transactions and major transactions;
- increase and decrease of RAB's share capital;
- splitting and consolidating RAB's shares;
- approval of RAB's participation in holding companies, financial and industrial groups, associations and other unions of commercial organisations;
- approval of certain internal documents and corporate records; and
- other issues, as provided for by the Joint Stock Companies Law and RAB's charter.

The powers listed above lie within the exclusive scope of authority of the General Shareholders' Meeting and may not be delegated to the other governing bodies of RAB. RAB's charter provides that so long as the SPMA is the sole shareholder of RAB, decisions of RAB's General Shareholders' Meeting are adopted in the form of a decision of the SPMA. Where a decision of the SPMA applies, the relevant charter provisions on procedures and preparatory work for convening of the General Shareholders' Meeting do not apply, except for the procedures applicable to the date of holding of the General Shareholders' Meeting.

Supervisory Board

The Supervisory Board is responsible for the general management of RAB's operations. RAB's Supervisory Board has the power to decide, among others, the following issues:

- determination of RAB's business priorities;
- convening of annual and extraordinary General Shareholders' Meeting;
- approval of the agenda of the General Shareholders' Meeting, determination of the record date for shareholders entitled to participate in the General Shareholders' Meeting and other issues in connection with preparation for, and holding of, General Shareholders' Meeting;
- placement of RAB's bonds and other securities (other than shares and securities convertible into shares);
- determination of the price of RAB's property and securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;

- recommendations on the amount of the dividend on shares and the payment procedure thereof;
- recommendations on the amount of remuneration of the members of the Internal Audit Commission as well as determination of the remuneration of RAB's auditor;
- appointment and removal of the Head of the Internal Control Service and approval of the regulation on the Internal Control Service;
- the creation of branches and representative offices;
- approval of major and interested party transactions in the cases provided for by the Joint Stock Companies Law;
- appointment of RAB's share registrar as well as approval of terms of, and termination of, the agreement with the registrar;
- adoption of decision on use of reserve and other funds;
- determination of the number of members, election and removal of the Management Board;
- approval of certain internal documents; and
- other issues, as provided for by the Joint Stock Companies Law and RAB's charter.

The Joint Stock Companies Law requires at least a five-member Supervisory Board for all joint stock companies, at least a seven-member Supervisory Board for a joint stock company with more than 1,000 holders of voting shares and at least a nine-member Supervisory Board for a joint stock company with more than 10,000 holders of voting shares. The actual number of directors is determined by RAB's charter or a decision of the General Shareholders' Meeting. RAB's charter provides that its Supervisory Board shall consist of at least five members.

RAB's charter provides for the election of its Supervisory Board at an annual General Shareholders' Meeting. The term of office of RAB's Supervisory Board is one year. Its Supervisory Board is elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of shares held by such shareholder multiplied by the number of persons on RAB's Supervisory Board, and the shareholder may give all such votes to one candidate or spread them between two or more candidates. Before the expiration of their term, the members of the Supervisory Board may be removed as a group at any time without cause by a majority vote of a General Shareholders' Meeting.

As of the date of this Base Prospectus, RAB's Supervisory Board consists of seven members, the names and brief biographies of whom are set out below.

Name	**Age**	**Position**	**Date of Appointment**
Ilya V. Lomakin-Rumyantsev	54	Chairman	30 June 2011
Anatoly B. Ballo	51	Member	30 June 2011
Mikhail A. Eskindarov	60	Member	30 June 2011
Tatyana B. Kulkina	60	Member	30 June 2011
Dmitry N. Patrushev	34	Member	30 June 2011
Anna G. Belova	51	Member	30 June 2011
Alexandr I. Sobol	42	Member	30 June 2011

Ilya V. Lomakin-Rumyantsev. Mr. Lomakin-Rumyantsev graduated from the Moscow State University in 1979. From 2004 he was the Head of the Federal Insurance Supervision Service. From 2009, Mr. Lomakin-Rumyantsev was the head of the Presidential Experts' Directorate. From 2011 he was the Head of Expert Board of Rosgosstrakh (RGS). From 2011 Mr. Lomakin-Rumyantsev was also appointed as the Head of Supervisory Board of the Agency for Housing Mortgage Lending (AHML).

Anatoly B. Ballo Mr. Ballo graduated from the Moscow Financial Institute, majoring in International Economic Relations. From 1991 to 1992, he worked at the CBR. From 1992 to 2000, Mr. Ballo worked at the Russian Project Finance Bank, where the last position he held was that of financial director. From 2000 to 2002, Mr. Ballo was the adviser of the Foreign Trade and Investment Bank of the USSR. From 2002 to 2005, Mr. Ballo was head of a division at OJSC Foreign Trade Bank. From 2005 to 2007, Mr. Ballo was head of a department at the Foreign Trade and Investment Bank of the USSR. Since 2007, Mr. Ballo has been Deputy Chairman of the Management Board of Vnesheconombank.

Mikhail A. Eskindarov. Mr. Eskindarov graduated from the Moscow Finance Institute in 1976. Since 2006, Mr. Eskindarov is the head of the Financial University under the Government of Russian Federation.

Tatyana B. Kulkina Ms. Kulkina graduated from the Moscow State Institute of International Relations of the Ministry of Foreign Affairs of Russia in 1977 as an economist. From 2000 to 2004, she worked as a Deputy Secretariat Chief for the Deputy Prime Minister of the Russian Federation. From 2004 to 2007, Ms. Kulkina worked as an Assistant to the Minister of Finance of the Russian Federation. From 2007 to 2008, she worked as an Assistant to the Prime Minister of the Russian Federation. Ms. Kulkina was appointed as the Secretariat Chief for the First Deputy Prime Minister of the Russian Federation by the Decree of the Government of the Russian Federation dated 22 May 2008.

Dmitry N. Patrushev Mr. Patrushev graduated from the State University of Management in 1999 and the Diplomatic Academy of the Russian Ministry of Foreign Affairs in 2004, majoring in Management and International Economics. Mr. Patrushev has a Doctor of Science degree in Economics. From 1999 to 2002, he worked for the Ministry of Transport of the Russian Federation. From 2004 to 2010, Mr. Patrushev worked for VTB as the Assistant to the Chairman of the Board, subsequently as the Managing Director, and then later as the Senior Vice-President, Head of Corporate Segment.

Anna G. Belova. Mrs. Belova graduated from the Moscow Engineering Physics Institute in 1984. From 2006 to 2007 she was the First Deputy of the Head of the OJSC "Techsnabexport". Prior to joining RAB in 2011, Mrs. Belova worked for the Siberian coal energy company from 2007 to 2011.

Alexandr I. Sobol Mr. Sobol graduated from the Moscow Aviation Institute, majoring in Engineering, Economics and Management in 1991 and obtained a Candidate of Science Degree in Economics in 2003. Mr. Sobol served as head of finance division, Head of the Economic Planning Department, Vice-President and Deputy Chairman of the Management Board of the Russian National Commercial Bank. Later he became adviser to the Chairman of the Management Board and Deputy Head of Strategic Development and Resource Planning of Gazprombank. He has served in this position since 1999 and supervises the work of the Finance Department, Depository Centre, long-term investment activities of Gazprombank and oversees the activities of the Chief Accountant.

The business address of each of the members of the Supervisory Board of RAB is the principal office of RAB, located at 1 Arbat, 119019 Moscow, Russian Federation.

There are no potential conflicts of interest between the duties of the members of the Supervisory Board and their private interests or other duties.

At the meeting of the Supervisory Board held on 15 August 2008, it was decided to establish the following committees of the Supervisory Board: the Audit Committee, the Strategic Planning and Development Committee and the Human Resources and Remuneration Committee (collectively, the "**Committees**").

These Committees perform the initial review of significant matters in respect of which only the Supervisory Board has the power to make decisions, and make recommendations to the Supervisory Board in respect of those matters. The final decisions relating to such matters are made by the Supervisory Board.

The responsibilities of the Audit Committee include reviewing financial statements as to their accuracy and completeness as well as issues related to the effectiveness of internal controls and RAB's risk management systems and the independence of its external auditors. Members of the Audit Committee should be knowledgeable as to matters relating to accounting, the preparation of financial statements, audit, internal controls and risk management.

The Strategic Planning and Development Committee was created to enhance the long-term effectiveness of RAB's operations. The Strategic Planning and Development Committee is involved in the determination of RAB's strategic objectives and priorities, the evaluation of the effectiveness of RAB's operations, the development of recommendations in respect of dividend policy and the review and amendment of the current development strategy for the RAB Group. Members of the Strategic Planning and Development Committee should be knowledgeable about the agricultural sector and banking and should possess the required level of experience and skills to address the Committee's tasks.

The responsibilities of the Human Resources and Remuneration Committee include determining the selection criteria for members of the Supervisory Board, executive officers and department heads, establishing evaluation criteria for individuals occupying such positions and principles and criteria for their remuneration, and reviewing and approving human resources and hiring policies, including incentives schemes.

The process for the establishment of the Committees and their respective roles and objectives are stated in regulations in respect of each of these Committees.

Chairman of the Management Board and the Management Board

The Chairman of the Management Board and the Management Board are responsible for the day-to-day management of RAB, with the exception of those matters that are designated by law and RAB's charter as the exclusive responsibility of the General Shareholders' Meeting or the Supervisory Board. The Chairman of the Management Board represents RAB in relations with third parties.

The Chairman of the Management Board and the Management Board are each accountable to both the Supervisory Board and the General Shareholders' Meeting. The Chairman of the Management Board is appointed by the General Shareholders' Meeting upon recommendation of the Chairman of the Supervisory Board. Other members of the Management Board are appointed by the Supervisory Board upon recommendation of the Chairman of the Management Board. The General Shareholders' Meeting may at any time remove the Chairman of the Management Board and the Supervisory Board may at any time remove any member of the Management Board from their positions.

The Management Board meets from time to time as necessary and makes its decisions by a simple majority of votes, **provided that** a quorum of at least half of the elected members is present.

The name, position and certain other information for each member of the Management Board is set out below. Unless otherwise indicated herein, members of the Management Board do not perform any functions for third parties.

Name	**Age**	**Position**	**Date of Appointment**
Dmitry N. Patrushev	34	Chairman	25 May 2010
Boris P. Listov	43	First Deputy Chairman	30 October 2009
Alexey A. Zhdanov	50	Deputy Chairman	12 January 2012
Andrey A. Alyakin	43	Deputy Chairman	16 December 2010
Victoria V. Kirina	55	Deputy Chairman	18 August 2010
Kirill U. Levin	43	Deputy Chairman	28 February 2011
Dmitry G. Sergeev	37	Deputy Chairman	14 July 2010
Evgeniy V. Kryukov	44	Deputy Chairman	14 February 2012

Dmitry N. Patrushev Mr. Patrushev is the Chairman of the Management Board. See "— *Supervisory Board*" above.

Boris P. Listov Mr. Listov graduated from the St. Petersburg State University of Economics and Finance in 1995. Prior to joining RAB, from 2007, to October 2009, Mr. Listov was a member of the Council of Federation of the Federal Assembly of the Russian Federation (Upper Chamber of the Russian Parliament). Since 2009, Mr. Listov has been the First Deputy Chairman of the Management Board of RAB.

Alexey A. Zhdanov. Mr. Zhdanov graduated from the Moscow Finance Institute in 1984. Up to 2000 he was vice-principal of the Financial University under the Government of the Russian Federation. From 2000 to 2008 he occupied managerial positions at the OJSC MMC Norilsk Nickel. Prior to joining RAB in 2011, Mr. Zhdanov was the head of the Strategic department in OJSC "Rosbank". In January 2012, Mr. Zhdanov was appointed deputy chairman of the Management Board.

Andrey A. Alyakin Mr. Alyakin graduated from the Yaroslavl Finance and Economics Institute in 1990 and the Russian Foreign Trade Academy in 1993. Prior to joining RAB in December 2010, Mr. Alyakin occupied managerial positions at the Moscow Central Territorial Administration of the CBR from 1991 to 2005 and worked as Head of Operations Department of the Moscow Main Territorial Division of the CBR from 2005 to 2010.

Victoria V. Kirina Mrs. Kirina graduated from the International Economic Relations of the Moscow State Institute of International Relations in 1979. Mrs. Kirina joined RAB in 2004. From 2004 to 2005, Mrs. Kirina worked as Head of the Division of Correspondent Banking and Trade Finance in the Treasury Department. From 2005 to 2006, Mrs. Kirina was Head of the Division of Foreign Economic Activities. Prior to joining the Management Board, from 2006 to 2010, Mrs. Kirina was Head of the International Department.

Kirill U. Levin Mr. Levin graduated from the Moscow Aviation Institute in 1990. From 1997 to 2007, Mr. Levin worked in OAO Gazprombank as advisor to Chairman of the Management Board and Deputy Chairman of the Management Board. From March 2008 to April 2009, Mr. Levin worked as Managing Director and President of Management Company Renaissance Capital. Prior to joining RAB as advisor to Chairman of the Management Board in January 2011, Mr. Levin worked as Vice-President and Head of Corporate Business Department of OAO Sberbank.

Dmitry G. Sergeev Mr. Sergeev graduated from the Finance Academy under the Russian Government in 1997. Prior to joining RAB as advisor to Chairman of the Management Board in June 2010, Mr. Sergeev occupied managerial positions in corporate banking business units in JSC VTB Bank from 2002 to 2010.

Evgeniy V. Kryukov. Mr. Kryukov graduated from the Bauman Moscow State Technical University in 1992. Prior to joining RAB in 2010 as the head of Secretariat of the Chairman of the Management Board, Mr. Kryukov was vice-president at JSC VTB Bank. In February 2012, Mr. Kryukov was appointed as a deputy chairman of the Management Board.

The business address of each of the members of the Management Board of RAB is the principal office of RAB, located at 1 Arbat, 119019 Moscow, Russian Federation.

There are no potential conflicts of interest between the duties of the members of the Management Board and their private interests or other duties.

Compensation

In the year ended 31 December 2011, total remuneration of the Management Board and the Chief Accountant of RAB amounted to 113 million roubles.

As of 31 December 2011, RAB had no loans outstanding to key management and their family members and had no loans outstanding to members of the Supervisory Board.

SHAREHOLDING

RAB is a state-owned bank, with 100 per cent. of its shares held by the SPMA. There are no arrangements known to RAB that may result at a subsequent date in a change of control of RAB. See "*Risk Factors — Risks Related to RAB's Business and the Banking Sector — The Russian Government may at its sole discretion privatise RAB, which may result in RAB's future equity funding being materially decreased*".

As of 31 December 2011, RAB's share capital amounted to 148,048 million roubles as compared to 108,048 million roubles as of 31 December 2010. As of 31 December 2011, RAB's share capital was comprised of 148,048 ordinary shares with nominal value of 1 million roubles each, of which all shares were issued and fully paid.

Shareholder	Number of Shares	Percentage Shareholder
SPMA	148,048	100%

Shareholder's Rights

Under RAB's charter and Russian legislation, the shareholder of RAB have the right to:

- participate and vote in the General Shareholders' Meeting on all matters falling within the competence of the General Shareholders' Meeting;
- receive dividends;
- pre-emptively subscribe for new issues of RAB's shares or securities convertible into RAB's shares;
- receive an amount of RAB's assets upon its liquidation *pro rata* to their level of shareholding remaining after satisfaction of creditors' claims; and
- other rights envisaged by Russian legislation and RAB's charter.

RELATED PARTY TRANSACTIONS

In the ordinary course of business the RAB Group enters into transactions with companies controlled by its controlling shareholder, its directors and managers and associated parties. These transactions include settlements, loans, securities trading, deposit taking, guarantees, trade finance and foreign currency transactions. RAB believes that these transactions are entered into on an "arm's length" basis and their terms do not substantially differ from standard market terms.

For the purposes of the RAB Group Financial Statements, parties are considered to be related in line with requirements of IAS 24 (Revised), *Related Party Disclosure* ("**IAS 24 (Revised)**") if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The RAB Group's only shareholder is the Government of the Russian Federation represented by the SPMA. Currently the Government of the Russian Federation does not provide to the general public or entities under its ownership/control a complete list of the entities which are owned or controlled directly or indirectly by the Russian state. Judgment is applied by the RAB Group's management in the identification of related parties to be disclosed in the consolidated financial statements.

The RAB Group included in key management personnel only members of the Management Board and the Chief Accountant.

Commencing with the 2009 Financial Statements, the RAB Group has used the exemption provided by IAS 24 (Revised), from the disclosures required in relation to related party transactions and outstanding balance with government controlled entities. As a result of the application of IAS 24 (Revised), the RAB Group discloses only individually significant transactions and balances, including commitments, in its consolidated financial statements.

The following table sets forth outstanding balances with related parties as of 31 December 2009, 2010 and 2011 prepared after the adoption of IAS 24 (Revised) by the RAB Group.

	As of 31 December		
	2009	2010	2011
	(in millions of roubles)		
Loans and advances to customers (before impairment)			
State-owned entities[1] (contractual interest rate: 7%-12% p.a. (2010: 7%-12% p.a., 2011: 7%-12% p.a.))	44,794	45,937	39,233
Key management and their family members (contractual interest rate: 5%-22% p.a., 2010: 5% p.a.)	32	21	—
Provision for loan impairment at the year end			
State-owned entities[1]	(9)	(8)	(11)
Customer accounts (inclusive term deposits and current/settlement accounts)			
State-owned entities[1] (contractual interest rate for term deposits: 7%-16% p.a. (2010: 1%-9% p.a., 2011: 4%-10% p.a.))	64,438	89,763	225,451
Key management and their family members (contractual interest rate for term deposits: 2%-13% p.a. (2010: 1%-7% p.a., 2011: 1%-10% p.a.))	532	235	24
Subordinated debts			
State-owned entities[1] (contractual interest rate: 8% p.a. (2010: 6.5% p.a., 2011: 6.5% p.a.))	25,000	25,000	25,004
Off-balance sheet			
Sureties with state-owned banks[2]	35,059	—	—

(1) State-owned entities are referred to as state-controlled companies in the related party transactions note in the 2009 Financial Statements and 2010 Financial Statements.

(2) State-owned banks are referred to as state-controlled banks in the related party transactions note in the 2009 Financial Statements and 2010 Financial Statements.

The following table sets forth income and expense items with related parties for the years ended 31 December 2009, 2010 and 2011 prepared after the adoption of IAS 24 (Revised) by the RAB Group.

	For the year ended 31 December		
	2009	2010	2011
	(in millions of roubles)		
Interest income on loans and advances to customers			
State-owned entities[1]	3,907	3,458	3,040
Key management and their family members	2	1	—
Interest expense on customer accounts			
State-owned entities[1]	(11,814)	(5,169)	(10,765)
Key management and their family members	(47)	(36)	(11)
Interest expense on subordinated debts			
State-owned entities[1]	(2,000)	(1,867)	(1,621)

(1) State-owned entities are referred to as state-controlled companies in the related party transactions note in the 2009 Financial Statements and 2010 Financial Statements.

The total remuneration to the Management Board and the Chief Accountant amounted to 155 million roubles for the year ended 31 December 2009, 139 million roubles for the year ended 31 December 2010 and 113 million roubles for the year ended 31 December 2011, the components of which are set forth in the table below:

	As of and for the year ended 31 December					
	2009		2010		2011	
	Accrued liability	Remuneration paid	Accrued liability	Remuneration paid	Accrued liability	Remuneration paid
Short-term benefits						
Salary, social security costs and short-term bonuses included in salary	13	132	6	118	4	108
Post-employment benefits						
Defined contribution retirement scheme	—	9	—	14	—	—
State pension and social costs	—	1	—	1	—	1
Total	**13**	**142**	**6**	**133**	**4**	**109**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

During the years ended 31 December 2009, 2010 and 2011, the only transactions with the RAB Group's only shareholder were: an increase in share capital; dividends; and taxes paid.

Investment securities available for sale and investment securities held to maturity, included securities issued by the Russian Federation in the total amount of 5,811 million roubles as of 31 December 2009, 15,710 million roubles as of 31 December 2010 and 19,403 million roubles as of 31 December 2011. The interest income from these securities for the years ended 31 December 2009, 2010 and 2011 amounted to 420 million roubles, 532 million roubles and 1,042 million roubles, respectively.

THE ISSUER

Incorporation and Status

RSHB Capital S.A. was incorporated on 25 October 2005 as a Luxembourg société anonyme for an unlimited period of time under the laws of Luxembourg. The registered office of the Issuer is 46 A, Avenue J.F. Kennedy, L-1855, Grand Duchy of Luxembourg. The Issuer is registered with the Register of Commerce and Companies of Luxembourg with the registration number B.111.968. The articles of incorporation of the Issuer (the "**Articles of Incorporation**") were published in the Memorial Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations under Volume 369, page 17694 on 20 February 2006. The Issuer has been established as a special purpose vehicle for the purpose of, among others, making loans to RAB and issuing notes and has no subsidiaries.

Any person interested in inspecting the Articles of Incorporation may do so at the Register of Commerce and Companies of Luxembourg. The constitutional documents of the Issuer are available for inspection during normal office hours on any weekday (Saturdays, Sundays and public holidays excepted) at the specified offices of the Principal Paying Agent and Transfer Agent.

There have been no recent events which are relevant to the evaluation of the Issuer's solvency. There have been no governmental proceedings with respect to the Issuer.

The Issuer has been in operation since 25 October 2005.

Objects

The corporate objects of the Issuer, as set out in Article 3 of its Articles of Incorporation, include: the granting of loans or other forms of financing directly or indirectly by whatever means to RAB (e.g., including but not limited to, by subscription of bonds, debentures, other debt instruments, advances, the granting of pledges or the issuing of other guarantees of any kind to secure the obligations of RAB). The Issuer may finance itself in whatever form including, without being limited to, through borrowing or through issuance of listed or unlisted notes and other debt instruments (e.g., including but not limited to bonds, notes, loan participation notes and subordinated notes) including under stand alone issues, medium term note and commercial paper programmes. The Issuer may also grant security for funds raised, including notes and other debt instruments issued, and for the obligations of the Issuer and enter into all necessary agreements, including, but not limited to underwriting agreements, marketing agreements, management agreements, advisory agreements, administration agreements and other contracts for services, selling agreements, deposit agreements, fiduciary agreements, hedging agreements, interest and/or currency exchange agreements and other financial derivative agreements, bank and cash administration agreements, liquidity facility agreements, credit insurance agreements and any agreements creating any kind of security interest. In addition to the foregoing, the Issuer can perform all legal, commercial, technical and financial investments or operation and in general, all transactions which are necessary or useful to fulfil its objects as well as all operations connected, directly or indirectly, to facilitating the accomplishment of its purpose in all areas described above. Notwithstanding the foregoing, the Issuer will not enter into any transaction which would cause it to be engaged in any activity that would be a regulated activity of the financial sector.

Corporate Administration

The corporate services provider to the Issuer is TMF Luxembourg S.A. ("**TMF**"), who provides for the day to day administration of the Issuer, corporate services to the Issuer and acts as domiciliation agent under a domiciliation and administrative services agreement between the Issuer, its shareholders and TMF dated 28 November 2005 (the "**Domiciliation Agreement**"). The registered office of TMF is 46A, Avenue J.F. Kennedy, L-1855 Luxembourg and its business activities are to provide corporate services and act as a domiciliation agent.

Share Capital

The Issuer's share capital is €31,000 represented by 31 shares with a nominal value of €1,000 each, carrying one voting right in the general assembly. All shares are in registered form and have been fully paid. The shareholders of the Issuer are: Stichting RSHB 1, a foundation (Stichting) established under the laws of the Netherlands, registered with the Amsterdam Chamber of Commerce under number 3423 5255, having its statutory office in the Netherlands at Locatellikade 1, 1076 AZ, Amsterdam, holding 30 shares, and Stichting RSHB 2, a foundation (*Stichting*) established under the laws of the Netherlands, registered with the Amsterdam Chamber of Commerce under number 3423 5258, having its statutory office in the Netherlands at Locatellikade 1, 1076 AZ, Amsterdam, holding 1 share.

Directors

The Issuer has a board of directors, currently consisting of the following three directors:

- Florence Rao, with professional address at 46A, Avenue J.F. Kennedy, L-1855 Luxembourg;
- Martinus C.J. Weijermans, with professional address at 46A, Avenue J.F. Kennedy, L-1855 Luxembourg; and
- Jorge Perez Lozano, with professional address at 46A, Avenue J.F. Kennedy, L-1855 Luxembourg.

There are no potential conflicts of interest between any duties owed by any member of the board of directors of the Issuer and their private interests and/or other duties.

Auditors

The Issuer has appointed L'Alliance Révision SARL with registered office at 1, rue des Glacis, L-1628 Luxembourg, Grand Duchy of Luxembourg, as its independent auditor.

The Issuer's independent auditor is a member of the *Institut des Réviseurs d' Entreprises* and is a *cabinet de révision agréé* that is subject to the supervision of the *Commission de Surveillance du Secteur Financier*.

Financial Year

The Issuer's financial year runs from 1 January to 31 December.

The Issuer's financial statements prepared in accordance with IFRS and Luxembourg GAAP and audited by L'Alliance Révision SARL for the period commencing on 1 January 2009 and ending 31 December 2009 have been approved by the annual general meeting of the shareholders of the Issuer held on 4 June 2010. The Issuer's financial statements prepared in accordance with Luxembourg GAAP for the period commencing on 1 January 2009 and ending 31 December 2009 have been filed with the register of commerce and companies of Luxembourg on 10 June 2010.

The Issuer's financial statements prepared in accordance with IFRS and Luxembourg GAAP and audited by L'Alliance Révision SARL for the period commencing on 1 January 2010 and ending 31 December 2010 have been approved by the annual general meeting of the shareholders of the Issuer held on 3 March 2011. The Issuer's financial statements prepared in accordance with Luxembourg GAAP for the period commencing on 1 January 2010 and ending 31 December 2010 have been filed with the register of commerce and companies of Luxembourg on 7 March 2011.

The Issuer's financial statements prepared in accordance with IFRS and audited by L'Alliance Révision SARL for the period commencing on 1 January 2011 and ending 31 December 2011 have been approved by the annual general meeting of the shareholders of the Issuer held on 27 April 2012 and have been filed with the register of commerce and companies of Luxembourg on 11 May 2012. The Issuer has not prepared financial statements in accordance with Luxembourg GAAP for the period commencing on 1 January 2011 and ending 31 December 2011.

Any future published financial statements prepared by the Issuer in accordance with IFRS (in respect of the period ending on 31 December in each year) will be available during normal office hours on any weekday (Saturdays, Sundays and public holidays excepted) from the specified offices of the Principal Paying Agent in London.

The Issuer Financial Statements shall be deemed to be incorporated in, and to form part of, this Base Prospectus.

Authorisation

The update of the Programme was authorised by resolutions of the Board of Directors of the Issuer dated 10 May 2012.

SENIOR FACILITY AGREEMENT

The following is the text of the Senior Facility Agreement between the Issuer and the Borrower.

THIS AMENDED AND RESTATED SENIOR FACILITY AGREEMENT is made on 11 May 2012

BETWEEN:

(1) **RUSSIAN AGRICULTURAL BANK**, an open joint stock company established under the laws of the Russian Federation whose registered office is at 3 Gagarinsky Pereulok, Moscow 119034, Russian Federation ("**RAB**"); and

(2) **RSHB CAPITAL S.A.**, a public limited liability company (*société anonyme*) established under the laws of Luxembourg whose registered office is at 46 A, Avenue J.F. Kennedy, L-1855 Luxembourg, The Grand Duchy of Luxembourg and registered with the Register of Commerce and Companies of Luxembourg under number B.111.968 (the "**Lender**").

WHEREAS:

(A) The Lender has at the request of RAB agreed, pursuant to the Facility Agreement dated 5 May 2006 (the "**Original Facility Agreement**"), to make available to RAB a loan facility in the maximum amount of the Programme Limit on the terms and subject to the conditions of the Original Facility Agreement, as amended and supplemented in relation to each Senior Loan by a Senior Loan Supplement dated the Closing Date substantially in the form set out in the Schedule 1 hereto (each, a "**Senior Loan Supplement**").

(B) On 8 May 2007, the Original Facility Agreement was amended to reflect an increase in the Programme Limit to U.S.$3,000,000,000 or its equivalent in other currencies and to add Barclays Bank PLC as an additional Arranger (such amended Original Facility Agreement, the "**2007 Amended Facility Agreement**").

(C) On 8 May 2008, the 2007 Amended Facility Agreement was amended to reflect an increase in the Programme Limit in respect of the Programme to U.S.$5,000,000,000 or its equivalent in other currencies and authorised Goldman Sachs International to act as an additional Dealer under the Programme pursuant to RAB's authorisation of 8 May 2008, (such amended 2007 Amended Facility Agreement, the "**2008 Amended Facility Agreement**") both of which came into effect on 8 May 2008.

(D) On 2 June 2009, the 2008 Amended Facility Agreement was amended to reflect an increase in the Programme Limit to U.S.$7,000,000,000 or its equivalent in other currencies, pursuant to RAB's authorisation of 7 April 2009 (such amended 2008 Amended Facility Agreement, the "**2009 Amended Facility Agreement**"). The aggregate principal amount of Notes outstanding will not at any time exceed the Programme Limit.

(E) On 29 June 2010, the Programme was amended to allow for the issue of Notes in bearer form and the Programme Limit was increased to U.S.$10,000,000,000 or its equivalent in other currencies, pursuant to RAB’s authorisation of 20 April 2010.

(F) On 29 June 2010, the 2009 Amended Facility Agreement was amended and restated (such amended and restated agreement, the "**2010 Amended Facility Agreement**").

(G) On 17 May 2011, the Programme was amended and restated (such amended and restated agreement, the "**2011 Amended Facility Agreement**"), to allow for the issue of a Series of Notes to enable the Lender to make available to RAB on request senior and subordinated loan facilities, such senior loan facilities to be made available on the terms and subject to the conditions of the 2011 Amended Facility Agreement, as amended and supplemented in relation to each Senior Loan (as defined therein) by the relevant Senior Loan Supplement.

(H) On 11 May 2012, the Programme was amended to reflect the removal of Barclays Bank PLC, Deutsche Bank AG, London Branch, Commerzbank Aktiengesellschaft, Goldman Sachs International, HSBC Bank plc, The Royal Bank of Scotland plc and UBS Limited as Dealers under the Programme and an increase in the Programme Limit to U.S.$15,000,000,000 or its equivalent in other currencies.

(I) This Agreement (the "**Agreement**") amends and restates the 2011 Amended Facility Agreement.

(J) It is intended that, concurrently with the extension of any Senior Loan (as defined below) under this amended and restated Senior Facility Agreement, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Senior Loan.

NOW IT IS HEREBY AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

"**Account**" means an account in the name of the Lender as specified in the relevant Senior Loan Supplement.

"**Affiliates**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control by such specified Person. 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 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.

"**Arranger**" means J.P. Morgan Securities Ltd. or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

"**Auditors**" means the independent auditors of RAB's IFRS financial statements (consolidated if the same are then prepared) 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 nominated by RAB and approved in writing by the Lender for this purpose.

"**Broken Amount**" has the meaning assigned to such term in the relevant Senior Loan Supplement.

"**Business Day**" means (save in relation to Clause 4) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating and (d) in relation to a Senior Loan corresponding to a Series of Notes to be sold pursuant to Rule 144A under the Securities Act, banks and foreign exchange markets are open for business generally in New York City.

"**Business Day Convention**" has the meaning assigned to such term in the relevant Senior Loan Supplement.

"**Calculation Agent**" means, in relation to a Senior Loan, The Bank of New York Mellon or any person named as such in the relevant Senior Loan Supplement or any successor thereto.

"**CCLB**" means Chelyabinskiy Commercial Land Bank, a subsidiary of RAB.

"**Change of Control**" means the Federal Agency for State Property Management, formerly the Federal Agency for Federal Property Management, of the Russian Federation and/or any other federal state authorities appropriately authorised to hold the shares of RAB (i) ceasing to own or control (directly or indirectly) at least 50 per cent. plus one share of the issued and outstanding voting share capital of RAB; or (ii) together no longer having the right to appoint or remove a majority of RAB's supervisory board.

"**Change of Control Payment Date**" means the Business Day falling 90 days after RAB gives notice to the Lender of a Change in Control pursuant to Clause 5.4.

"**Closing Date**" means the date specified as such in the relevant Senior Loan Supplement.

"**Conditions**" has the meaning ascribed to it in the Trust Deed.

"**Day Count Fraction**" has the meaning specified in Clause 4.9.

"**Dealer Agreement**" means the amended and restated dealer agreement relating to the Programme dated 11 May 2012 between the Lender, RAB, the Arranger and the other dealers named therein or appointed pursuant to it, as may be further amended or supplemented from time to time.

"**Dollars**" and "**U.S.$**" means the lawful currency of the United States of America.

"**Encumbrance**" means any mortgage, charge, pledge, lien (other than a lien arising solely by operation of law which is discharged within 90 days of arising) or other security interest securing any obligation of any Person or any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

"**euro**" or "**€**" means the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

"**Event of Default**" has the meaning assigned to such term in Clause 11.1 hereof.

"**Financial Indebtedness**" means any obligation for the payment of money in any currency, whether sole, joint or several, and whether actual or contingent, in respect of:

(a) moneys borrowed or raised (including the capitalised value of obligations under financial leases and hire purchase agreements which would, in accordance with IFRS, be treated as finance or capital leases, but excluding moneys raised by way of the issue of share capital (whether or not for a cash consideration) and any premium on such share capital) and interest and other charges thereon or in respect thereof;

(b) any liability under any debenture, bond, note, loan stock or other security or under any acceptance or documentary credit, bill discounting or note purchase facility or any similar instrument;

(c) any liability in respect of the deferred acquisition cost of property, assets or services to the extent payable after the time of acquisition or possession thereof by the party liable, but not including any such liability in respect of normal trade credit for a period not exceeding six months for goods or services supplied;

(d) any liability under any interest rate or currency hedging agreement (and the amount for such Financial Indebtedness in relation to any such transaction shall be calculated by reference to the mark-to-market valuation of such transaction (if it shows a sum owed to the counterparty of RAB or any Subsidiary), at the relevant time);

(e) any liability under or in respect of any bonding facility, guarantee facility or similar facility; and

(f) (without double counting) any guarantee or other assurance against financial loss in respect of such moneys borrowed or raised, interest, charges or other liability (whether the person liable in respect of such moneys borrowed or raised, interest, charges or other liability is or is not a member of the RAB Group).

"**Fixed Amount**" has the meaning specified in the relevant Senior Loan Supplement.

"**Fixed Rate Senior Loan**" means a Senior Loan specified as such in the relevant Senior Loan Supplement.

"**Floating Rate Senior Loan**" means a Senior Loan specified as such in the relevant Senior Loan Supplement.

"**Group**" means RAB and its consolidated Subsidiaries from time to time taken as a whole and a member of the RAB Group means any of RAB or any of its consolidated Subsidiaries from time to time.

"**IAS34**" means International Accounting Standard 34, Interim Financial Reporting ("IAS34") issued by the IASB;

"**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).

"**IFRS Fiscal Period**" means any fiscal period for which the RAB Group has produced financial statements in accordance with IFRS which have either been audited or reviewed by independent accountants of recognised international standing.

"**Independent Appraiser**" means any third party appraiser of international standing selected by RAB and approved by the Lender, **provided however that** such Independent Appraiser is not an Affiliate of any member of the RAB Group.

"**Interest Payment Date**" means the dates specified as such in the relevant Senior Loan Supplement, or, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.3 and 5.4, the date set for such redemption in respect of the Senior Loan to be redeemed.

"**Interest Period**" means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date.

"**Lead Manager(s)**" means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement.

"**Lender Agreements**" means the Dealer Agreement, this Agreement, the Paying Agency Agreement, the Principal Trust Deed and together with, in relation to each Senior Loan, the relevant Subscription Agreement, Senior Loan Supplement and Supplemental Trust Deed.

"**Luxembourg**" means The Grand Duchy of Luxembourg.

"**Margin**" has the meaning specified in the relevant Senior Loan Supplement.

"**Material Adverse Effect**" means a material adverse effect on (a) the financial condition or operations of RAB or of RAB and any of its Material Subsidiaries taken as a whole, (b) RAB's ability to perform its obligations under a Senior Loan Agreement, or (c) the validity, legality or enforceability of a Senior Loan Agreement, or the rights or remedies of the Lender under a Senior Loan Agreement.

"**Material Subsidiary**" means at any relevant time a Subsidiary of RAB:

(i) which, for the most recent IFRS Fiscal Period, accounted for more than 5 per cent. of the consolidated revenues of the RAB Group; or which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 5 per cent. of the consolidated assets of the RAB Group, each as set forth in the most recent available consolidated financial statements of the RAB Group for such IFRS Fiscal Period (with effect from the date of issuance of such statements); or

(ii) to which are transferred substantially all of the assets and undertakings of a Subsidiary of RAB which immediately prior to such transfer was a Material Subsidiary (with effect from the date of such transaction).

"**Maximum Rate of Interest**" has the meaning specified in the relevant Senior Loan Supplement.

"**Minimum Rate of Interest**" has the meaning specified in the relevant Senior Loan Supplement.

"**Noteholders**" means the several persons who are for the time being holders of outstanding Notes, being, in the case of Global Notes and Bearer Notes, the bearers thereof and, in the case of Registered Notes, the several persons in whose names such Notes are registered in the Register of the Noteholders and in the Issuer's Register (or in the case of joint holders, the first named holder thereof); and the words "**holder**" and "**holders**" and related expressions shall (where appropriate) be construed accordingly.

"**Notes**" means the loan participation notes that may be issued from time to time by the Lender (in its capacity as Issuer) under the Programme in Series, each Series corresponding to a Senior Loan (and relating to a Senior Loan as defined in the relevant Senior Loan Supplement) or a Subordinated Loan as defined or referred to under the Subordinated Loan Agreement, as the case may be.

"**Officer's Certificate**" means a certificate signed by an officer of RAB who shall be the principal executive officer, principal accounting officer or principal financial officer of RAB.

"**Opinion of Counsel**" means a written opinion from international legal counsel as reasonably selected by RAB with the written consent of the Lender, such consent not to be unreasonably withheld or delayed.

"**Paying Agency Agreement**" means the amended and restated paying agency agreement relating to the Programme dated 11 May 2012, as may be further amended or supplemented from time to time between the Lender, RAB, the Trustee and the agents named therein.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Potential Event of Default**" means any event which, after notice or passage of time or both, would be an Event of Default.

"**Principal Trust Deed**" means the amended and restated principal trust deed relating to the Programme dated 11 May 2012 between the Lender and the Trustee, as may be amended or supplemented from time to time.

"**Programme**" means the programme for the issuance of loan participation notes of the Lender.

"**Programme Limit**" means U.S.$15,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement.

"**Prospectus**" has the meaning ascribed to it in the Dealer Agreement.

"**Put Option**" means the put option granted to Noteholders pursuant to the Conditions.

"**RAB Account**" means an account in the name of RAB as specified in the relevant Senior Loan Supplement for receipt of Senior Loan funds.

"**RAB Group**" means RAB and its Subsidiaries from time to time taken as a whole and a member of the RAB Group means any of RAB or any of its Subsidiaries from time to time.

"**Rate of Interest**" has the meaning assigned to such term in the relevant Senior Loan Supplement.

"**Relevant Indebtedness**" means any Financial Indebtedness which (a) is in the form of or represented by any bond, note, debenture stock, loan stock, certificate or other debt instrument which is listed or quoted on any stock exchange; and (b) was initially offered and distributed (as to more than 50 per cent. of the original principal amount of such debt) outside the Russian Federation.

"**Relevant Time**" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time.

"**Repayment Date**" means the date specified as such in the relevant Senior Loan Supplement.

"**Roubles**" or "**RUB**" means the lawful currency from time to time of the Russian Federation.

"**Same-Day Funds**" means funds for payment, in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby.

"**Senior Loan**" means each senior loan to be made pursuant to, and on the terms specified in this Agreement and the relevant Senior Loan Supplement, and includes each Fixed Rate Senior Loan and Floating Rate Senior Loan;

"**Senior Loan Agreement**" means this Agreement and (unless the context requires otherwise), in relation to a Senior Loan, means this Agreement as amended and supplemented by the relevant Senior Loan Supplement;

"**Senior Loan Supplement**" has the meaning assigned to it in Recital (G).

"**Series**" means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

"**Specified Currency**" means the currency specified as such in the relevant Senior Loan Supplement.

"**Sterling**" means the lawful currency of the United Kingdom.

"**Subordinated Loan**" means each loan to be made pursuant to, and on the terms specified in, the Subordinated Loan Agreement;

"**Subordinated Loan Agreement**" means a subordinated loan agreement between the Issuer and RAB to be entered into in relation to each Subordinated Loan.

"**Subscription Agreement**" means the agreement specified as such in the relevant Senior Loan Supplement and made substantially in the form set out in the Dealer Agreement.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"): (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; and (ii) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first Person; save that no second Person shall be deemed to be a Subsidiary if such second Person has become a Subsidiary of the Borrower solely as a result of any action, enforcement of security, collateral, compromise or settlement, or any similar circumstances following a default by a debtor of RAB in respect of any amount owed by such debtor to RAB;

"**Supplemental Trust Deed**" means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 10 of the Principal Trust Deed).

"**Swiss Francs**" means the lawful currency of Switzerland.

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereof.

"**Taxes**" means any taxes (including interest or penalties thereon) which are now or at any time hereafter imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation, Luxembourg or any taxing authority thereof or therein **provided**, **however**, **that** for the purposes of this definition the references to Luxembourg shall, upon the occurrence of the Relevant Event (as this term is defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is domiciled for tax purposes; and the term "**Taxation**" shall be construed accordingly.

"**Trust Deed**" means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Senior Loan Supplement.

"**Trustee**" means BNY Mellon Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder.

"**Warranty Date**" means the date hereof, the date of each Senior Loan Supplement, each Closing Date, each date on which the Prospectus or any of the Lender Agreements is amended, supplemented or replaced and each date on which the Programme Limit is increased.

1.2 **Other Definitions**

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the Notes, the Paying Agency Agreement, the Dealer Agreement or the relevant Senior Loan Supplement shall have the meanings assigned to such terms therein.

1.3 **Interpretation**

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 All references to "Clause" are references to a clause of this Agreement.

1.3.2 The terms "hereof", "herein" and "hereunder" and other words of similar import shall mean the relevant Senior Loan Agreement as a whole and not any particular part hereof.

1.3.3 Words importing the singular number include the plural and vice versa.

1.3.4 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

1.3.5 All references to "this Agreement" or any other document are to this Agreement or that document as amended, supplemented or replaced from time to time in relation to the Programme and include any document that amends, supplements or replaces it.

1.4 **Amendment and Restatement**

The parties hereto agree that this Agreement amends and restates the 2011 Amended Facility Agreement. Any Senior Loans made on or after the date hereof shall have the benefit of this Agreement. The amendments set out herein do not affect any Loans made prior to the date of this Agreement which shall be subject to the Original Facility Agreement, the 2007 Amended

Facility Agreement, the 2008 Amended Facility Agreement, the 2009 Amended Facility Agreement, the 2010 Amended Facility Agreement or the 2011 Amended Facility Agreement, as the case may be.

2. SENIOR LOANS

2.1 Senior Loans

On the terms and subject to the conditions of this Agreement and, as the case may be, each Senior Loan Supplement, the Lender hereby agrees to make available to RAB Senior Loans (the "**Facility**") in principal amounts which, when aggregated with the principal amounts advanced under any Subordinated Loan Agreement, will not exceed the total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Senior Loan will be used for general corporate purposes (unless otherwise specified in the relevant Senior Loan Supplement), but the Lender shall not be concerned with the application thereof.

2.3 Separate Senior Loans

It is agreed that with respect to each Senior Loan, all the provisions of this Agreement and the Senior Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Senior Loan and the expressions "**Account**", "**Closing Date**", "**Day Count Fraction**", "**Interest Payment Dat**e", "**Senior Loan Agreement**", "**Notes**", "**Rate of Interest**", "**Repayment Date**", "**Specified Currency**", "**Subscription Agreement**" and "**Trust Deed**", together with all other terms that relate to such a Senior Loan shall be construed as referring to those of the particular Senior Loan in question and not of all Senior Loans unless expressly so provided, so that each such Senior Loan shall be made pursuant to this Agreement and the relevant Senior Loan Supplement, together comprising the Senior Loan Agreement in respect of such Senior Loan and that, unless expressly provided, events affecting one Senior Loan shall not affect any other.

3. DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions of this Agreement and, as the case may be, each Senior Loan Supplement, the Lender shall make a Senior Loan to RAB on the Closing Date thereof and RAB shall make a single drawing in the full amount of such Senior Loan.

3.2 Facility Fee

In connection with a Senior Loan, RAB shall no later than one Business Day prior to the relevant Closing Date, or as otherwise agreed by RAB and the Lender, pay to the Lender (a) a fee in connection with the arrangement of a Senior Loan and (b) payment of certain costs and expenses relating to the arrangement of a Senior Loan (together, the "**Facility Fee**") as set out in a fees and expenses side letter (the "**Fees and Expenses Side Letter**") between the Lender, RAB and the other parties thereto. The total amount of the Facility Fee is to be as specified in the relevant Senior Loan Supplement.

3.3 Disbursement

Subject to the conditions set forth in this Agreement and, as the case may be, each Senior Loan Supplement, the Lender shall transfer the full amount of the relevant Senior Loan on the relevant Closing Date to the RAB Account specified in the relevant Senior Loan Supplement.

3.4 Ongoing Fees and Expenses

In consideration of the Lender (i) agreeing to make Senior Loans to RAB, and (ii) making available the Facility, RAB shall pay on demand to the Lender each year all ongoing commissions (which include costs incurred by the Issuer in connection therewith) as set forth to RAB in an invoice from the Lender.

4. **INTEREST**

4.1 **Rate of Interest for Fixed Rate Senior Loans**

Each Fixed Rate Senior Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Senior Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Senior Loan Supplement.

4.2 **Payment of Interest for Fixed Rate Senior Loans**

Interest at the Rate of Interest shall accrue on each Fixed Rate Senior Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid by RAB to the Lender in arrear not later than 10.00 a.m. (Relevant Time) (i) one New York Business Day prior to each Interest Payment Date (if the Specified Currency is U.S.$), (ii) one Brussels, Zurich or London Business Day prior to each Interest Payment Date (if the Specified Currency is euro, Swiss Francs or Sterling, respectively), (iii) two Moscow Business Days prior to each Interest Payment Date (if the Specified Currency is Roubles) or (iv) such number of Business Days prior to each Interest Payment Date if the Specified Currency is a currency other than those specified in the preceding clauses (i), (ii) and (iii) such that the Lender will be able to make the relevant payment on the Interest Payment Date under the Trust Deed.

4.3 **Interest for Floating Rate Senior Loans**

4.3.1 ***Interest Payment Dates***

Each Floating Rate Senior Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, such interest shall be paid by RAB to the Lender in arrear not later than 10.00 a.m. (Relevant Time) (i) one New York Business Day prior to each Interest Payment Date, (if the Specified Currency is U.S.$) (ii) one Brussels, Zurich or London Business Day prior to each Interest Payment Date (if the Specified Currency is euro, Swiss Francs or Sterling respectively), (iii) two Moscow Business Days prior to each Interest Payment Date (if the Specified Currency is Roubles) or (iv) such number of Business Days prior to each Interest Payment Date if the Specified Currency is a currency other than those specified in the preceding clauses (i), (ii) and (iii) such that the Lender will be able to make the relevant payment on the Interest Payment Date under the Trust Deed. Such Interest Payment Date(s) is/are either shown in the relevant Senior Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Senior Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Senior Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 ***Business Day Convention***

If any date referred to in the relevant Senior Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 ***Rate of Interest for Floating Rate Senior Loans***

The Rate of Interest in respect of Floating Rate Senior Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Senior Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Senior Loan Supplement.

(i) *ISDA Determination for Floating Rate Senior Loans*

Where ISDA Determination is specified in the relevant Senior Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this subparagraph (i), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(a) the Floating Rate Option is as specified in the relevant Senior Loan Supplement;

(b) the Designated Maturity is a period specified in the relevant Senior Loan Supplement; and

(c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Senior Loan Supplement.

For the purposes of this subparagraph (i), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(ii) *Screen Rate Determination for Floating Rate Senior Loans*

(x) Where Screen Rate Determination is specified in the relevant Senior Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(a) if the Reference Rate is a composite quotation or customarily supplied by one entity, the offered quotation; or

(b) in any other case, the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at the Reference Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Senior Loan Supplement) the Margin (if any), all as determined by the Calculation Agent. If five or more of such offered quotations are available on the

Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Senior Loans is specified hereon as being other than LIBOR, EURIBOR or MOSPRIME, the Rate of Interest in respect of such Floating Rate Senior Loans will be determined in the relevant Senior Loan Supplement.

(y) if the Relevant Screen Page is not available or if, subparagraph (x)(a) applies and no such offered quotation appears on the Relevant Screen Page or if subparagraph (x)(b) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the Reference Time, subject as provided below, the Calculation Agent shall request the principal Relevant Financial Centre office of each of the Reference Banks to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Reference Time on the Interest Determination Date in question to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Reference Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the Relevant Financial Centre inter-bank market, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which at approximately the Reference Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Lender suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in the Relevant Financial Centre inter-bank market, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

4.4 **Accrual of Interest**

Interest shall cease to accrue on each Senior Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the applicable Rate of Interest to but excluding the date on which payment in full of the principal thereof is made.

4.5 **Margin, Maximum/Minimum Rates of Interest and Rounding**

4.5.1 If any Margin is specified in the relevant Senior Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Senior Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Senior Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 **Calculations**

The amount of interest payable in respect of any Senior Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Senior Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Senior Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Senior Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 **Determination and Notification of Rates of Interest and Interest Amounts**

The Calculation Agent shall, as soon as practicable on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of such Floating Rate Senior Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to RAB, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Senior Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3.2, the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of RAB and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Senior Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Senior Loan shall nevertheless continue to be calculated as previously in accordance with this Clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 **Determination or Calculation by Trustee**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Senior Loan, the Lender and RAB agree that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability in respect of such determination or calculation.

4.9 **Definitions**

In this Clause 4, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Business Day**" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a "**TARGET Business Day**").

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "**Calculation Period**"):

(i) if **Actual/Actual** or **Actual/Actual - ISDA** is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if **Actual/365 (Fixed)** is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 365;

(iii) if **Actual/360** is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 360;

(iv) if **30/360**, **360/360** or Bond Basis is specified in the relevant Senior Loan Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360\text{x}(Y_2 - Y_1)] + [30\text{x}(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

$\mathbf{Y_1}$ is the year, expressed as a number, in which the first day of the Calculation Period falls;

$\mathbf{Y_2}$ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$\mathbf{M_1}$ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

$\mathbf{M_2}$ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if **30E/360** or **Eurobond Basis** is specified in the relevant Senior Loan Supplement, the number of days in the Calculation Period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360\text{x}(Y_2 - Y_1)] + [30\text{x}(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

(vi) if **30E/360 (ISDA)** is specified in the relevant Senior Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360\text{x}(Y_2 - Y_1)] + [30\text{x}(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30; and

(vii) if **Actual/Actual ICMA** is specified in the relevant Senior Loan Supplement:

(i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(ii) if the Calculation Period is longer than one Determination Period, the sum of:

(1) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(2) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year;

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date specified in the relevant Senior Loan Supplement or, if none is so specified, the Interest Payment Date.

"**EURIBOR**" means the Euro-zone inter-bank offered rate.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means the amount of interest payable, and in the case of Fixed Rate Senior Loans, means the Fixed Amount or Broken Amount, as the case may be.

"**Interest Commencement Date**" means the Closing Date or such other date as may be specified in the relevant Senior Loan Supplement.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Senior Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the relevant Senior Loan Supplement.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Senior Loan Supplement.

"**LIBOR**" means the London inter-bank offered rate.

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Russia under which the payment of interest by Russian borrowers to lenders in the jurisdiction in which the Lender is incorporated is generally able to be made without deduction or withholding of Russian income tax upon completion of any necessary formalities required in relation thereto.

"**Reference Banks**" means the principal office of four major banks in the Relevant Financial Centre inter-bank market.

"**Reference Rate**" means the rate specified as such in the relevant Senior Loan Supplement.

"**Reference Time**" means (i) if the Reference Rate is LIBOR, 11.00 a.m. (London time); (ii) if the Reference Rate is EURIBOR, 11.00 a.m. (Brussels time); (iii) if the Reference Rate is MOSPRIME, 3.00 p.m. (Moscow time); and (iv) in any other case, the time specified as such in the relevant Senior Loan Supplement.

"**Relevant Financial Centre**" means (i) if the Reference Rate is LIBOR, London; (ii) if the Reference Rate is EURIBOR, the Euro-zone; (iii) if the Reference Rate is MOSPRIME, Moscow; and (iv) in any other case, the place specified as such in the relevant Senior Loan Supplement.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Senior Loan Supplement.

4.10 **Calculation Agent**

The Lender shall procure that there shall at all times be specified one or more Calculation Agents if provision is made for them herein and for so long as any amount remains outstanding under a Senior Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Senior Loan, references in the relevant Senior Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Senior Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of RAB) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Both RAB and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Paying Agency Agreement in relation to each particular Series.

5. **REPAYMENT AND PREPAYMENT**

5.1 **Repayment**

Except as otherwise provided herein and in the applicable Senior Loan Supplement, RAB shall repay each Senior Loan not later than 10.00 a.m. (Relevant Time) (i) one New York Business Day prior to the Repayment Date therefor, (if the Specified Currency is U.S.$) (ii) one Brussels, Zurich or London Business Day prior to the Repayment Date therefor (if the Specified Currency is euro, Swiss Francs or Sterling respectively), (iii) two Moscow Business Days prior to the Repayment Date therefor (if the Specified Currency is Roubles) or (iv) such number of Business Days prior to the Repayment Date therefor if the Specified Currency is a currency other than those specified in the preceding clauses (i), (ii) and (iii) such that the Lender will be able to make the relevant payment on the Interest Payment Date under the Trust Deed.

5.2 **Special Prepayment for Tax Reasons or Change in Circumstances**

If, as a result of the application of or any amendment or clarification to, or change (including a change in interpretation or application) in, the double tax treaty between the Russian Federation and Luxembourg or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein, RAB would thereby be required to make or increase any payment due pursuant to any Senior Loan Agreement as provided in Clauses 6.2 or 6.3, or if (for whatever reason) RAB would have to or has been required to pay additional amounts pursuant to Clause 8, and such additional amounts cannot be avoided by RAB taking reasonable measures available to it, then RAB may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the relevant Senior Loan in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Senior Loan, or at any time, in the case of a Fixed Rate Senior Loan.

5.3 **Illegality**

If, at any time after the date of the relevant Senior Loan Supplement, by reason of the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any Agency of any state the Lender reasonably determines (such determination being accompanied, if so requested by RAB, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by RAB) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender, as the case may be, to allow all or part of the relevant Senior Loan or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Senior Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Senior Loan, as the case may be, then upon notice by the Lender to RAB in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), RAB and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; **provided**, **however**, **that** the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified RAB. If such a basis has not been determined within the 30 days, then upon notice by the Lender to RAB in writing, RAB shall prepay such Senior Loan in whole (but not in part) on the next Interest Payment Date therefor, in the case of a Floating Rate Senior Loan, or, in the case of a Fixed Rate Senior Loan, on such date as the Lender shall certify to be necessary to comply with such requirements, subject to the right of the Lender to require prepayment earlier than set out in this Clause to the extent that any applicable grace periods permitted by law would otherwise be exceeded.

5.4 **Prepayment in the Event of Change of Control**

5.4.1 If, following a Change of Control, any Noteholder has exercised its Put Option, RAB shall on the Change of Control Payment Date, prepay the principal amount of the relevant Senior Loan in an amount which corresponds to the aggregate principal amount of the corresponding Series of Notes in relation to which the Put Option has been duly exercised in accordance with the Conditions of such Series of Notes.

5.4.2 Promptly, and in any event within ten calendar days after the date of any Change of Control, RAB shall deliver to the Lender a written notice in the form of an Officer's Certificate, which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control.

5.4.3 The Lender shall notify RAB not more than three Business Days after receipt of notice thereof from the Paying Agent, the amount of each relevant Senior Loan to be prepaid as a consequence of the exercise of the Put Option by any Noteholder.

5.4.4 For the avoidance of doubt, this Clause 5.4 may be disapplied under the terms of the relevant Senior Loan Supplement.

5.5 **Reduction of a Senior Loan Upon Redemption and Cancellation of Corresponding Notes**

RAB or any Subsidiary of RAB may from time to time, in accordance with the Conditions of the Notes and to the extent permitted by applicable law, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that an amount of Notes has been surrendered to the Lender for cancellation by RAB or any of RAB's Subsidiaries and cancelled, the relevant Senior Loan shall be deemed to have been prepaid by RAB in an amount corresponding to the aggregate principal amount of the Notes surrendered to the Lender for cancellation, together with accrued interest and other amounts (if any) thereon and no further payment shall be made or required to be made by RAB in respect of such amounts.

5.6 **Payment of Other Amounts**

If a Senior Loan is to be prepaid by RAB pursuant to any of the provisions of Clauses 5.2, 5.3, 5.4 or pursuant to the terms of the relevant Senior Loan Agreement, RAB shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual receipt of payment by the Lender and all other sums payable by RAB pursuant to the relevant Senior Loan Agreement.

5.7 **Provisions Exclusive**

RAB may not voluntarily prepay or repay any Senior Loan except in accordance with the express terms of the relevant Senior Loan Agreement. Any amount prepaid or repaid may not be reborrowed under such Senior Loan Agreement.

6. **PAYMENTS**

6.1 **Making of Payments**

All payments of principal and interest to be made by RAB under each Senior Loan Agreement shall be made to the Lender not later than 10.00 a.m. (Relevant Time) (i) one New York Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) (if the Specified Currency is U.S.$), (ii) one Brussels, Zurich and London Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) (if the Specified Currency is euro, Swiss Francs or Sterling respectively), (iii) two Moscow Business Days prior to each Interest Payment Date or the Repayment Date (as the case may be) (if the Specified Currency is Roubles) or (iv) such number of Business Days prior to each Interest Payment Date or the Repayment Date (as the case may be) if the Specified Currency is a currency other than those specified in the preceding clauses (i), (ii) and (iii) such that the Lender will be able to make the relevant payment on the date on which it is due under the Trust Deed, in each case in Same-Day Funds to the relevant Account. The Lender agrees with RAB that it will not deposit any other monies into such Account and will not withdraw any amounts from such Account other than as provided for and in accordance with the Trust Deed and Paying Agency Agreement.

6.2 **No Set-Off, Counterclaim or Withholding; Gross-Up**

All payments to be made by RAB under or in respect of each Senior Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction or withholding for or on account of any Taxes imposed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a "**Taxing Authority**") within Russia or Luxembourg. If the Lender or RAB becomes subject at any time to any taxing jurisdiction other than or in addition to Russia or Luxembourg, as the case may be, references in this Clause shall be construed as references to Russia and/or Luxembourg and/or such other jurisdiction. If RAB shall be required by applicable law to make any deduction or withholding from any payment of principal or interest under a Senior Loan Agreement for or on account of any such Taxes, referred to in this Clause 6.2 it shall increase any payment due under such Senior Loan Agreement to such amount as may be necessary to ensure that the Lender receives a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant Taxing Authorities for the relevant amount of such Taxes so withheld or deducted 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 pays any amount in respect of such Taxes, RAB shall increase the amount payable to the Lender accordingly in the Specified Currency for such payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to the obligations of the Lender pursuant to Clauses 10.5.1 and 10.5.3. This Clause 6.2 shall not apply to any taxes on income payable by the holder.

6.3 **Withholding on Notes**

If the Lender notifies RAB (setting out in reasonable detail the nature and extent of the obligation with such evidence as RAB may reasonably require and upon the request of RAB, providing an Opinion of Counsel in respect of the existence of such obligation) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of a Series of Notes in circumstances where the Lender, subject to receipt thereof, is required to pay additional amounts pursuant to Condition 8 (*Taxation*) of such Series of Notes, RAB agrees to pay to the Lender, not later than 10.00 a.m. (Relevant Time) (i) one New York Business Day prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be), (if the Specified Currency is U.S.$) (ii) one Brussels, Zurich or London Business Day prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be), (if the Specified Currency is euro, Swiss Francs or Sterling respectively) (iii) two Moscow Business Days prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be) (if the Specified Currency is Roubles) or (iv) such number of Business Days prior to the date on which payment is due to the Noteholders of such Series or such other party (as the case may be) if the Specified Currency is a currency other than those specified in the preceding clauses (i), (ii) and (iii) such that the Lender will be able to make the relevant payment on the date on which it is due under the Trust Deed, in each case in Same-Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to the terms of Condition 8 of such Series of Notes or otherwise **provided**, **however**, **that** the Lender shall procure that immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Noteholders of such Series or such other party, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, pay such additional amounts to RAB (it being understood that neither the Lender, nor the Principal Paying Agent and Transfer Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other party is entitled to such additional amount).

Any notification by the Lender to RAB in connection with this Clause 6.3 shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

For the avoidance of doubt, the provisions of this Clause 6.3 shall not apply to any withholding or deduction of Taxes with respect to the Senior Loan which are subject to payment of Additional Amounts under Clause 6.2.

6.4 **Reimbursement**

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which RAB has made a payment pursuant to this Clause 6, the Lender shall pay promptly to RAB so much of the benefit received as will leave the Lender in exactly the same position as it would have been had no additional amount been required to be paid by RAB pursuant to this Clause 6; **provided**, **however**, **that** the question of whether any such benefit has been received, and accordingly, whether any payment should be made to RAB, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender **provided that** the Lender shall notify RAB promptly upon determination that it has received any such benefit.

If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by Russia or Luxembourg (i) such tax is deducted or withheld by RAB and pursuant to this Clause 6 an increased amount is paid by RAB to the Lender in respect of such deduction or withholding and (ii) following the deduction or withholding of tax as referred to above the Lender applies to the relevant Russian or Luxembourg tax authorities for a tax refund and such tax refund is credited by the Russian or Luxembourg tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify RAB of the receipt of such tax refund and (upon instructions by RAB) promptly transfer the entire amount of the tax refund to a bank account of RAB specified for that purpose by RAB.

6.5 **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 RAB to make any deduction, withholding or payment as described in Clauses 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or RAB'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 both 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. RAB agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause.

6.6 **Lender Notification**

The Lender agrees promptly, upon becoming aware thereof, to notify RAB if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or if any of the representations set forth in Clause 9.2 (*Lender's Representations and Warranties*) are no longer true and correct.

7. **CONDITIONS PRECEDENT**

7.1 **Documents to be Delivered**

The obligation of the Lender to make each Senior Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in Clauses 14.10.7 and 14.10.8 hereof have agreed to receive process in the manner specified therein.

7.2 **Further Conditions**

The obligation of the Lender to make each Senior Loan shall be subject to the further conditions precedent that as of the relevant Closing Date the Lender shall have received in full the amount referred to in Clauses 3.2 and 3.4, if due and payable, above, as specified in the relevant Senior Loan Supplement.

8. **CHANGE IN LAW OR INCREASE IN COST**

8.1 **Compensation**

In the event that after the date of a Senior Loan Agreement there is any change in or introduction of any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof, which:

8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal or interest on such Senior Loan or any other amount payable under such Senior Loan Agreement (other than any Taxes payable by the Lender on its overall net income, capital gains or any Taxes referred to in Clauses 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal or interest on such Senior Loan or any other amount payable under such Senior Loan Agreement (other than any such increase or change which arises by reason of any increase in the rate of tax payable by the Lender on its overall net income, capital gains or as a result of any Taxes referred to in Clauses 6.2 or 6.3); or

8.1.3 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 the Lender; **provided,**

however, that the foregoing shall not include any increase in the rate of tax payable on the overall net income or capital gains 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

8.1.4 imposes or will impose on the Lender any other condition affecting such Senior Loan Agreement or such Senior Loan,

and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining such Senior Loan is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender under such Senior Loan Agreement is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from RAB hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of such Senior 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 RAB, together with a certificate signed by two directors of the Lender or by any person empowered by the authorised signatories of the Lender on behalf of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and describing 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 providing all relevant reasonable supporting documents describing such matters; and

(b) RAB, in the case of clauses (i) and (iii) above, shall within 30 days of receiving a written demand from 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 Clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return,

provided however, **that** the amount of such increased cost, reduced amount or payment made or foregone shall be deemed not to exceed an amount equal to the proportion which is directly attributable to this Agreement, and **provided**, **further**, **that** the Lender will not be entitled to such additional amount where such reduction, payment or foregone interest or other return arises as a result of the gross negligence or wilful default of the Lender, and **provided that** this Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 6.2 or 6.3.

8.2 **Mitigation**

In the event that the Lender becomes entitled to make a claim pursuant to Clause 8.1, the Lender shall consult in good faith with RAB 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, RAB's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 8.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless RAB agrees to reimburse the Lender such costs or expenses.

9. **REPRESENTATIONS AND WARRANTIES**

9.1 **RAB's Representations and Warranties**

RAB does, and on each Warranty Date (unless expressly stated otherwise) shall be deemed to, represent and warrant to the Lender as follows, with the intent that such shall form the basis of each Senior Loan Agreement:

9.1.1 RAB and each of its Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under each Senior Loan Agreement and to borrow Loans; RAB has taken all necessary corporate, legal and other action required to authorise the borrowing of Loans on the terms and subject to the conditions of each Senior Loan Agreement and to authorise the execution and delivery of each Senior Loan Agreement and all other documents to be executed and delivered by it in connection with each Senior Loan Agreement, and the performance of each Senior Loan Agreement in accordance with its terms.

9.1.2 The Senior Loan Agreement, including each Senior Loan Supplement in relation thereto, has been duly executed and delivered by RAB and constitutes a legal, valid and binding obligation of RAB enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law); (ii) with respect to the enforceability of a judgment where there is a federal law or treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that certain gross-up and tax indemnity provisions may not be enforceable under Russian law.

9.1.3 The execution, delivery and performance of each Senior Loan Agreement, including each Senior Loan Supplement in relation thereto, by RAB will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of RAB or any of its Material Subsidiaries, (iii) any agreement or other undertaking or instrument to which RAB or any of its Material Subsidiaries is a party or which is binding upon any of their respective assets, nor result in the creation or imposition of any Encumbrance on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument or (iv) the terms of RAB's general banking licences.

9.1.4 All consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Russian Federation required by RAB in connection with the execution, delivery, performance, legality, validity, enforceability, and, subject to Russian legal requirements, admissibility in evidence of each Senior Loan Agreement have been obtained or effected and are in full force and effect.

9.1.5 No event has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Financial Indebtedness of RAB or any Subsidiary of RAB, and no such event will occur upon the making of the relevant Senior Loan.

9.1.6 There are no judicial, arbitral or administrative actions, proceedings or claims (including, without limitation, with respect to Taxes) pending or, to the knowledge of RAB, threatened, against RAB or any of its Subsidiaries, (i) which prohibit the execution and delivery of this Agreement or RAB's compliance with its obligations hereunder or (ii) the adverse determination of which could reasonably be expected to have a Material Adverse Effect.

9.1.7 RAB and each of its Subsidiaries has good title to its property free and clear of all Encumbrances which if existing would have a Material Adverse Effect and RAB's obligations under the Senior Loans will rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness.

9.1.8 The audited consolidated financial statements of RAB for each of the three most recent completed financial years, and the respective related notes thereto:

(i) were prepared in accordance with IFRS; and

(ii) disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the RAB Group at that date in accordance with IFRS; and

(iii) save as disclosed therein, present fairly in all material respects, the assets and liabilities as at that date and the results of operations of the RAB Group during the relevant financial year in accordance with IFRS.

9.1.9 Except as disclosed in the Prospectus, there has been no significant change since the date of the last audited consolidated financial statements of RAB in the financial condition, results of business operations, trading position or prospects of RAB or the RAB Group.

9.1.10 The execution, delivery and enforceability of each Senior Loan Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court).

9.1.11 Neither RAB nor any Subsidiary of RAB nor any of 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 each Senior Loan Agreement.

9.1.12 RAB and its Subsidiaries are in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.

9.1.13 Neither RAB, nor any of its Material Subsidiaries, has taken any corporate action nor, to the best of the knowledge and belief of RAB, have any other steps been taken or legal proceedings started or threatened in writing against RAB or any of its Material Subsidiaries for its or their bankruptcy, winding-up, dissolution, external administration or re-organisation (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 it or of any or all of its or their assets or revenues.

9.1.14 There are no strikes or other employment disputes against RAB which are pending or, to RAB's knowledge, threatened or imminent which could have a Material Adverse Effect.

9.1.15 In any proceedings taken in the Russian Federation in relation to each Senior Loan Agreement, the choice of English law as the governing law of each Senior Loan Agreement and any arbitration award obtained in England pursuant to Clause 14.10.4 in relation to each Senior Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in Russia.

9.1.16 Its execution of each Senior Loan Agreement will constitute, and its exercise of its rights and performance of its obligations thereunder will constitute, private and commercial acts done and performed for private and commercial purposes.

9.1.17 Neither it nor any of its Subsidiaries has any overdue tax liabilities.

9.1.18 All licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable RAB and any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect.

9.1.19 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, all payments of principal and/or interest or any other amounts payable on or in respect of each Senior Loan may be paid by RAB to the Lender in any currency and will not be subject to Taxes under the laws and regulations of Russia or any political subdivision or Taxing Authority thereof or therein and will otherwise be free and clear of any other Tax, duty, withholding or deduction in Russia or any political subdivision or Taxing Authority thereof or therein and without the necessity of obtaining any governmental authorisation in Russia or any political subdivision or Taxing Authority thereof or therein.

9.1.20 Neither RAB nor any of its Subsidiaries is materially overdue in the filing of any tax returns, reports and other information required to be filed by it with any appropriate Taxing Authority, and each such tax return, report or other information was, when filed, accurate and complete in all material aspects; and each of RAB and its Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith), and to the best of RAB's knowledge, no Tax deficiency is currently asserted against RAB or any of its Subsidiaries except, in each case, where any such failure to do so would not have a Material Adverse Effect.

9.1.21 RAB maintains a sufficient level of insurance to cover the risks pertaining to its business according to the legislation of the Russian Federation.

9.1.22 RAB and its Subsidiaries have, to the best of RAB's knowledge, complied in all material respects with all applicable anti-money laundering laws and regulations in the jurisdictions in which it or they conduct its or their operations.

9.2 **Lender's Representations and Warranties**

The Lender represents and warrants to RAB as follows:

9.2.1 The Lender is duly incorporated under the laws of Luxembourg and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same.

9.2.2 The execution of the Lender Agreements 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 Luxembourg 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.

9.2.3 The Lender (i) is a public limited company (*société anonyme*) which at the date hereof is a resident of Luxembourg, is subject to taxation in Luxembourg 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 Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg, and (ii) does not have a permanent establishment in Russia.

9.2.4 The Lender Agreements constitute legal, valid and binding obligations of the Lender.

9.2.5 All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, 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.

10. **COVENANTS**

So long as any amount remains outstanding under a Senior Loan Agreement:

10.1 **Negative Pledge**

So long as any amount remains outstanding hereunder, neither RAB nor any Subsidiary will create or permit to subsist any Encumbrance (other than any Encumbrance upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation, asset-backed financing or like arrangement and whereby all payment obligations secured by such Encumbrance, or having the benefit of such Encumbrance, are to be discharged solely from such assets or revenues, **provided that** such Encumbrances shall not be incurred if that would result in the principal amount of such encumbered Relevant Indebtedness exceeding 20 per cent. of the total consolidated assets of the RAB Group (as reported in its most recent financial statements prepared under IFRS)) upon or in respect of any of its undertakings, property, income, assets or revenues, present or future, to secure any Relevant Indebtedness unless, at the same time or prior thereto, RAB's obligations hereunder are to the satisfaction of the Trustee secured equally and rateably therewith or benefit from such other security or other arrangements, as the case may be, to the satisfaction of the Trustee.

10.2 **Maintenance of Authorisations**

RAB shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to maintain in full force and effect, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of such Senior Loan Agreement or for the legality, validity, enforceability for admissibility in evidence in Russia thereof (except for the preparation of certified translations thereof).

10.3 **Disposals**

Except as otherwise permitted herein, RAB shall not and RAB shall ensure that none of its Subsidiaries shall sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any material part of its revenues or its assets (except for sales or other disposals of assets in the ordinary course of business and payments of cash) unless the terms of such transaction are substantially no less favourable to RAB, or the relevant Subsidiary, as the case may be, than those that would be obtained in a comparable arm's-length transaction. This Clause 10.3 does not apply to any transaction between RAB and any of its Subsidiaries, or between any Subsidiaries of RAB. With respect to a sale or disposal of assets (other than a sale or disposal of assets, including securities, carried out in the ordinary course of RAB's banking business) involving aggregate payments or value in excess of 15 per cent. of the gross assets of RAB and its Subsidiaries on a consolidated basis determined by reference to the balance sheet date for RAB's most recent IFRS Fiscal Period, RAB shall deliver to the Lender a written opinion from an Independent Appraiser to the effect that such sale is fair, from a financial point of view, to RAB or the relevant Subsidiary, as the case may be and such written opinion shall be conclusive and binding on the parties.

10.4 **Maintenance of Capital Adequacy**

(a) RAB shall not permit its consolidated total capital ratio as calculated in accordance with the recommendations of the Basle Committee on Banking Regulations and Supervisory Practices (as of the date hereof) to fall below 8 per cent., such recommendations to be as provided in such Committee's paper entitled "*International Convergence of Capital Measurement and Capital Standards*" dated July 1988, as amended in November 1991, and such calculation to be made by reference to the latest annual consolidated audited accounts of RAB prepared in accordance with IFRS.

(b) RAB shall ensure that neither it nor any Subsidiary which carries on a banking business shall permit its total capital ratio to fall below the minimum total capital ratio required by in the case of RAB, the Central Bank of Russia and, in the case of any other such Subsidiary, the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in the jurisdiction in which such other Subsidiary carries on its banking business, such calculation to be made by reference to, in the case of RAB, the latest annual non-consolidated audited accounts of RAB prepared in accordance with Russian legislation or, if the

Central Bank of Russia so requires, IFRS and, in the case of each such Subsidiary, the latest annual non-consolidated audited accounts of such Subsidiary or if such Subsidiary does not prepare audited accounts, the latest annual non consolidated unaudited accounts of such Subsidiary (in either case as prepared under the accounting regulations used to calculate its capital adequacy in the relevant jurisdictions) **provided that**, should RAB or any other Subsidiary carry on a banking business in more than one jurisdiction, it shall not permit its total capital ratio to fall below the minimum ratio required by the relevant banking authority responsible for setting and/or supervising capital adequacy requirements for financial institutions in each such jurisdiction.

10.5 **Withholding Tax Exemption**

10.5.1 The Lender shall use its best endeavours to provide RAB no later than ten Business Days before the first Interest Payment Date with respect to the first Senior Loan made pursuant to this Agreement (and thereafter as soon as possible at the beginning of each calendar year but not later than ten Business Days prior to the first Interest Payment Date in that year) with a certificate, issued and certified by the competent Luxembourg authorities (or the authorities of a Qualifying Jurisdiction), confirming that the Lender is tax resident in Luxembourg (or in a Qualifying Jurisdiction) **provided that** the Lender shall not be liable for any failure to provide, or any delays in providing, such residency certificate as a result of any action or inaction of the competent Luxembourg authorities (or the authorities of a Qualifying Jurisdiction), but shall notify RAB without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. Such certificate shall be appropriately apostilled and a certified translation supplied.

10.5.2 RAB and the Lender (using its best endeavours and in accordance with law) agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in Clause 10.5.1 will be deemed changed accordingly.

10.5.3 The Lender shall within 30 days of the request of RAB (to the extent it is able to do so under applicable law including Russian laws) deliver to RAB such other information or forms to be duly completed and delivered as may be needed to obtain a tax relief or refund if a relief from deduction or withholding of Russian Taxes has not been obtained. If required, the other forms referred to in this Clause 10.5.3 shall be duly signed by the Lender and stamped or otherwise approved by the competent tax authority in Luxembourg and any requisite power of attorney issued by the Lender to RAB shall be duly signed and apostilled or otherwise legalised. The Lender shall provide RAB with all assistance it may reasonably require to ensure that RAB can deliver to the tax authorities the information or forms specified in this Clause 10.5.3. RAB shall indemnify the Lender for all out of-pocket costs and expenses incurred by the Lender as a result of steps undertaken pursuant to this Clause 10.5.3. The Lender shall not be obligated to take any step under this Clause 10.5.3 if, in the reasonable opinion of the Lender, to so take would be prejudicial to it (other than the incurrence of costs and expenses of an administrative nature).

10.6 **Reports**

RAB undertakes that so long as any Senior Loan or any sum owing under the relevant Senior Loan Agreement remains outstanding it shall deliver to the Trustee and/or the Lender, as the case may be:

10.6.1 Within six months after the end of each of the RAB Group's financial years, copies of the RAB Group's audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied with the corresponding consolidated financial statements of the RAB Group for the preceding period.

10.6.2 Within four months after the end of the first half of each of the RAB Group's financial years, copies of the RAB Group's unaudited condensed consolidated interim financial statements for such period prepared in accordance with IAS34 consistently applied with the corresponding financial statements for the preceding period.

10.6.3 RAB undertakes that it shall deliver to the Lender and the Trustee, without undue delay, such additional information (other than information that RAB in good faith determines is required to be kept confidential) regarding the financial position or the business of RAB or the RAB Group as the Lender or the Trustee may reasonably request including providing certificates to the Trustee as contemplated in the Trust Deed.

10.6.4 RAB undertakes to furnish to the Lender and the Trustee such information as the Irish Stock Exchange (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require in connection with the listing or admission to trading of such Notes on such stock exchange or relevant authority.

10.6.5 RAB consents that any information provided to the Lender pursuant to this Clause 10.6 may also be provided to the Trustee without violating any duty of confidentiality or secrecy that the Lender may owe to RAB under the laws of Luxembourg.

10.6.6 On each Interest Payment Date, RAB shall deliver to the Lender a written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred and shall be continuing, what action RAB is taking or proposes to take with respect thereto.

10.6.7 RAB will at the same time as delivering its audited annual financial statements pursuant to Clause 10.6.1 and within 30 calendar days of a request from the Lender, deliver to the Lender an Officers' Certificate specifying those Subsidiaries which were at a date no more than ten days' before the date of such Officers' Certificate, Subsidiaries.

10.6.8 RAB will at the same time as delivering its audited annual financial statements pursuant to Clause 10.6.1, deliver to the Lender and the Trustee an Officers' Certificate stating that RAB is in compliance with Clause 10.4. Such certificate may, if requested by the Lender or the Trustee, be accompanied by a report from RAB's auditors as to the proper extraction of the figures used by RAB in calculation of the ratios and as to the mathematical accuracy of the calculations.

10.6.9 Upon being so requested in writing by the Lender, RAB shall deliver to the Lender an Officers' Certificate of RAB setting out the total principal amount of Notes which, at the date of such certificate, are held by RAB or any Subsidiary and have not been cancelled and are retained by it for its own account or for the account of any other company.

10.6.10 RAB shall promptly on becoming aware thereof inform the Lender and the Trustee of the occurrence of any Potential Event of Default or Event of Default and, upon receipt of a written request to that effect from the Lender or the Trustee, confirm to the Lender and the Trustee that, save as previously notified to the Lender and the Trustee or as notified in such confirmation, no Event of Default has occurred.

11. EVENTS OF DEFAULT

11.1 Events of Default

If one or more of the following events of default (each, an "**Event of Default**") shall occur and be continuing, the Lender shall be entitled to the remedies set forth in Clause 11.3:

11.1.1 RAB fails to pay within five Business Days any amount payable under a Senior Loan Agreement as and when such amount becomes payable in the currency and in the manner specified therein.

11.1.2 RAB fails to perform or observe any of its other obligations under a Senior Loan Agreement and provided it is capable of remedy such failure is not remedied within 30 days.

11.1.3 Any representation or warranty of RAB or any statement deemed to be made by RAB in this Agreement or any certificate or notice delivered to the Lender in connection with such Senior Loan Agreement proves to have been inaccurate, incomplete or misleading in any material respect at the time it was made or repeated or deemed to have been made or repeated if not remedied (if capable of remedy) within 30 days.

11.1.4 Any Financial Indebtedness of RAB or any of its Material Subsidiaries shall become due and payable prior to the stated maturity thereof (other than at the option of the debtor) following a default of RAB or any of its Material Subsidiaries, or RAB or any of its Material Subsidiaries shall fail to make any payment of principal in respect of any Financial Indebtedness of RAB or any of its Material Subsidiaries on the date on which such payment is due and payable or at the expiration of any grace period originally applicable thereto, provided that the aggregate amount of the relevant Financial Indebtedness in respect of which one or more of the event mentioned in this Clause 11.1.4 shall have occurred equals or exceeds U.S.$100,000,000 (or its equivalent in any other currency or currencies).

11.1.5 RAB or any Material Subsidiary commences negotiations with its creditors generally with a view to the general readjustment or rescheduling of its Financial Indebtedness or makes a general assignment for the benefit of or a composition with its creditors generally.

11.1.6 The occurrence of any of the following events: (i) RAB or any Material Subsidiary fails or is unable to pay its debts generally as they become due; (ii) revocation of any banking licence of RAB or any Material Subsidiary; (iii) RAB or any Material Subsidiary seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation committee (*likvidatsionnaya komissiya*) or a similar officer of RAB or such Material Subsidiary or any analogous procedure or event in any other relevant jurisdiction; (iv) the institution of the supervision (*nablyudeniye*) or bankruptcy management (*konkursnoye proizvodstvo*) of RAB or any Material Subsidiary, as such terms are defined in the Federal Law of Russia No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction; (v) the institution of the financial rehabilitation (*finansovoye ozdorovleniye*), temporary administration (*vremennaya administratsiya*) or reorganisation (*reorganizatsiya*) with respect to RAB or any Material Subsidiary as such terms are defined in the Federal Law of the Russian Federation No. 40-FZ "On Insolvency (Bankruptcy) of Credit Organisations" dated 25 February 1999 (as amended or replaced from time to time) or any analogous procedure or event in any other relevant jurisdiction; (vi) any judicial liquidation, dissolution, administration or winding-up in respect of RAB or any Material Subsidiary; or (vii) the shareholders of RAB or any Material Subsidiary approving any plan of dissolution, administration or winding-up of RAB or such Material Subsidiary.

For the avoidance of doubt, this Clause 11.1.6 shall not apply to the liquidation, dissolution, administration or winding-up by RAB of any Material Subsidiary unless such action shall have a Material Adverse Effect.

11.1.7 Any governmental authorisation necessary for the performance of any obligation of RAB under a Senior Loan Agreement fails to be in full force and effect.

11.1.8 Any government, governmental authority or court takes any action that has a Material Adverse Effect.

11.1.9 Any execution or distress is levied against, or an encumbrancer takes possession of, the whole or any material part of, the assets of RAB having a fair market value of more than U.S.$100,000,000 or the equivalent thereof in any other currency.

11.1.10 The aggregate amount of unsatisfied final judgments, decrees or orders of courts of competent jurisdiction or other appropriate and competent law-enforcement bodies for the payment of money (including, without limitation, payments in respect of Taxes) against RAB or any Subsidiary in the aggregate exceeds U.S.$100,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 45 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for ten days after the notice specified in Clause 11.2.

11.1.11 Any seizure, compulsory acquisition, expropriation, nationalisation, or re-nationalisation, in each case without appropriate compensation after the date of a Senior Loan Agreement by or under the authority of a government authority of all or part (the book value of which is fifteen per cent. (15%) or more of the book value of the whole) of the assets of RAB or any Subsidiary.

11.1.12 RAB or any of its Material Subsidiaries ceases to carry on the principal business it carries on at the date of a Senior Loan Agreement.

11.1.13 At any time it is or becomes unlawful for RAB to perform or comply in any material respect with any or all of its obligations under a Senior Loan Agreement or any of such obligations (subject as provided in Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable.

11.1.14 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

11.2 Notice of Default

RAB shall deliver to the Lender and the Trustee, within 30 days after becoming aware thereof, written notice in the form of an Officer's Certificate of any event which is a Potential Event of Default or an Event of Default, its status and what action RAB or the relevant Subsidiary, as the case may be, is taking or proposes to take with respect thereto.

11.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to RAB, (a) declare the obligations of the Lender under the relevant Senior Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Senior Loan Agreement by RAB that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are all expressly waived by RAB; **provided**, **however**, **that** if any event of any kind referred to in Clause 11.1.6 occurs, the obligations of the Lender under such Senior Loan Agreement shall immediately terminate, and all amounts payable under such Senior Loan Agreement by RAB that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by RAB.

11.4 Rights Not Exclusive

The rights provided for in each Senior Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. INDEMNITY

12.1 Indemnification

RAB undertakes to indemnify the Lender, any Affiliate of the Lender and each director, officer, employer or agent of the Lender (each an "**Indemnified Party**") against Liabilities (as defined below), which an Indemnified Party may sustain or incur in relation to the preparation and execution, or purported execution, of the exercise of its powers, authorities and discretions and the performance of its duties under, and in any other manner in relation to, this Agreement or any

Senior Loan Agreement, unless, in any such case, such Liability was caused by such Indemnified Parties' negligence or wilful misconduct or resulted from its breach of this Agreement. "**Liability**" means any loss, damage, claim, demand, judgment, action, proceeding (including, without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and reasonably incurred out-of-pocket costs and expenses (including legal fees) on a full indemnity basis (but excluding any Liability that is the subject of the undertakings contained in Clause 13 and Clauses 14.2 and 14.6 of this Agreement).

12.2 **Independent Obligation**

Clause 12.1 constitutes a separate and independent obligation of RAB from its other obligations under or in connection with each Senior Loan Agreement or any other obligations of RAB and shall not affect, or be construed to affect, any other provision of a Senior Loan Agreement or any such other obligations.

12.3 **Evidence of Loss**

A certificate of the Lender, supported by relevant documentation, setting forth the amount of Liability described in Clause 12.1 and specifying in full detail the basis therefor shall, in the absence of manifest error, be evidence of the amount of such Liability.

12.4 **Survival**

The obligations of RAB pursuant to Clauses 6.2, 6.3, 12.1 and 14.6 shall survive the execution and delivery of each Senior Loan Agreement and the drawdown and repayment of the relevant Senior Loan.

13. **EXPENSES**

13.1 **Front-end Expenses for the Extension of the Senior Loan by the Lender**

RAB shall, pursuant to Clause 3.2 hereof and the relevant Senior Loan Supplement, pay the Lender the Facility Fee in the Specified Currency incurred and properly documented by the Lender in connection with the extension of each Senior Loan.

13.2 **Payment of Ongoing Expenses**

In addition, RAB hereby agrees to pay to the Lender on demand in the Specified Currency all fees and expenses, payable by the Lender under or in respect of the Lender Agreements. RAB shall also pay the Lender for any indemnification or other payment obligations of the Lender under or in respect of the Paying Agency Agreement and/or Trust Deed (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender referred to in this Clause 13.2 shall be made by RAB at least one Business Day before the relevant payment is to be made or expense incurred; **provided that** before such payment is made by RAB, the Lender shall submit an invoice providing, in full detail, the nature and calculation of the relevant payment or expense. Subsequently, RAB and the Lender shall enter and sign a delivery and acceptance act (Act of Acceptance) as provided in Clause 13.3.

13.3 **Acts of Acceptance**

In connection with all payments to be made under Clause 12 and Clause 13 and Clause 14.2, RAB and the Lender shall within 60 days of such payment becoming due or such indemnity claim being made, enter into and sign a delivery and acceptance act (which RAB shall prepare) with respect to the amounts to be paid by RAB. Invoices and delivery and acceptance acts shall separately specify: (i) the net amount due, (ii) any applicable Russian income tax withholding, (iii) any applicable Russian VAT and (iv) the resulting total tax-inclusive amount.

14. **GENERAL**

14.1 **Evidence of Debt**

The entries made in the relevant Account shall, in the absence of manifest error, constitute *prima facie* evidence of the existence and amounts of RAB's obligations recorded therein.

14.2 **Stamp Duties**

14.2.1 RAB shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on RAB by any person in the Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Senior Loan Agreement and shall indemnify the Lender against any and all costs, expenses or penalties which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by RAB to pay such taxes or similar charges upon presentation by the Lender to RAB of documentary evidence of such costs and expenses.

14.2.2 RAB 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 Russian Federation or Luxembourg which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Senior Loan Agreement and any documents related thereto as well as Notes of corresponding Series and any documents related thereto, RAB shall repay the Lender on demand an amount equal to such stamp or other documentary taxes, charges or duties and shall indemnify the Lender against any and all costs and expenses properly documented and connected with the payment of such amounts.

14.3 **Waivers**

No failure to exercise and no delay in exercising, on the part of the Lender or RAB, any right, power to privilege under any Senior Loan Agreement and no course of dealing between RAB 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 provided in each Senior Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 **Notices**

All notices, requests, demands or other communications to or upon the respective parties to each Senior Loan Agreement shall be given or made in the English language by fax (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 such Senior Loan Agreement addressed as follows:

14.4.1 if to RAB:

Russian Agricultural Bank
3 Gagarinsky Pereulok
Moscow 119034
Russian Federation

Fax: +7 495 363 0293
Attention: Yakov Kuznetsov

14.4.2 if to the Lender:

RSHB Capital S.A.
46 A, Avenue J.F. Kennedy
L-1855 Luxembourg
Grand Duchy of Luxembourg
Phone: +352 42 71 711
Fax: +352 42 19 61
Attention: Directors

or to such other address or fax number as any party may hereafter specify in writing to the other.

Any notice, request, demand or other communication sent in accordance with this Clause shall be conclusively deemed to have been given on the day of actual delivery thereof and, if given by fax on the day of transmittal thereof, in each case if given during the normal business hours of the recipient, and on the business day during which such normal business hours next occur if not given during such hours on any day.

14.5 **Assignment**

14.5.1 Each Senior Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Senior Loan Agreement. Any reference in a Senior Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 14.5.3 below shall be references to the exercise of such rights or discretions by the Trustee (as trustee for the holders of the Notes).

14.5.2 RAB shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

14.5.3 Subject to Clause 17 (*Substitution*) of the Principal Trust Deed, the Lender may assign or transfer, in whole or in part, any of its rights and benefits or obligations hereunder except in connection with the funding of each Senior Loan, by way of first fixed charge granted by the Lender and the absolute assignment by the Lender in favour of the Trustee of the Lender's rights and benefits under each Senior Loan Agreement and, in each case, RAB agrees that it will, on or prior to the relevant Closing date, acknowledge in writing any such charge and assignment.

14.5.4 Any references in this Agreement to any such assignee or transferee pursuant to sub-clause 14.5.3 shall be construed accordingly and, in particular, references to the rights, benefits and obligations hereunder of the Lender, following such assignment or transfer shall be references to such rights, benefits or obligations by the assignee or transferee.

14.6 **Currency Indemnity**

To the fullest extent permitted by law, the obligation of RAB in respect of any amount due in the Specified Currency (or such other currency as contemplated by such obligation) under a Senior Loan Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the Specified Currency (or such other currency as contemplated by such obligation) that the Lender 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 the Lender receives such payment. If the amount in the Specified Currency (or such other currency as contemplated by such obligation) that may be so purchased for any reason falls short of the amount originally due (the "**Due Amount**"), RAB hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of RAB not discharged by payment in the Specified Currency (or such other currency as contemplated by such obligation) shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided the relevant Senior Loan Agreement, shall continue in full force and effect. If the amount in the Specified Currency (or such other currency as contemplated by such obligation) that may be purchased exceeds that Due Amount the Lender shall promptly pay the amount of the excess to RAB.

14.7 **Prescription**

Subject to the Lender having received the principal amount thereof or interest thereon from RAB, the Lender shall forthwith repay to RAB, the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 11 of such Notes.

14.8 **Contracts (Rights of Third Parties) Act 1999**

A person who is not a party to a Senior Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Senior Loan Agreement.

14.9 **Choice of Law**

Each Senior Loan Agreement and any non-contractual obligations arising therefrom shall be governed by, and construed in accordance with, the laws of England.

14.10 **Jurisdiction**

14.10.1 Subject to Clause 14.10.4, any dispute, controversy or claim (a "**Dispute**") arising out of or in connection with this Agreement including any question regarding the existence, validity or termination of this Agreement or the consequences of its nullity shall be referred to and finally resolved by arbitration under the Rules of the LCIA (formerly the London Court of International Arbitration) (the "**Rules**") which Rules are deemed to be incorporated by reference to this Clause 14.10.1. Save as provided in Clause 14.10.4, the parties exclude the jurisdiction of the Courts under Sections 45 and 69 of the Arbitration Act 1996.

14.10.2 The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in a Dispute, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, and the two party-nominated arbitrators shall jointly nominate a third who shall act as Chairman of the Tribunal. If the second arbitrator has not been nominated within thirty (30) days after the initiating party serves the Request for Arbitration of if a Chairman has not been selected within thirty (30) days of the selection of the second arbitrator, the LCIA Court shall appoint the three arbitrators or the Chairman, as the case may be. The parties may nominate and the LCIA Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages.

14.10.3 Costs of the arbitration (including each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court of competent jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.10.4 The Lender may by notice in writing to RAB require that all Disputes or a specific Dispute be litigated. Such notice must be given no later than the date for service of any Response (as defined in the "**Rules**") or equivalent document. If the Lender gives such notice, the Dispute to which such notice refers shall be determined in accordance with Clause 14.10.5.

14.10.5 In the event that the Lender issues a notice pursuant to Clause 14.10.4, the following provisions shall apply:

(a) RAB agrees for the benefit of the Lender that the Courts of England shall have exclusive jurisdiction to settle any such Dispute and, for the purposes of this clause, submit to the jurisdiction of such Courts.

(b) RAB agrees that the Courts of England are the most appropriate and convenient courts to settle such Disputes and accordingly will not argue to the contrary.

(c) This Clause 14.10.5 is for the benefit of the Lender only. As a result, the Lender shall not be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent proceedings in any number of jurisdictions.

14.10.6 RAB irrevocably and unconditionally (i) submits to the jurisdiction of the English courts in relation to any Dispute and waives and agrees not to claim with respect to this Agreement any sovereign or other immunity from suit, jurisdiction, enforcement or execution or any similar defence in England or any other jurisdiction and agrees to ensure that no such claims shall be made on its behalf (ii) submits to the jurisdiction of the courts of England and the courts of any other jurisdiction in relation to the recognition of any judgment or order of any jurisdiction made in relation to any Dispute (including a judgment or order in support of any arbitration) and waives and agrees not to claim any sovereign or other immunity in relation to the recognition of any such judgment or order and (iii) consents to the giving of any relief (whether by way of injunction, specific performance, attachment or other relief and whether interim or final) in any jurisdiction or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment including in respect of any arbitral award made or given in connection with any Dispute and agrees to ensure that no such claim is made on its behalf.

14.10.7 Lender's Process Agent: The Lender agrees that the process by which any proceedings in England are begun may be served on it by being delivered to TMF Corporate Services Limited, 6 St Andrew Street, 5th Floor, London EC4A 3AE, United Kingdom or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Section 1139(2) of the Companies Act 2006 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of RAB, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, RAB shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause shall affect the right of RAB to serve process in any other manner permitted by law.

14.10.8 RAB's Process Agent: RAB agrees that the process by which any proceedings in England are begun may be served on it by being delivered to TMF Corporate Services Limited, 6 St Andrew Street, 5th Floor, London EC4A 3AE, United Kingdom or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Section 1139(2) of the Companies Act 2006 (as modified or re-enacted from time to time). If such person is not or ceases to be effectively appointed to accept service of process on RAB's behalf, RAB shall, on the written demand of the Lender, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice to RAB. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

14.11 **Counterparts**

Each Senior Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.12 **Language**

The language which governs the interpretation of each Senior Loan Agreement is the English language.

14.13 **Amendments**

Except as otherwise provided by its terms, each Senior Loan Agreement may not be varied except by an agreement in writing signed by the parties.

14.14 **Partial Invalidity**

The illegality, invalidity or unenforceability to any extent of any provision of each Senior Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

AS WITNESS the hands of the duly authorised representatives of the parties hereto the day and year before written.

SCHEDULE 1
FORM OF SENIOR LOAN SUPPLEMENT

THIS SENIOR LOAN SUPPLEMENT is made on [SIGNING DATE]

BETWEEN:

(1) **RSHB CAPITAL S.A.**, a public limited liability company (*sóciete anonyme*), incorporated in Luxembourg, whose registered office is at 46 A, Avenue J.F. Kennedy, L-1855 Luxembourg, The Grand Duchy of Luxembourg and registered with the Register of Commerce and Companies of Luxembourg under number B111 968 (the "**Lender**"); and

(2) **RUSSIAN AGRICULTURAL BANK**, a company established under the laws of the Russian Federation whose registered office is at 3 Gagarinsky Pereulok, Moscow 119034, Russian Federation ("**RAB**").

WHEREAS:

(A) RAB has entered into an amended and restated facility agreement dated 11 May 2012 (as may be amended or supplemented from time to time, the "**Senior Facility Agreement**") with the Lender in respect of RAB's U.S.$15,000,000,000 Programme for the Issuance of Loan Participation Notes (the "**Programme**").

(B) RAB proposes to borrow • (the "**Senior Loan**") and the Lender wishes to make such Senior Loan on the terms set out in the Senior Facility Agreement and this Senior Loan Supplement.

IT IS AGREED as follows:

1. **DEFINITIONS**

Capitalised terms used but not defined in this Senior Loan Supplement shall have the meaning given to them in the Senior Facility Agreement save to the extent supplemented or modified herein.

2. **ADDITIONAL DEFINITIONS**

For the purpose of this Senior Loan Supplement, the following expressions used in the Senior Facility Agreement shall have the following meanings:

"**Account**" means the account in the name of the Lender (account number [•], [•]);

["**Calculation Agent**" means [•];]

"**Closing Date**" means [•];

"**Facility Fee**" means [•];

"**Notes**" means [•] [[•] per cent.][Floating Rate] loan participation notes due [•] issued by the Lender as Series [•] under the Programme;

"**RAB Account**" means the account in the name of RAB (account number [•]);

"**Repayment Date**" means [•] [amend as required for Floating Rate Notes];

"**Senior Loan Agreement**" means the Senior Facility Agreement as amended and supplemented by this Senior Loan Supplement;

"**Specified Currency**" means [•];

"**Subscription Agreement**" means an agreement between the Lender, RAB and [MANAGERS] dated [•] relating to the Notes; and

"**Trust Deed**" means the Amended and Restated Principal Trust Deed between the Lender and the Trustee dated 11 May 2012, as supplemented by a supplemental trust deed to be dated [*date*] (as may be amended or supplemented from time to time) constituting and securing the Notes.

3. **INCORPORATION BY REFERENCE**

Except as otherwise provided, the terms of the Senior Facility Agreement shall apply to this Senior Loan Supplement as if they were set out herein and the Senior Facility Agreement shall be read and construed, only in relation to the Senior Loan constituted hereby, as one document with this Senior Loan Supplement.

4. **THE SENIOR LOAN**

4.1 **Drawdown**

Subject to the terms and conditions of the Senior Loan Agreement, the Lender agrees to make the Senior Loan on the Closing Date to RAB and RAB shall make a single drawing in the full amount of the Senior Loan.

4.2 **Interest**

The Senior Loan is a [Fixed Rate][Floating Rate] Senior Loan. Interest shall be calculated, and the following terms used in the Senior Facility Agreement shall have the meanings, as set out below:

4.2.1	**Fixed Rate Senior Loan Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/semi annually/quarterly/monthly/ other(specify)] in arrear]
(ii)	Interest Payment Date(s):	[•] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable principal financial centre for the definition of "Business Day"*]/not adjusted]
(iii)	Fixed Amount[(s)]:	[•] per [•] in Principal Amount
(iv)	Broken Amount(s):	[•] per [•] in Principal Amount payable on the Interest Payment Date falling [in/on] [•]
(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
(vi)	[Determination Date(s):	[•] *in each year.* [*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period. N.B. only relevant where Day Count Fraction is Actual/Actual(ICMA))*]
(vii)	Other terms relating to the method of calculating interest for Fixed Rate Senior Loans:	[Not Applicable/*give details*]
4.2.2	**Floating Rate Senior Loan Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Interest Period(s):	[•]

(ii)	Specified Interest Payment Dates:	[•]
(iii)	First Interest Payment Date:	[•]
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
(v)	Business Centre(s):	[•]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation Agent):	[•]
(viii)	Screen Rate Determination (Clause 4.3.3):	[Applicable/Not Applicable]
	Relevant Time:	[•]
	Interest Determination Date:	[*[•][TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date*]]
	Relevant Screen Page:	[*Specify relevant screen page*]
	Reference Banks:	[*Specify four*]
	Relevant Financial Centre:	[*The financial centre most closely connected to the Reference Rate*]
	Reference Rate:	[*LIBOR, EURIBOR, MOSPRIME or other reference rate*]
	Representative Amount:	[*Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount*]
	Effective Date:	[*Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period*]
	Specified Duration:	[*Specify period for quotation if not duration of Interest Accrual Period*]
(ix)	ISDA Determination (Clause 4.3):	
	Floating Rate Option:	[•]
	Designated Maturity:	[•]
	Reset Date:	[•]

	ISDA Definitions: (if different from those set out in the Conditions)	[•]
(x)	Margin(s):	[+/-][•] per cent. per annum
(xi)	Minimum Rate of Interest:	[•] per cent. per annum
xii)	Maximum Rate of Interest:	[•] per cent. per annum
(xiii)	Day Count Fraction (Clause 4.9):	[•]
(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Senior Loans, if different from those set out in the Senior Facility Agreement:	[•]]

4.3 **Use of Proceeds**

[•]

5. **FEES AND EXPENSES**

Pursuant to Clause 3.2 of the Senior Facility Agreement and in consideration of the Lender making the Senior Loan to RAB, RAB hereby agrees that it shall, [one Business Day before the Closing Date/or as otherwise agreed by RAB and the Lender], pay to the Lender, in Same-Day Funds, the Facility Fee as increased by the front end fees, commissions and expenses incurred by the Lender in connection with financing the Senior Loan, pursuant to an invoice submitted by the Lender to RAB in the total amount of [•].

6. **GOVERNING LAW**

This Senior Loan Supplement and any non-contractual obligations arising herefrom shall be governed by and construed in accordance with English law.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion and amendment in accordance with the provisions of Part A of the relevant Final Terms) will be attached to the Individual Note Certificates, if issued, and (subject to the provisions thereof) apply to the Global Note Certificate or, as the case may be, Global Note Certificates representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Part A of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and Part A of the relevant Final Terms. Those definitions will be endorsed on the Individual Note Certificates. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, an amended and restated principal trust deed dated 11 May 2012 (as may be further amended or supplemented from time to time, the "**Principal Trust Deed**"), and as supplemented on the Issue Date or, as the case may be, the Trade Date specified hereon by a supplemental trust deed (the "**Supplemental Trust Deed**" and together with the Principal Trust Deed, the "**Trust Deed**") made between RSHB Capital S.A. (the "**Issuer**") and BNY Mellon Corporate Trustee Services Limited (the "**Trustee**", which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee and successors thereof for the holders of the Notes (the "**Noteholders**") and the holders of the interest coupons appertaining to the Notes (the "**Couponholders**" and the "**Coupons**" respectively, which expressions shall, unless the context otherwise requires, include (i) the talons for further interest coupons (the "**Talons**") and the holders of the Talons, and (ii) the receipts (the "**Receipts**") and the holders of the receipts (the "**Receiptholders**")).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing either a Senior Loan (if the status of the Loan is specified as "Senior" thereon) or a Subordinated Loan (if the status of the Loan is specified as "Subordinated" thereon and together with a Senior Loan, the "**Loans**", and any one of them a "**Loan**") to Russian Agricultural Bank ("**RAB**") subject to, and in accordance with, either (i) in relation to a Senior Loan, an amended and restated facility agreement between the Issuer and RAB dated 11 May 2012 (such facility agreement, as may be amended or supplemented from time to time, the "**Facility Agreement**") as supplemented on the Issue Date or, as the case may be, the Trade Date specified hereon by a loan supplement (the "**Loan Supplement**" and, together with the Facility Agreement, the "**Senior Loan Agreement**") or (ii) in relation to a Subordinated Loan, a subordinated loan agreement between the Issuer and RAB to be entered into on the Issue Date or, as the case may be, the Trade Date specified hereon (the "**Subordinated Loan Agreement**"). In these Terms and Conditions, "**Loan Agreement**" shall mean either (i) a Senior Loan Agreement (in respect of a Senior Loan) or (ii) a Subordinated Loan Agreement (in respect of a Subordinated Loan), as applicable.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement less any amounts in respect of the Reserved Rights (as defined in the Trust Deed).

The Issuer (i) has charged by way of first fixed charge in favour of the Trustee certain of its rights and interests as lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**"), and (ii) has assigned absolutely to the Trustee certain other rights under the Loan Agreement (in each case other than any rights and benefits constituting Reserved Rights) (such assignment to the Trustee of any rights under the Loan Agreement together with the rights assigned under the Charge, the "**Security Interests**"). In certain circumstances, the Trustee may (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from RAB) pursuant to, an amended and restated paying agency agreement dated 11 May 2012 (as may be amended or supplemented from time to time, the "**Paying Agency Agreement**") and made between the Issuer, The Bank of New York Mellon as principal paying agent and transfer agent (the "**Principal Paying Agent and Transfer Agent**") and calculation agent (the "**Calculation Agent**"), The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "**Registrar**") and each of The Bank of New York Mellon (Luxembourg) S.A., The Bank of New York Mellon (Ireland) Limited and The Bank of New York Mellon as a paying agent (each a "**Paying Agent**") and each of The Bank of New York Mellon (Luxembourg) S.A. and the Bank of New York Mellon as a transfer agent (each a "**Transfer Agent**"), RAB and the Trustee. References herein to principal paying agent and transfer agent, registrar, calculation agent, paying agent or transfer agent, shall include any additional or successor principal paying agent and transfer agent, registrar, calculation agent, paying agent or transfer agent.

Copies of the Trust Deed, the Loan Agreement, the Paying Agency Agreement and the Final Terms are available for inspection during normal working hours at the principal office of the Trustee, at the specified office of the Principal Paying Agent and Transfer Agent and at the specified office of the Paying Agent in Ireland.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed), the Final Terms, the Loan Supplement and the Paying Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

"**Reserved Rights**" means the rights and benefits to be excluded from the relevant Charge and the Transferred Rights, being all and any rights, interests and benefits of the Issuer in respect of the obligations of RAB (i) in respect of a Senior Series (as defined in the Trust Deed), under Clauses 3.2 (*Facility Fee*), 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) (to the extent that RAB shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of the Russian Federation taxes, penalties or interest), 6.3 (*Withholding on Notes*) (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 6.4 (*Reimbursement*), 6.5 (*Mitigation*), 12 (*Indemnity*) and 14.2 (*Stamp Duties*) (to the extent that RAB shall reimburse the Issuer on demand for any amount paid by the Issuer in respect of any stamp, registration and documentary taxes or similar charges) of the Facility Agreement, and (ii) in respect of a Subordinated Series (as defined in the Trust Deed), as set out in the relevant Supplemental Trust Deed.

1. **Status**

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights. The right to receive such sums is being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions among the Issuer and/or RAB.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Final Terms and the contents of the Trust Deed, the Paying Agency Agreement and the Loan Agreement, and have hereby accepted that:

1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph 1.6 below, liability or obligation in respect of the performance and observance by RAB of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts), if any, due or to become due from RAB under the Loan Agreement;

1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of RAB;

1.3 neither the Issuer nor the Trustee shall at any time be liable for any misrepresentation or breach of a warranty or any act, default or omission of RAB under, or in respect of, the Loan Agreement;

1.4 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 and Transfer Agent, any Paying Agent, the Registrar or Transfer Agent of their respective obligations under the Paying Agency Agreement;

1.5 the financial servicing and performance of the terms of the Notes depend solely and exclusively upon the performance by RAB of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. RAB has represented and warranted to the Issuer in the Loan Agreement (subject to certain qualifications) that the Loan Agreement constitutes a legal, valid and binding obligation of RAB. The representations and warranties given by RAB in the Loan Agreement are given by RAB to the Issuer and (following the assignment) the Trustee, and no Noteholder separately shall have any remedy or rights against RAB in respect of a breach of such representations or warranties;

1.6 that the Loan Agreement constitutes a legal, valid and binding obligation of RAB. The representations and warranties given by RAB in the Loan Agreement are given by RAB to the Issuer and (following the assignment) the Trustee, and no Noteholder separately shall have any remedy or rights against RAB in respect of a breach of such representations or warranties; and

1.7 the Issuer and (following the assignment) the Trustee will be entitled to rely on (i) Officer's Certificates (as defined in the Loan Agreement) as to whether or not an Event of Default or a Potential Event of Default (each as defined in the Loan Agreement) has occurred and (ii) Officer's Certificates specifying the Subsidiaries (as defined in the Loan Agreement) of RAB and shall not otherwise be responsible for investigating any aspect of RAB's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make any investigations which might be made by a security holder in relation to the property which is expressed to be the subject of the 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 assigned property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security expressed to be created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.

The obligations of the Issuer to make payments in respect of the Notes, Receipts and the Coupons constitute direct and general obligations of the Issuer which will at all times rank *pari passu* and rateably without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

In respect of a Note issued under a Subordinated Series only, the claims of the Issuer under the Loan Agreement, excluding the Reserved Rights, constitute the direct, unconditional and unsecured subordinated obligations of RAB and will rank at least equally with all other unsecured and subordinated obligations of RAB (whether actual or contingent) as more fully set out in the relevant Subordinated Loan Agreement.

In the event that the payments under the Loan Agreement are made by RAB to the Principal Paying Agent and Transfer Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes except to the extent that there is default in the subsequent payment thereof in accordance with Conditions to the Noteholders or Couponholders (as the case may be).

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or have direct recourse to RAB except through action by the Trustee pursuant to the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor, following the enforcement of the Security Interests created in the Trust Deed, the Trustee shall be required to take proceedings to enforce payment under the Loan Agreement unless, in the case of the Trustee, it has been indemnified and/or secured and/or prefunded by the Noteholders to its satisfaction in accordance with Condition 12 (*Indemnification of Trustee*) and without limitation against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be measured by it in connection therewith.

2. **Form, Denomination and Title**

The Notes will be issued in bearer or fully registered form, as specified hereon, and in the Specified Denomination shown hereon. Interests in the Rule 144A Notes shall be held in amounts of not less than US$200,000 (or the equivalent in other currencies) and integral multiples of US$1,000 (or the equivalent in other currencies) in excess thereof. Interests in the Regulation S Notes shall be held in amounts of not less than €100,000 (or the equivalent in other currencies) and integral multiples of €1,000 (or the equivalent in other currencies) in excess thereof. Interests in the Bearer Notes shall be held in amounts of not less than €100,000 (or the equivalent in other currencies) and integral multiples of €1,000 (or the equivalent in other currencies) in excess thereof.

So long as the Notes are represented by a Global Note Certificate and the relevant clearing system(s) so permit, the Notes shall be tradeable only in principal amounts of at least the Specified Denomination (or, if more than one Specified Denomination, the lowest Specified Denomination) provided hereon and integral multiples of the Tradeable Amount provided in the relevant Final Terms.

A Note issued under the Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing, an Instalment Note or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

Bearer Notes are issued with Coupons attached.

Title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note in whose name such Note is registered in the Register and in the Issuer's Register as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes and related expressions shall be construed accordingly.

3. **Register, Title and Transfers of Registered Notes**

The Registrar will maintain a register outside the United Kingdom (the "**Register**") in respect of the Notes in accordance with the provisions of the Paying Agency Agreement. A Certificate (each a "**Certificate**") will be issued to each Noteholder in respect of its registered holding.

The Issuer will also maintain a register in respect of the Registered Notes at its registered office (the "**Issuer's Register**"). Under the terms of the Paying Agency Agreement, the Registrar will provide to the Issuer such information about the changes in the Register as shall enable the Issuer to maintain the Issuer's Register up-to-date. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail.

The holder of each Registered Note shall (except as otherwise required by law) be treated as the absolute owner of such Registered Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder. In these Conditions the "**holder**" of a Registered Note means the person in whose name such Note is registered in the Register and in the Issuer's Register.

A Registered Note may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or at the specified office of a Transfer Agent, together with such evidence as the Registrar or such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer. Where not all the Registered Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

Subject to the last paragraph of this Condition, within five business days of the surrender of a Certificate in accordance with the immediately preceding paragraph above, the Registrar will register the transfer in question and deliver a new Certificate to each relevant holder 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 dealing in foreign currency) in the city where the Registrar or the relevant Transfer Agent has its specified office.

The transfer of a Registered Note will be effected without charge but against such indemnity as the Registrar or the relevant 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.

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 Registered Notes.

4. **Restrictive Covenants**

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification of (in each preceding case, in respect of a Note issued under a Subordinated Series only, with the consent of the Central Bank of Russia (the "**CBR**"), if applicable) or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*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 issuing any Series of Notes), engage in any other business (other than acquiring and holding the Security Interests in respect of each Series, issuing Notes, making loans to RAB pursuant to the Loan Agreements and performing any act incidental to or necessary in connection with the foregoing), 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 and the Trust Deed), issue any shares, give any guarantee or assume any similar liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

5. **Interest**

(a) ***Interest on Fixed Rate Notes***: Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified hereon which shall be equal to the rate per annum at which interest under the Loan accrues. Accordingly, on each Interest Payment Date or as soon thereafter as the same shall be received by the Issuer, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement.

If a Fixed Coupon Amount or a Broken Amount is specified hereon, the amount of interest payable on each Interest Payment Date will amount to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified hereon or as soon as thereafter as the same is received.

(b) ***Interest on Floating Rate Notes***:

(i) *Interest Payment Dates*: Each Floating Rate Note bears interest on its outstanding nominal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified hereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date or as soon as thereafter as the same is received. Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date or as soon thereafter as the same shall be received by the Issuer, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

(ii) *Business Day Convention*: If any date referred to in these Terms and Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified hereon and as set out in the Loan Agreement.

(c) ***Accrual of Interest***: Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the

Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8 (*Taxation*)).

(d) ***Calculations***: The amount of interest payable in respect of any Note for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of such Note by the Day Count Fraction as specified hereon and in the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is specified in respect of such period, in which case the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

(e) ***Publication of Rates of Interest and Interest Amounts***: The Calculation Agent shall, as soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, RAB, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable as a consequence of amounts under the Loan Agreement becoming due and payable prior to the Repayment Date (as defined in the Loan Agreement), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(f) ***Determination or Calculation by Trustee***: If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances. The Trustee shall incur no liability in respect of such determination or calculation.

6. Redemption and Purchase

(a) ***Final Redemption***: Unless the Loan is previously prepaid or repaid pursuant to Clauses 5.2, 5.3 or 5.4 of the Senior Facility Agreement in the case of a Senior Series of Notes, or pursuant to the terms of the relevant Subordinated Loan Agreement, in the case of a Subordinated Series of Notes, RAB will be required to repay the Loan on the Repayment Date and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will on that date be redeemed or repaid by the Issuer in the relevant Specified Currency on the Repayment Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).

(b) ***Early Redemption***: If the Loan should become repayable in full (and be repaid in full) pursuant to the terms and conditions of the Loan Agreement prior to its Repayment Date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their Early Redemption Amount (which, unless otherwise specified hereon is par together with interest accrued to the date of redemption) and the Issuer will give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14 (*Notices*).

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights) following acceleration of the Loan, the Issuer shall pay an amount equal to and in the same currency as such amounts on the business day following receipt of such amounts, subject as provided in Condition 7 (*Payments and Agents*).

(c) ***Redemption at the Option of Noteholders***: If a Put Event (as defined below) shall occur while a Note of any Senior Series (a "**Senior Note**") is outstanding, the holder of each such Senior Note will have the option (the "**Put Option**") (unless, prior to the delivery of the Put Option Notice referred to below, the Issuer gives notice under Condition 6(b) (*Early Redemption*)) to require the Issuer to redeem that Senior Note) on the Put Settlement Date (as defined below) at its principal amount together with accrued interest and additional amounts (as defined in Condition 8 (*Taxation*)) (if any) to the Put Settlement Date.

Promptly upon the Issuer becoming aware that a Put Event has occurred, the Issuer shall give notice (a "**Put Event Notice**") to the holders of the Senior Notes in accordance with Condition 14 (*Notices*), specifying the details relating to the occurrence of the Put Event and the procedure for exercising the Put Option.

In order to exercise the Put Option, the holder of a Senior Note must deliver no later than 30 days after the Put Event Notice is given (the "**Put Period**"), to the specified office of the Principal Paying Agent and Transfer Agent or any Paying Agent evidence satisfactory to the Paying Agent of such holder's entitlement to such Senior Note and a duly completed put option notice (a "**Put Option Notice**") specifying the principal amount of the Senior Notes in respect of which the Put Option is exercised, in the form obtainable from the Principal Paying Agent and Transfer Agent or any Paying Agent. The Principal Paying Agent and Transfer Agent or the Paying Agent will provide such Noteholder with a non-transferable receipt. **Provided that** the Senior Notes that are the subject of any such Put Option Notice have been delivered to the Principal Paying Agent and Transfer Agent or a Paying Agent prior to the expiry of the Put Period, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from RAB and (ii) as provided in Condition 7 (*Payments and Agents*)) redeem all such Senior Notes on the date falling five Business Days after the expiration of the Put Period (the "**Put Settlement Date**"). No Put Option Notice, once delivered in accordance with this Condition 6(c), may be withdrawn.

"**Change of Control**" means the Federal Agency for State Property Management, formerly the Federal Agency for Federal Property Management, of the Russian Federation and/or any other federal state authorities appropriately authorised to hold the shares of RAB (i) ceasing to own or control (directly or indirectly) at least 50 per cent. plus one share of the issued and outstanding voting share capital of RAB; or (ii) together no longer having the right to appoint or remove a majority of RAB's supervisory board.

"**Put Event**" means a Change of Control has occurred.

(d) ***Deferral Rights***: To the extent that the relevant Subordinated Loan Agreement in respect of Notes under a Subordinated Series contains provisions providing for the deferral by the CBR of the payment of the principal of and/or interest which is due and payable by RAB under the relevant Loan and pursuant to such provision the principal or interest is at any time up to and including the Repayment Date so deferred then any payment under such Notes in respect of such deferred principal and/or interest shall also be deferred until such time as the deferral of such amounts ceases under the relevant

Subordinated Loan Agreement and payments in respect thereof are actually received by or for the account of the Issuer pursuant to the relevant Subordinated Loan Agreement.

(e) ***Purchase***: The Facility Agreement provides that RAB or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. Such Notes may be held, sold in the open market or, at the option of RAB or such Subsidiary, surrendered by RAB or such Subsidiary, as the case may be, to the Issuer for cancellation, whereupon the Issuer shall instruct the Principal Paying Agent and Transfer Agent to cancel such Notes. Upon such cancellation by or on behalf of the Principal Paying Agent and Transfer Agent, the relevant Loan shall be deemed to have been prepaid by RAB in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and no further payments shall be made or required to be made by the Issuer in respect of such Notes.

This condition 6(e) will only apply to Subordinated Notes to the extent specified to be applicable in the relevant Final Terms.

(f) ***Compulsory Sale***: The Issuer may compel any beneficial owner of an interest in the Rule 144A Notes to sell its interest in such Notes, or may sell such interest on behalf of such holder, if such holder is not a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and a qualified purchaser (as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940).

7. **Payments and Agents**

(a) ***General***: Subject as provided below:

(i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with, or, at the option of the payee, by a cheque in such Specified Currency drawn on, a bank in the principal financial centre of the country of such Specified Currency; and

(ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro cheque.

(b) ***Presentation of Bearer Notes, Receipts and Coupons***: Payments of principal in respect of Bearer Notes will (subject as provided below) be made in the manner provided in paragraph 7(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Bearer Notes, and payments of interest in respect of Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in paragraph 7(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in paragraph 7(a) above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the Bearer Note to which it appertains. Receipts presented without the Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note or Long Maturity Note in bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon **provided that** such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant Bearer Note.

(c) ***Payments in respect of Registered Notes***: Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any Paying Agent. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the Register and the Issuer's Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date for payment thereof (the "**Record Date**"). Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account maintained by a holder with a Designated Bank and identified as such in the Register and the Issuer's Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register and the Issuer's Register at the Record Date at his address shown in the Register and the Issuer's Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar before the Record Date, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

(d) ***General***: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) ***Payment Day***: If the due date for payments of interest or principal is not a business day, a Noteholder shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "*Financial Centres*" hereon, and (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency or (ii) (in the case of a payment in euro) which is a business day on which the TARGET System is operating.

(f) ***Agents***: The names of the initial Paying Agents and their initial specified offices are set out below. The Paying Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent and Transfer Agent or any of the Paying Agents, and appoint additional or other paying agents **provided that** (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will be a Paying Agent and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive.

Notice of any termination or appointment of any Paying Agent and of any change in Specified Officers will be given to the Noteholders promptly by the Issuer in accordance with Condition 14 (*Notices*).

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified hereon shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

Save as otherwise directed by the Trustee at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 7 of the Paying Agency Agreement require RAB, as the case may be, to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Principal Paying Agent and Transfer Agent to an account in the name of the Issuer (the

"**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of the Noteholders less any Reserved Rights.

(g) ***U.S. Dollar Payment Election***: If the Specified Currency is not U.S. dollars and if so specified in the relevant Final Terms, a Noteholder may, on giving to any Paying Agent not less than 15 nor more than 30 days' notice (the "**Currency Election Period**") prior to the relevant Interest Payment Date (in the case of payments of interest) or prior to the Maturity Date (or any other date specified for the payment of principal) (in the case of payments of principal), elect to receive the next following payment of principal or interest in respect of the Notes in U.S. dollars. Upon any such election (a "**Currency Election**"), the obligation of the Issuer to make payment of such principal or interest to the relevant Noteholder shall, and the relevant Noteholder will be required to confirm and agree in its Election Notice that it shall, be satisfied by the Issuer making the relevant payment to the Currency Agent, whereupon, such interest or principal will be converted into U.S. dollars by the Currency Agent and paid on the relevant payment date in accordance with the provisions of clause 6.1 of the Agency Agreement. To exercise the right to require payment in U.S. dollars, the holder of the Notes must deliver at the specified office of any Paying Agent on any Business Day falling within the Currency Election Period, a duly signed and completed notice of currency election (in the form set out in the schedule to the Relevant Supplemental Agency Agreement for the time being current and which may, if the Certificate for such Notes is held in a clearing system, be in any other form acceptable to such clearing system and delivered in any manner acceptable to such clearing system) obtainable from any specified office of any Agent (an "**Election Notice**") and in which the holder must specify a U.S. dollar bank account to which payment is to be made under this Condition 7(g). An Election Notice given by a holder of any Note shall be irrevocable. For the purposes of this Condition 7, "**Relevant Supplemental Agency Agreement**" means a supplemental paying agency agreement entered into between the Issuer, RAB, the Trustee and the Agents named therein, for the purposes of amending the Paying Agency Agreement to allow relevant Noteholders to elect to receive payments of principal or interest in U.S. dollars rather than in the Specified Currency and "**Currency Agent**" means the Agent appointed as such in the Relevant Supplemental Agency Agreement and specified in the relevant Final Terms.

Where this Condition 7(g) is specified in the relevant Final Terms as being applicable, payments of principal and interest in respect of a rouble-denominated Rule 144A Global Note Certificate will be made, or procured to be made, by the Currency Agent in accordance with the Relevant Supplemental Agency Agreement (i) in Russian roubles, in the case of a DTC participant who has irrevocably elected to receive payments on the Notes in Russian roubles and has so notified DTC on or prior to the time required by DTC for payments on the Notes to be made in Russian roubles, by transfer of same day funds to the Russian rouble bank account designated by such DTC participant, and (ii) in U.S. dollars, in the case of all other DTC participants, by the U.S. Paying Agent crediting the participant's U.S. dollar account at DTC with the participant's pro-rata portion of the U.S. dollars purchased with the applicable Rouble Amount by the Currency Agent pursuant to the Relevant Supplemental Agency Agreement. To the extent the Currency Agent receives notification from or on behalf of DTC participants of their election to receive roubles in accordance with the Conditions and the Rule 144A Global Note Certificate, the Currency Agent shall arrange for payment in accordance with the wire instructions received from such DTC participant.

Where this Condition 7(g) is specified in the relevant Final Terms as being applicable, payments of principal and interest in respect of the Reg S Global Note Certificate will be made, or procured to be made, by the Currency Agent in accordance with the Relevant Supplemental Paying Agency Agreement (i) in U.S. dollars, to the extent the Currency Agent receives notification from or on behalf of accountholders in Euroclear and/or Clearstream, Luxembourg of their irrevocable election to receive payment in U.S. dollars and (ii) for all other accountholders in Euroclear and/or Clearstream, *Luxembourg, in roubles, in each case through the facilities of Euroclear and Clearstream, Luxembourg.*

The only obligation of the Issuer in respect of any amount of principal or interest in respect of which an Election Notice has been duly delivered by the relevant Noteholder is to pay an amount equivalent to the amount (if any) in respect of the relevant principal or interest actually received by or for the account of the Issuer pursuant to the Loan Agreement to the Currency Agent and it shall have no further liability in respect thereof to the relevant Noteholders and the obligation of RAB to make payments of principal and interest pursuant to the Loan Agreement shall be satisfied by RAB making payment in full of the amount in the Specified Currency of the interest or principal then due pursuant to the Loan Agreement. Neither the Issuer nor RAB accepts any responsibility for any failure by the Currency Agent to make any payment of interest or principal in U.S dollars to the relevant Noteholder pursuant to this Condition 7(g), except to the extent such failure results from (i) the failure by the Issuer to pay the full amount in the Specified Currency of principal or interest then due, or (ii) the insolvency of the Currency Agent.

8. Taxation

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Luxembourg or any governmental or political subdivision or any authority thereof or agency therein or thereof having power to tax unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall, subject as provided below, pay such additional payments ("**Additional Amounts**") as shall result in the receipt by the Noteholders, Receiptholders or Couponholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from RAB under the Loan Agreement. To the extent that the Issuer receives a lesser Additional Amount from RAB, the Issuer will account to each Noteholder, Receiptholder or Couponholder for an Additional Amount equivalent to a *pro rata* proportion of such Additional Amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer **provided that** no such Additional Amount will be payable in respect of any Note, Receipt or Coupon:

8.1 to a Noteholder, Receiptholder or Couponholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with Luxembourg other than (i) the mere holding of such Note, Receipt or Coupon, (ii) the receipt of payments in respect thereof or (iii) the enforcement by such Noteholders, Receiptholders or Couponholders of its rights under such Note or Coupon;

8.2 in respect of a Note, Receipt or Coupon presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note, Receipt or Coupon had been presented for payment on such 30^{th} day;

8.3 where such withholding or deduction is imposed or levied on a payment to an individual and a residual entity within the meaning of the European Council Directive 2003/48/EC 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 (and any amendments thereof) and the agreements on savings income concluded by Luxembourg with several dependant or associated territories of the EU (including Jersey, Guernsey, the Isle of Man, the British Virgin Islands, Montserrat, the Netherlands Antilles and Aruba) as well as the law of 23 December 2005 (as amended) introducing a 10 per cent. withholding tax as regards Luxembourg resident individuals; or

8.4 in respect of a Note, Receipt or Coupon presented for payment by or on behalf of a Noteholder, Receiptholder or Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by RAB has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders, Receiptholders or Couponholders by or on behalf of the Issuer in accordance with Condition 14 (*Notices*).

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 (*Taxation*) or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Luxembourg, references in these Conditions to Luxembourg shall be construed as to Luxembourg and/or any such other jurisdiction.

9. Enforcement

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

At any time after the occurrence of an Event of Default (as defined in the Loan Agreement) or of a Relevant Event (as defined in the Trust Deed) the Trustee may, at its discretion and without notice and shall, if requested to do so by Noteholders owning 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified and/or prefunded to its satisfaction, (i) (in the case of an Event of Default in respect of a Senior Series only) declare all amounts payable under the Senior Loan Agreement by RAB to be due and payable, (ii) (in the case of an Event of Default in respect of a Subordinated Series only) take the action permitted to be taken by the Issuer under the relevant Subordinated Loan Agreement, or (iii) (in the case of a Relevant Event) exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee. Upon repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10. Meetings of Noteholders; Modification of Notes, Trust Deed and Loan Agreement; Waiver; Substitution of the Issuer; Appointment/Removal of Trustees

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, the Loan Agreement or the Trust Deed. Noteholders will vote according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not and on all Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, the Trust Deed and the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders.

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 Terms and Conditions of the Notes or the Trust Deed, or by RAB of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (as a class). Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Issuer may, and at the request of RAB shall, having obtained the consent of RAB (if such substitution is not to be made at the request of RAB) and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed and as party to the Loan Agreement, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

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 or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

The Trust Deed contains provision for the appointment or removal of a Trustee by a meeting of Noteholders passing an extraordinary resolution, **provided that**, in the case of the removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 14 (*Notices*). The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders **provided that** such retirement shall not become effective unless there remains a trustee in office after such retirement.

11. Prescription

Notes (whether in bearer or registered form), Receipts and Coupons will become void unless the relevant Certificates are presented for payment within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7(b) or any Talon which would be void pursuant to Condition 7(b).

12. Indemnification of Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified to its satisfaction and, without limitation, against all liabilities, proceedings, actions, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith. The Trust Deed provides for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for the Noteholders to take action directly. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or RAB and any entity related to the Issuer and/or RAB without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed, for the performance by RAB of its obligations under or in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

The Trustee may, in making any determination under these Terms and 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.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Potential Event of Default, Event of Default or Relevant Event (as defined in the Trust Deed) has occurred.

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the Irish Stock Exchange or any other relevant stock exchange, the Trustee shall not be required to disclose to any Noteholder any confidential, financial or other information made available to the Trustee by the Issuer or by RAB.

13. **Replacement of Notes, Receipts, Coupons and Talons**

If any Note, Receipt, Coupon or Talon shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the Registrar (in the case of Registered Notes) or at the specified office of the Principal Paying Agent and Transfer Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

14. **Notices**

Subject to all applicable laws, all notices to the holders of Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the Financial Times in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

Subject to all applicable laws, all notices to the holders of Registered Notes shall be deemed to have been duly given if (i) posted to such Noteholders at their respective addresses as shown on the Register and (ii) so long as the Notes are listed on the Irish Stock Exchange and the rules of that exchange so require, published in a daily newspaper of general circulation in Ireland approved by the Trustee, currently expected to be the Irish Times. Any such notice shall be deemed to have been given on the first date on which both conditions shall have been met.

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above, then such notification to such holders as shall be given with the approval of the Trustee shall constitute sufficient notice to such holders for every purpose hereunder.

15. **Further Issues**

The Issuer may from time to time, with the consent of RAB 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 amount, issue price, issue date and/or the date of the first payment of interest) so as to be consolidated and form a single series with the Notes. Such further Notes shall be constituted by a deed supplemental to the Supplemental Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to any further issue which is to be consolidated and form a single series with the Notes, (i) the Issuer will enter into a loan agreement supplemental to the Loan Agreement with RAB on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Loan) and (iii) 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 the Issuer will provide a further fixed charge in favour of the Trustee in respect of certain of its rights and interests under any further Loan Agreement as so amended and will assign absolutely certain of its rights under such further Loan Agreement as amended to secure amounts due on the Notes and such further Notes.

*Noteholders should note that additional securities that are treated as a single series for non-tax purposes may be treated as a separate series for U.S. federal income tax purposes. In such case, the new securities may be considered to have been issued with original issue discount ("**OID**"), as defined in the U.S. Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations issued thereunder, which may affect the market value of the Notes since such additional securities may not be distinguishable from the Notes.*

16. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

17. **Governing Law and Jurisdiction**

The Notes, the Paying Agency Agreement and the Trust Deed and all other agreements entered into in connection therewith, are governed by, and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

SUMMARY OF THE PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Note Certificates

Each Series of Notes will be evidenced on issue by (i) in the case of Regulation S Notes, a Regulation S Global Note Certificate deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note Certificate deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Note, as evidenced by a Regulation S Global Note Certificate, may be held only through Euroclear or Clearstream, Luxembourg at any time. See "*— Book Entry Procedures for the Global Note Certificates.*" On acquisition of a beneficial interest in a Regulation S Note, as evidenced by a Regulation S Global Note Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person and that, prior to the expiration of 40 days after completion of the distribution of the Series of which such Notes are a part as determined by the relevant Dealer (or in the case of a Series of Notes sold to or through more than one relevant Dealer, by each of such relevant Dealers as to the Notes of such Series sold by or through it (the "**distribution compliance period**"), it will not offer, sell, pledge or otherwise transfer such interest except to a person whom the seller reasonably believes to be a non U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See "*Transfer Restrictions.*" Beneficial interests in a Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, may only be held through DTC at any time. See "*— Book Entry Procedures for the Global Note Certificates.*" By acquisition of a beneficial interest in a Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, 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 Paying Agency Agreement. See "*Transfer Restrictions*".

Beneficial interests in either the Regulation S Notes or the Rule 144A Notes, as evidenced by the relevant Global Note Certificates, will be subject to certain restrictions on transfer set forth thereon and in the Paying Agency Agreement, and with respect to Rule 144A Notes, as set forth in Rule 144A, and on the Rule 144A Global Note Certificates will bear the legends set forth thereon regarding such restrictions set forth under "*Transfer Restrictions.*" A beneficial interest in a Regulation S Note, as evidenced by a Regulation S Global Note Certificate, may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, and only upon receipt by the Registrar of a written certification (in the form provided in the Paying 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 a Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, may be transferred to a person who takes delivery in the form of an interest in a Regulation S Note, as evidenced by a Regulation S Global Note Certificate, only upon receipt by the Registrar of a written certification (in the form provided in the Paying Agency Agreement) from the transferor to the effect that the transfer is being made to a non U.S. person and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Note, as evidenced by a Regulation S Global Note Certificate, that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, will, upon transfer, cease to be an interest in the Regulation S Note, as evidenced by a Regulation S Global Note Certificate, and become an interest in the Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, for as long as it remains such an interest. Any beneficial interest in a Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, that is transferred to a person who takes delivery in the form of an interest in a Regulation S Note, as evidenced by a Regulation S Global Note Certificate, will, upon transfer, cease to be an interest in the Rule 144A Note, as evidenced by one or more Rule 144A Global Note Certificates, and become an interest in the Regulation S Note, as evidenced by a Regulation S Global Note Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Note, as evidenced by a Regulation S Global Note Certificate, 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 Regulation S Notes or the Rule 144A Notes, as evidenced by the relevant Global Note Certificate will not be entitled to receive physical delivery of individual Note certificates (the "**Individual Note Certificates**"). The Notes are not issuable in bearer form.

Amendments to the Terms and Conditions

Each Global Note Certificate contains provisions that apply to the Notes that they evidence, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

- ***Payments***. Payments of principal and interest in respect of Notes evidenced by a Global Note Certificate will be made against presentation for endorsement by the Principal Paying Agent and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note Certificate to or to the order of the Principal Paying Agent and Transfer Agent or such other Paying Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

- ***Notices***. So long as any Notes are evidenced by a Global Note Certificate and the relevant Global Note Certificate is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by the Terms and Conditions of such Notes **provided that** for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require, notices will also be published in a leading newspaper having general circulation in Ireland (which is expected to be the *Irish Times*).

- ***Meetings***. The holder of an interest in a Global Note will be treated as being one person for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of Notes for which the relevant Global Note Certificate may be exchangeable.

- ***Trustee's Powers***. In considering the interests of Noteholders while interests in the relevant Global Note are held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, 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 an interest in such Global Note and may consider such interests as if such accountholders were the holders of an interest in such Global Note.

- ***Cancellation***. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note.

- **Payment Record Date**. Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

- ***Redemption at the Option of Noteholders***. If a Put Option (as defined in the "*Terms and Conditions of the Notes*") occurs, the Issuer must, upon becoming aware of the occurrence of a Change of Control, promptly give notice to the Noteholders in accordance with the "*Terms and Conditions of the Notes*" and the standard procedures of DTC, Euroclear and Clearstream, Luxembourg of such Change of Control. For so long as all of the Notes are evidenced by the Global Note Certificates and the relevant Global Note Certificates are held on behalf of Euroclear and/or Clearstream, Luxembourg and DTC, as applicable, such option of the

Noteholders to require redemption of the Notes may be exercised by an accountholder (shown in the records of Euroclear and/or Clearstream, Luxembourg and DTC, as applicable, as the holder of Notes) giving notice to a Paying Agent in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC of the principal amount of the Notes in respect of which such option is to be exercised, not later than 30 days after the Issuer has given the notice of the Change of Control referred to above. Following presentation of the relevant Global Note Certificates to the Principal Paying Agent and Transfer Agent for notation, the Issuer shall (subject to certain limitations on the obligation of payment of the Issuer in Condition 6 (*Redemption and Purchase*)) redeem the relevant proportion of each relevant Global Note five business days after the expiration of the 30 day period detailed above and the Paying Agent will mark down the relevant Global Note Certificates in accordance with the terms of the Paying Agency Agreement.

Exchange for Individual Note Certificates

Exchange

Each Global Note Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Individual Note Certificates if: (i) interests in the relevant Global Note are held by or on behalf of (A) DTC, and DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Note or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934 (the "**Exchange Act**") or if at any time it is no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC or (B) Euroclear or Clearstream, Luxembourg, and Euroclear or Clearstream, Luxembourg, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any Transfer Agent or (ii) 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 Individual Note Certificates and a notice to such effect signed by two directors of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or any Transfer Agent and the Noteholders, of its intention to exchange the relevant Global Note Certificate for Individual Note Certificates on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the relevant Global Note may surrender such Global Note Certificate evidencing such Global Note to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note Certificate, as provided in the Paying Agency Agreement, the Registrar will deliver, or procure the delivery of, an equal aggregate amount of duly executed and authenticated Individual Note Certificates in or substantially in the form set out in the relevant schedule to the Trust Deed.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note for interests evidenced by Individual Note Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest or on the date of optional redemption in respect of the Notes.

"**Exchange Date**" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note Certificate shall be exchanged in full for Individual Note Certificates and the Issuer will, at the cost of RAB (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note, as evidenced by a Global Note Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of a Rule 144A Note only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB that is also a QP. Individual Note Certificates issued in exchange for one or more Rule 144A Global Note Certificate evidencing beneficial interests in a Rule 144A Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions.*"

Legends

The holder of an Individual 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 Rule 144A Individual Note Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Rule 144A Individual Note Certificate, the Issuer will deliver only Rule 144A Individual 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 Note Certificates

For each Series of Notes evidenced by both a Regulation S Global Note Certificate and a Rule 144A Global Note Certificate, custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "*— Book Entry Ownership — Settlement and Transfer of Notes.*"

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream Luxembourg each holds securities for its customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under New York Banking Law, a "banking organisation" within the meaning of New York Banking Law, 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 holds securities that its Direct Participants deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book entry changes in accounts of its Direct Participants, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulation subsidiaries. Access to the DTC System is also available to its Indirect Participants, 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. More information about DTC can be found at www.dtcc.com and www.dtc.org..

Investors may hold their interests in Rule 144A 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 relevant Rule 144A Note as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "*Exchange for Individual Note Certificates*", DTC will surrender the relevant Rule 144A Global Note Certificates for exchange for Rule 144A Individual Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note Certificate evidencing Regulation S Notes of any Series will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg. The address of Euroclear is 1 Boulevard du Roi Albert II, B1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L 1855, Luxembourg.

DTC

The Rule 144A Global Note Certificate evidencing Rule 144A Notes of any Series will have a CUSIP number and will be deposited with a custodian for and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, USA.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note evidenced by a Global Note Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under the Global Note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note or for maintaining, supervising or reviewing any records relating to such ownership interests.

Rouble-denominated Notes

Where Condition 7(g) (*U.S. Dollar Payment Election*) is specified in the relevant Final Terms as being applicable, payments of principal and interest in respect of Rule 144A Global Note Certificates will be made, or procured to be made, by the Currency Agent in accordance with the provisions of the Relevant Supplemental Paying Agency Agreement (i) in roubles, in the case of a DTC participant who has irrevocably elected to receive payments on the Notes in roubles and has so notified DTC on or prior to the time required by DTC for payments on the Notes to be made in roubles, by transfer of same day funds to the rouble bank account designated by such DTC participant, and (ii) in U.S. dollars, in the case of all other DTC participants, by the U.S. Paying Agent crediting the participant's U.S. dollar account at DTC with the participant's pro-rata portion of the U.S. dollars purchased with the applicable Rouble Amount (as defined below) by the Currency Agent pursuant to the Relevant Supplemental Paying Agency Agreement. To the extent the Currency Agent receives notification from or on behalf of DTC participants of their election to receive roubles in accordance with the Conditions and the Rule 144A Global Note Certificate, the Currency Agent shall arrange for payment in accordance with the wire instructions received from such DTC participant.

Where Condition 7(g) (*U.S. Dollar Payment Election*) is specified in the relevant Final Terms as being applicable, payments of principal and interest in respect of the Reg S Global Note Certificate will be made, or procured to be made, by the Currency Agent on the relevant Interest Payment Date in accordance with the provisions of the Relevant Supplemental Paying Agency Agreement (i) in U.S. dollars, to the extent the Currency Agent receives notification from or on behalf of accountholders in Euroclear and/or Clearstream, Luxembourg of their irrevocable election to receive payment in U.S. dollars and (ii) for all other accountholders in Euroclear and/or Clearstream, Luxembourg, in roubles, in each case through the facilities of Euroclear and Clearstream, Luxembourg. The Currency Agent shall, on or before 12:30 p.m. (Moscow time) on each relevant Interest Payment Date in respect of which the Currency Agent shall have received notification pursuant to the Relevant Supplemental Paying Agency Agreement, purchase U.S. dollars with the related aggregate rouble amount ("**Rouble Amount**") for delivery on the relevant Interest Payment Date, at a purchase price equal to (a) the bid price then used by the Currency Agent to purchase U.S. dollars with roubles for its own account, or (b) if no such bid price is then available from the Currency Agent, at the bid price for the purchase of U.S. dollars with roubles quoted by a leading foreign exchange bank in London or New York City selected by the Currency Agent, in each case for delivery on the relevant Interest Payment Date, and shall ensure that the purchase of U.S. dollars with the related Rouble Amount on each relevant Interest Payment Date represents the 'best execution' for that trade then available to the Currency Agent.

On each relevant Interest Payment Date in respect of which the Currency Agent shall have received notification pursuant to the Relevant Supplemental Paying Agency Agreement, the Currency Agent shall give due notice to Noteholders in accordance with Condition 14 of (a) the total amount of U.S. dollars purchased with the related Rouble Amount, (b) the bid quotation at which such U.S. dollars were purchased by the Currency Agent and (c) whether such U.S. dollars were purchased from the Currency Agent or from another leading foreign exchange bank in London or New York City.

With respect to any Global Note Certificate, as early as practicable on the relevant Interest Payment Date, (a) the Paying Agent will remit to the Currency Agent the Rouble Amount in respect of that payment date, (b) the Currency Agent will pay, or procure the payment of, the U.S. dollar amount purchased with the Rouble Amount to the Paying Agents, and (c) the Paying Agents will, in accordance with instructions received from the Currency Agent, pay, or procure the payment of, the U.S. dollar amount received from the Currency Agent (i) pro-rata to their interests in the 144A Global Note Certificate, to DTC participants that have not made an irrevocable election to receive payment in roubles on the relevant Interest Payment Date, by wire transfer of same day funds for value the due date for payment or, if the due date for payment is not a Business Day, the next succeeding day which is a Business Day, and (ii) pro-rata to their interests in the Reg S Global Note Certificate, to Euroclear and Clearstream, Luxembourg accountholders that have made an irrevocable election to receive payments in U.S. dollars, through the facilities of Euroclear and Clearstream, Luxembourg.

If, while Notes are represented by Global Note Certificates, for any reason no bid quotation for the purchase of U.S. dollars with the Rouble Amount is available on a relevant Interest Payment Date, the Currency Agent shall so notify the Paying Agent, and the Paying Agent shall (a) hold the Rouble Amount until the relevant DTC participants make alternative arrangements for receipt of payment in roubles and (b) make payment on the Notes in roubles to accountholders in Euroclear and Clearstream, Luxembourg.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates evidencing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for interests evidenced by Individual Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Rule 144A Global Note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same Day Funds Settlement ("**SDFS**") system in same day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book entry interests in Notes are to be transferred from the account of a DTC participant holding a beneficial interest in a Rule 144A Global Note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in a Regulation S Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note evidenced by one or more Rule 144A Global Note Certificates will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificate of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificate. Book entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a Rule 144A Global Note (subject to the certification procedures provided in the Paying Agency Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note who will in turn deliver such book entry interests in the Notes free of payment to the relevant account of the DTC participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by a Regulation S Global Note Certificate; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note Certificate.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of a beneficial interest in a Global Note among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Issue Date thereof, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the relevant Issue Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the relevant Issue Date should consult their own advisers.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in an amended and restated Dealer Agreement dated 11 May 2012 (the "**Dealer Agreement**") between the Issuer, RAB and the Permanent Dealers, the Notes will be offered from time to time by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series of Notes pursuant to the Dealer Agreement. Any agreement for the sale of Notes will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, whether the placement of the Notes is underwritten or sold on an agency basis only, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) which are payable or allowable by the Issuer in respect of such purchase and the form of any indemnity to the Dealers against certain liabilities in connection with the offer and sale of the relevant Notes. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Dealer Agreement also provides for Notes to be issued in syndicated Series that may be jointly and severally underwritten by two or more Dealers.

Each of the Issuer and RAB has agreed to indemnify the Dealers against certain losses, as set out in the Dealer Agreement. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for the Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Selling Restrictions

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, 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 Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Dealer 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 and 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 States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer or sell the Notes of any Series (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of the Notes of such Series within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes of any Series (other than a sale pursuant to Rule 144A) during the distribution compliance period with respect to that Series a confirmation or other notice setting forth the restrictions on offers and sales of the Notes of that Series within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes of a Series, 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.

Notes offered and sold outside the United States to non U.S. persons may be sold in reliance on Regulation S. The Dealer Agreement provides that the Dealer(s) may directly or through their respective U.S. broker dealer affiliates arrange for the offer and resale of Notes within the United States only to persons whom they reasonably believe are QIBs and QPs who can represent that (a) they are QPs who are QIBs within the meaning of Rule 144A, (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 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$100,000 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 depositories and (h) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States or to any U.S. person other than any QIB who is also a QP and to whom an offer has been made directly by one of the Dealers or its U.S. broker dealer affiliate. Distribution of this Base Prospectus by any non U.S. person outside the United States or by any QIB that is a QP within the United States to any U.S. person or to any other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non U.S. person or QIB that is a QP with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB that is a QP and those persons, if any, retained to advise such non U.S. person or QIB that is a QP, is prohibited.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

In respect of Bearer Notes where TEFRA D is specified in the applicable Final Terms the relevant Dealer will be required to represent and agree that:

(a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (the D Rules), (i) it has not offered or sold, and during the restricted period it will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person, and (ii) it has not delivered and it will not deliver within the United States or its possessions definitive Bearer Notes that are sold during the restricted period;

(b) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6);

(d) with respect to each affiliate that acquires Bearer Notes from it for the purpose of offering or selling such Notes during the restricted period, it repeats and confirms the representations and agreements contained in subclause (a), (b), (c) and (d) on such affiliate's behalf; and

(e) each Dealer agrees that it will obtain from any distributor (within the meaning of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(4)(ii)) that purchases any Bearer Notes from it pursuant to a written contract with such Dealer, except a distributor that is one of its affiliates or is another dealer, for the benefit of the relevant Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of clauses (a),(b), (c), (d) and (e) as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder, including the D Rules.

In respect of Bearer Notes where TEFRA C is specified in the applicable Final Terms, the relevant Dealer will be required to represent and agree that:

(a) it understands that under U.S. Treas. Reg. §1.163-5(c)(2)(i)(C) (the C Rules), Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance;

(b) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions in connection with the original issuance of the Bearer Notes; and

(c) in connection with the original issuance of the Bearer Notes it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such prospective purchaser or such Dealer is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of the Bearer Notes.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder, including the C Rules.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") by the Issuer;

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom; and

(c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

Russian Federation

Each Dealer 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.

Under Russian law, the Notes are securities of a foreign issuer. Russian securities laws permit the placement and public offering of the Notes in Russia only upon fulfilment of certain admittance procedures (which may include registration of the securities prospectus with the regulator) provided for under Russian law. Neither the issue of the Notes nor a securities prospectus in respect of the Notes has been, or is intended to be, registered with the Federal Service for Financial Markets of the Russian Federation. The information provided in this Base Prospectus is not an offer, advertisement, or invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity.

Luxembourg

(A) In addition to the cases described in the section above entitled "*Public Offer Selling Restriction under the Prospectus Directive*" in which each Dealer can make an offer of Notes to the public in an EEA Member State (including the Grand Duchy of Luxembourg), a public offer of Notes, other than the Notes referred to under (B) below, can also be made in the Grand Duchy of Luxembourg:

(a) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank) and other similar international organisations;

(b) at any time, to legal entities which are authorised or regulated to operate in the financial markets (including credit institutions, investment firms, other authorised or regulated financial institutions, undertakings for collective investment and their management companies, pension and investment funds and their management companies, insurance undertakings and commodity dealers) as well as entities not so authorised or regulated whose corporate purpose is solely to invest in securities; and

(c) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Prospectus Act 2005) recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the Commission de Surveillance du Secteur Financier ("**CSSF**") as competent authority in Luxembourg in accordance with the Prospectus Directive.

(B) The Notes with a maturity of less than 12 months that may qualify as securities and money market instruments in accordance with article 4.2(j) of the Luxembourg Prospectus Law may not be offered or sold to the public within the territory of the Grand-Duchy of Luxembourg unless:

(a) a simplified prospectus has been duly approved by the CSSF pursuant to part III of the Luxembourg Law of 10 July 2005 on prospectuses for securities (the "**Luxembourg Prospectus Law**"); or

(b) the offer benefits from an exemption to or constitutes a transaction not subject to, the requirement to publish a simplified prospectus under part III of the Luxembourg Prospectus Law.

Korea

The Notes have not been and will not be registered under the Financial Investment Services and Capital Market Act. Each Dealer has represented and agreed, and each new Dealer further appointed under the Programme will be required to represent and agree, that Notes have not been and will not be offered, delivered or sold directly or indirectly in Korea or to any Korean resident (as such term is defined in the

Foreign Exchange Transaction Law) for a period of one (1) year from the date of issuance of the Notes, except (a) to or for the account or benefit of a Korean resident which falls within certain categories of "professional investors" as specified in the Financial Investment Services and Capital Markets Act, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, in the case that the Notes are issued as bonds other than convertible bonds, bonds with warrants or exchangeable bonds, and where other relevant requirements are further satisfied, or (b) as otherwise permitted under applicable Korean laws and regulations.

Hong Kong

The contents of this Base Prospectus have not been reviewed by any regulatory authority in Hong Kong nor has a copy of it been registered by the Registrar of Companies in Hong Kong. Each Dealer has represented and agreed that no Notes (except for Notes which are "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) have been offered or sold, and will not be offered or sold in Hong Kong, by means of any document, other than (i) to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to any Notes, in Hong Kong has been or will be issued, or has been or will be in the possession of any person for the purposes of issue, which is directed at, or the contents of which are likely to be accessed or read by, the public in 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.

Singapore

This Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Dealer has represented and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA, (b) to a relevant person under Section 275(1) of the SFA, or to any person pursuant to 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) 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 (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) 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 SFA except:

    (i) to an institutional investor, or to a relevant person defined in Section 275(2) of the SFA, (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

    (ii) where no consideration is or will be given for the transfer; or

    (iii) where the transfer is by operation of law; or

    (iv) pursuant to Section 276(7) of the SFA.

General

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable securities laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Base Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or RAB.

No action has been or will be taken in any jurisdiction by the Issuer, RAB or any of the Dealers that would, or is intended to, permit a public offer of the Notes or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each Dealer has undertaken to the Issuer and RAB that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

These selling restrictions may be modified by the agreement of the Issuer, RAB and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Notes to which it relates or in a supplement to this Base Prospectus.

The Arranger, the Dealers and their respective affiliates may have engaged in transactions with RAB and other members of the RAB Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Arranger and the Dealers may have performed various investment banking, financial advisory, and other services for RAB, for which they receive customary fees, and the Arranger, the Dealers and their respective affiliates may provide such services in the future.

TAXATION

The following is a general description of certain Russian, Luxembourg and U.S. tax considerations relating to the Notes and the Loan. It does not purport to be a complete analysis of all tax considerations relating to each Series of the Notes, whether in those counties or elsewhere. Prospective purchasers of any Series of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of any Series of the Notes and receiving payments of interest, principal and/or other amounts under any Series of the Notes and the consequences of such actions under the laws of those countries. This summary is based upon the law as in effect on the date of this Base Prospectus. 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 any Series of the Notes.

Russian Taxation

Taxation of the Notes

General

The following is an overview of certain Russian tax considerations relevant to the purchase, ownership and disposal of the Notes, as well as the taxation of interest income on the Loan. The overview is based on the laws of the Russian Federation in effect on the date of this Prospectus, which are subject to potential change (possibly with retroactive effect). The overview does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of the Russian Federation. Nor does the overview seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representations with respect to the Russian tax consequences of investing, owning or disposing of the Notes to any particular Noteholder is made hereby.

The provisions of the Russian Tax Code applicable to Noteholders and transactions involving the Notes are ambiguous and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be more inconsistent and subject to more rapid and unpredictable change 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 constitute the imposition of conditions, requirements or restrictions not provided for by the existing legislation. Similarly, in the absence of binding precedents court rulings on tax or related matters by different Russian courts relating to the same or similar circumstances may also be inconsistent or contradictory.

According to the Russian Tax Code, a tax resident is an individual who spent in Russia not less than 183 days within 12 consecutive months (days of medical treatment or education outside of the Russian Federation are also counted as Russian days if the individual departed from the Russian Federation for these purposes for less than six months).

The interpretation of this definition by the Ministry of Finance of the Russian Federation states that for tax withholding 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 his/her tax residence status for such calendar year, i.e. based on the number of Russian days in the 12- month period as of the end of such period.

For the purposes of this overview, a "non-resident Noteholder" means (i) an individual Noteholder who has not established a Russian tax residence status for the reporting calendar year as discussed above; or (ii) a legal entity or organisation in each case not organised under Russian law that holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

For the purposes of this overview, a "Russian resident Noteholder" means (i) an individual Noteholder who has established a Russian tax residence status for the reporting calendar year as discussed above; or (ii) a legal entity or organisation which is a Noteholder but is not a non-resident Noteholder defined in the previous paragraph.

The Russian tax treatment of interest payments made by RAB to the Issuer under the Loan Agreement may affect the holders of the Notes. See "*—Taxation of Interest Income on the Loan*" below.

Non-Resident Holders

A non-resident Noteholder should not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal, premium or interest on the Notes, subject to what is stated in "*—Taxation of Interest Income on the Loan*".

A non-resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on a redemption, sales or a disposal of the Notes outside the Russian Federation, provided that the proceeds of such sale, redemption, or other disposal of the Notes are not received from a source within the Russian Federation.

In the event that proceeds from sales, redemption or a disposal of Notes are received from a source within the Russian Federation, a non-resident Noteholder that is a legal entity or organisation should not be subject to Russian tax in respect of such proceeds, provided that no portion thereof is attributable to accrued interest. Any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at the rate of 20 per cent. subject to any available double tax treaty relief, even if the disposal itself results in a capital loss. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed. Non-resident Noteholders that are legal entities or organisations should consult their own tax advisers with respect to possibility of obtaining a respective double tax treaty relief.

If proceeds from sales, redemption or other disposal of the Notes are received from a Russian source, a non-resident Noteholder who is an individual (a "**non-resident individual Noteholder**") will generally be subject to tax at a rate of 30 per cent. subject to any available double tax treaty relief as discussed below, in respect of gross proceeds from such disposal less any available cost deduction (which includes the purchase price of the Notes). Any portion of the above proceeds from sale, redemption or other disposal of the Notes attributable to accrued interest income under the Notes which is received by a non-resident Noteholder from the Russian sources may be subject to tax at a rate of 30 per cent. subject to any available double tax treaty relief as discussed below. In this regard, if the Notes are disposed of in the Russian Federation, for Russian personal income tax purposes, the proceeds of such disposition (including any portion of such proceeds attributable to accrued interest income under the Notes) are likely to be regarded as received from a Russian source. In certain circumstances, if the disposal proceeds (including the interest income portion) are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax. Unless the tax is withheld by the payer, the non-resident individual Noteholder would be liable to pay the tax to the Russian budget.

In such a situation, there is a risk that the taxable base may be affected by fluctuations in the exchange rates between the currency of acquisition of the Notes, the currency of sale of the Notes and roubles. Non-resident Noteholders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within the Russian Federation in respect of a disposition of the Notes.

Resident Holders

A Russian resident Noteholder is subject to all applicable Russian taxes and responsible for complying with any documentation requirements that may be established by law or practice in respect of gains from disposal of the Notes and interest income received on the Notes. Resident Noteholders should consult their own tax advisers with respect to their tax position regarding the Notes.

Tax Treaty Relief

Advance 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, 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 – legal entity or organisation should present to the payer of income an apostilled (if possible in such Noteholder's country) or legalised confirmation of its tax residence, attaching a notarised translation in Russian. The confirmation should be presented before any payment is made and should be certified by the competent authority of the country of the Noteholder's tax residence. Such confirmation is valid for the calendar year in which it is issued. 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 the benefits of an applicable tax treaty a non-resident Noteholder which is an individual must provide to the Russian tax authorities a tax residency certificate issued by the competent authorities of his or her country of residence for tax purposes and a confirmation certified by the relevant foreign tax authorities of income received and tax paid to such foreign tax authority in relation to income with respect to which treaty benefits are claimed. Such requirements may be imposed even if they directly contradict the provisions of the applicable double tax treaty. Technically, these requirements mean that a non-resident Noteholder which is an individual cannot rely on a tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would not be able to obtain advance treaty relief in relation to income derived from Russian sources, as it is unlikely that the supporting documentation required for treaty relief can be provided to the Russian tax authorities and, consequently, approval from the latter likely cannot be obtained before the receipt of income by a non-resident Noteholder which is an individual. Non-resident individual Noteholders should consult their own tax advisers with respect to the possibilities to enjoy any double tax treaty relief or tax refund and the relevant Russian procedures.

Refund of Tax Withheld

For a non-resident Noteholder which is not an individual and for which double tax treaty relief is available, if Russian withholding tax on income was withheld by the source of payment, a refund of such tax is possible within three years from the end of the tax period in which the tax was withheld. In order to obtain a refund, the tax documentation confirming the right of the non-resident recipient of the income to double tax treaty relief is required.

If non-resident individual Noteholders do not obtain double tax treaty relief at the time the proceeds from a disposal of the Notes are paid to such non-resident individual Noteholders and income tax is withheld by a Russian payer of the income, such non-resident individual Noteholders may apply for a refund within one year from the end of the tax period in which the tax was withheld. The documentation requirements to obtain such a refund would include a confirmation of the income received and the taxes paid in the country of tax residence of the non-resident individual Noteholders as confirmed by the relevant tax authorities of such countries.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Russian Tax Code.

Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practical difficulties, including the possibility that a tax refund may be denied for various reasons and no assurance can be given that such a refund will be granted in practise.

Taxation of Interest Income on the Loan

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident legal entity or organisation are subject to Russian withholding income tax at a rate of 20 per cent. (or 30 per cent. in respect of non-resident individuals), subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received, RAB's management believes that interest payments on the Loan made by RAB to the Issuer should not be subject to withholding taxes under the terms of the Convention between the Grand Duchy of Luxembourg and the Russian Federation for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital signed on June 28, 1993 (the "**Convention**"), provided that the Russian tax documentation requirements (annual advance confirmation of the lender's tax residency) are satisfied.

The new protocol to the Convention was signed in 2011. The protocol introduces certain changes to the provisions of the Convention. Such changes include inter alia a limitation of benefits of a resident of one contracting state if the main purpose or one of the main purposes of the establishment and existence of such resident was receipt of treaty benefits; further exchange of information procedures are extended. Once the protocol is ratified and becomes effective, it may have an impact on future payments under the Loan Agreement.

A recent letter of the Ministry of Finance of the Russian Federation No. 03-08-13/1, dated 30 December 2011, expressed the view that the noteholders were the beneficial owners of interest payable by a Russian bank on the proceeds of a Eurobond offering that were placed as a deposit with the Russian bank by the issuer of the notes (the issuer was a special purpose vehicle established by the Russian bank). Although that letter refers to a deal structure which is not the same as the transaction structure described in the Prospectus, and refers to an issuer domiciled in a jurisdiction which is different from the jurisdiction of the Issuer, RAB cannot exclude the risk that the conclusions in the letter could potentially be applied by the Russian tax authorities to the payments of interest in respect of the Loan.

RAB is aware of at least one recent instance where the Russian tax authorities argued with respect to a transaction similar to the one described in the Prospectus that the Noteholders rather than the issuer should be regarded as the actual recipients of the interest income. The issuer in that particular transaction was located in a jurisdiction which is different from the Issuer's jurisdiction. This instance is currently being discussed, but, to the best of RAB's knowledge, has not been brought to court. If, in the instance above, the issue is brought before a Russian court and the court decides in favour of the Russian tax authorities, such decision could result in impairing the Issuer's and RAB's position to benefit from the withholding tax exemption provided by the Convention.

On the other hand, the expected amendments to the Russian Tax Code would nevertheless allow the interest on the Loan not to be subject to withholding, if such amendments are adopted. In particular, the Ministry of Finance of the Russian Federation is seeking to introduce into the Russian Tax Code an exemption from the obligation to withhold tax from interest paid under transactions similar to the transactions described herein. The relevant official communication and the draft amendments to the Russian Tax Code were posted on the website of the Ministry of Finance of the Russian Federation on 20 February 2012.

According to these draft amendments, in respect of Eurobonds issued prior to 1 January 2013 Russian borrowers are exempted from the obligation to withhold Russian withholding tax from interest payments made to foreign companies on debt obligations arising in connection with issuances by these foreign companies of quoted bonds, provided that (1) there is a double tax treaty between the Russian Federation and the jurisdiction of tax residence of the issuer, and (2) the issuer duly confirms its tax residence. The draft law does not provide tax exemption for the holders of Eurobonds from Russian tax on interest payments, although at present there is no mechanism or requirement for non-residents to self-assess and pay the tax if such tax has not been withheld by the Russian tax agent.

For the purpose of the above draft amendments, "quoted bonds" mean bonds and other debt obligations listed on one or more foreign stock exchanges specified in the list approved by the Federal authority for securities markets in consultation with the Ministry of Finance of the Russian Federation and/or rights to which bonds or obligations are recorded by a recognized depositary-clearing organisation located in a country which has concluded a double tax treaty with the Russian Federation which is specified in the list approved by the Federal authority for securities markets in consultation with the Ministry of Finance of the Russian Federation. To the best of our knowledge, these lists have not been drafted yet.

According to the official communication on the website of the Ministry of Finance of the Russian Federation, based on its consultations with the Federal Tax Service there are no plans to challenge borrowers in connection with payments relating to Eurobonds issued during 2012 in respect of which borrowers are expected to be released from any obligation as a tax agent under the proposed legislative amendments. The law should generally apply retrospectively to interest payments made after 1 January 2007, which, given the general three year limitation for tax audits, should mean that if the law is adopted tax agents in the above situation should not be challenged for not having withheld tax in prior periods. However, as discussed above this communication represents merely the intention of the fiscal authorities and not a binding commitment as to future actions by the authorities. The above amendments to the Russian Tax Code have not yet been discussed by the State Duma, therefore, we cannot guarantee that important aspects of this draft law will not change significantly; any such changes could have either positive or, alternatively, adverse effect on the tax treatment of the transaction described herein.

If the payments under the Loan are subject to any withholding taxes for any reason (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), RAB is required to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. It should be noted, however, that tax gross-up provisions in contracts may not be enforceable in the Russian Federation. In the event that RAB fails to increase the payments, such failure would constitute an Event of Default. If RAB obliged to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

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 the Russian Federation on any payment of interest or principal in respect of the Loan.

Luxembourg

Taxation of the holders of the Notes

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes, Receipts, Coupons and Talons should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, please note that a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivités*), municipal business tax (*impôt commercial communal*), a solidarity surcharge (*contribution au fonds pour l'emploi*) as well as personal income tax (impôt sur le revenu) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge invariably apply to most corporate taxpayers resident in Luxembourg for tax purposes. Individual taxpayers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may also apply.

Withholding tax

All payments of interest and principal by the Issuer in the context of the holding, disposal, redemption or repurchase of the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

(i) the application of the Luxembourg laws of 21 June 2005, as amended, implementing the European Union Savings Directive (Council Directive 2003/48/EC) and several agreements concluded with certain dependent or associated territories and providing for the possible application of a withholding tax of 35 per cent. from 1 July 2011 on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called "**Residual Entities**") in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the above mentioned directive (see section "**EU Savings Directive**" below) or agreements;

(ii) the application as regards Luxembourg resident individuals of the Luxembourg law of 23 December 2005, as amended, (the "**Law**"), which has introduced a 10 per cent. withholding tax on savings income (i.e., with certain exemptions, savings income within the meaning of the Luxembourg laws of 21 June 2005 implementing the European Union Savings Directive (Council Directive 2003/48/EC)). This law applies to savings income accrued as from 1 July 2005 and paid as from 1 January 2006.

Pursuant to the Law, Luxembourg resident individuals can opt to self declare and pay a 10 per cent. levy on interest payments made by paying agents located in a Member State of the European Union other than Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an agreement directly relating to the EU Savings Directive (Council Directive 2003/48/EC) on the taxation of savings income.

The 10 per cent. withholding tax as described above or the 10 per cent. levy are final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

Responsibility for the withholding of tax in application of the above mentioned Luxembourg laws of 21 June 2005 and the Law is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer (unless the Issuer acts as a paying agent).

Taxes on Income

(i) **Non-resident holders of Notes**

A non-resident holder of Notes, not having a permanent establishment or permanent representative in Luxembourg to which/whom such Notes are attributable, is not subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes. A gain realised by such non-resident holder of Notes on the sale or disposal, in any form whatsoever, of the Notes is further not subject to Luxembourg income tax.

A non-resident corporate holder of Notes or an individual holder of Notes acting in the course of the management of a professional or business undertaking, who has a permanent establishment or permanent representative in Luxembourg to which or to whom such Notes are attributable, is subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the Notes and on any gains realised upon the sale or disposal, in any form whatsoever, of the Notes.

(ii) **Resident holders of Notes**

Holders of Notes who are residents of Luxembourg will not be liable for any Luxembourg income tax on repayment of principal.

(a) ***Luxembourg resident corporate holder of Notes***

A corporate holder of Notes must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realised on the sale or disposal, in any form whatsoever, of the Notes, in its taxable income for Luxembourg income tax assessment purposes.

A corporate holder of Notes that is governed by the law of 11 May 2007 on family estate management companies, or by the law of 17 December 2010 on undertakings for collective investment, or by the law of 13 February 2007 on specialised investment funds, as amended, is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium or issue discount, nor on gains realised on the sale or disposal, in any form whatsoever, of the Notes.

(b) ***Luxembourg resident individual holder of Notes***

An individual holder of Notes, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax at progressive rates in respect of interest received, redemption premiums or issue discounts, under the Notes, except if (i) withholding tax has been levied on such payments in accordance with the Law, or (ii) the individual holder of the Notes has opted for the application of a 10% tax in full discharge of income tax in accordance with the Law, which applies if a payment of interest has been made or ascribed by a paying agent established in a EU Member State (other than Luxembourg), or in a Member State of the European Economic Area (other than a EU Member State), or in a state that has entered into a treaty with Luxembourg relating to the Savings Directive. A gain realised by an individual holder of Notes, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Law.

An individual holder of Notes acting in the course of the management of a professional or business undertaking must include this interest in its taxable basis. If applicable, the tax levied in accordance with the Law will be credited against his/her final tax liability.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

(i) the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions to the exception of the following entities that are net wealth tax exempt, being (i) undertakings for collective investment (UCITS) within the meaning of the law of 17 December 2010, (ii) investment company in risk capital (SICAR) within the meaning of the law dated 15 June 2004, as amended, (iii) securitisation entities within the meaning of the law dated 22 March 2004, (iv) special investment funds within the meaning of the law of 13 February 2007, as amended, and (v) family estate management companies within the meaning of the law of 11 May 2007; or

(ii) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg.

As regards individuals, the Luxembourg law of 23 December 2005 has abrogated the net wealth tax starting with the year 2006.

Other Taxes

In principle, neither the issuance nor the transfer, repurchase or redemption of Notes will give rise to any Luxembourg registration tax or similar taxes.

However, a nominal registration duty may be due upon the registration of the Notes in Luxembourg in the case of legal proceedings before Luxembourg courts or in case the Notes must be produced before an official Luxembourg authority, or in the case of a registration of the Notes on a voluntary basis.

Where a holder of Notes is a resident of Luxembourg for tax purposes at the time of his/her death, the Notes are included in his/her taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Notes if embodied in a Luxembourg deed passed in front of a Luxembourg notary or recorded in Luxembourg.

Value Added Tax

There is no Luxembourg value added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

Residence

A Noteholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of a Note or the execution, performance, delivery and/or enforcement of the Note.

EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income (the "**EU Savings Directive**"). The EU Savings Directive is, in principle, applied by Member States as from 1 July 2005 and has been implemented in Luxembourg by the laws of 21 June 2005. Under the directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income within the meaning of the EU Savings Directive paid by a paying agent within the meaning of the EU Savings Directive to an individual or certain types of entities called "residual entities" within the meaning of the EU Savings Directive (the "**Residual Entities**") established in that other Member State (or certain dependant and associated territories). For a transitional period, however, Austria and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner (within the meaning of the EU Savings Directive) does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system applies for a transitional period during which the rate of withholding is of 20 per cent. from 1 July 2008 to 30 June 2011 and 35 per cent. as from 1 July 2011. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non EU countries to exchange information and to introduce a withholding tax.

Also with effect from 1 July 2005, a number of non EU countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino), and certain dependent or associated territories (including Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, the former Netherlands Antilles and Aruba) of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) within its jurisdiction to, or collected by such a paying agent for, an individual or a Residual Entity in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with those territories in relation to payments made by a paying agent (within the meaning of the EU Savings Directive) in a Member State to, or collected by such a paying agent for, an individual or a Residual Entity resident in one of those territories.

The European Commission has announced on 13 November 2008 a proposal to amend the EU Savings Directive. If implemented, the proposed amendments would, *inter alia*, (i) extend the scope of the EU Savings Directive to payments made through certain intermediate structures (whether or not established in a EU Member State) for the ultimate benefit of EU resident individuals, and (ii) provide for a wider definition of interest subject to the EU Savings Directive. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

Certain U.S. Federal Income Tax Considerations

U.S. Circular 230 Disclosure

The discussion of tax issues in this Base Prospectus is not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal, state or local tax law by any taxpayer. This discussion is written to support the promotion or marketing of the Notes. Taxpayers should seek advice based on their particular circumstances from an independent tax adviser.

Generally

The following is a summary of the principal U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). Except as otherwise indicated, this summary deals only with purchasers of Notes that purchase Notes at original issuance at their initial issue price and that will hold the Notes as capital assets and whose functional currency is the U.S. dollar. 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, foreign or other tax laws. In particular, this summary 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, partners in a partnership that invests in Notes and such partnership, investors liable for the alternative minimum tax, individual retirement accounts and other tax deferred accounts, tax exempt organisations, dealers or traders 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). Moreover, the summary deals only with Notes with a term of 30 years or less. In addition, because Bearer Notes will not be offered to U.S. Holders, this summary does not discuss Bearer Notes.

As used herein, the term "**U.S. Holder**" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, a citizen or resident of the United States, or a domestic corporation, or an estate or trust the income of which is subject to U.S. federal income tax regardless of source.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax adviser as to its consequences.

The summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986 (the "**Code**"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and available on the date of this Base Prospectus and all of which are 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 acquiring, owning and disposing of the Notes, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

Characterisation of the Notes

There are no regulations, published rulings or judicial decisions addressing the characterisation for U.S. federal income tax purposes of securities issued under the same circumstances and with substantially the same terms as the Notes. The Issuer believes and intends to take the position that the Notes constitute debt for U.S. federal income tax purposes. However, no ruling will be obtained from the U.S. Internal Revenue Service ("**IRS**") with respect to the characterisation of the Notes as debt, and there can be no assurance that the IRS or the courts would agree with this characterisation of the Notes. If, due to the capital structure of the Issuer or otherwise, 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" (a "**PFIC**"). Prospective investors should consult their tax advisers regarding the characterisation of the Notes 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.

Interest

The gross amount of interest and Additional Amounts (if any) on a Note (without reduction for withholding taxes, if any) 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 U.S. federal tax purposes. Interest paid by the Issuer on the Notes and original issue discount ("**OID**"), if any, accrued with respect to the Notes (as described below under "*Original Issue Discount*") generally will constitute income from sources outside the United States. For U.S. foreign tax credit limitation purposes, interest on the Notes generally will constitute "passive category income", or, in the case of certain U.S. Holders, "general category income" which are treated separately from other types of income in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws.

Original Issue Discount

General

The following is a summary of the principal U.S. federal income tax consequences of the ownership of Notes issued with OID. The following summary does not discuss Notes that are characterised as contingent payment debt instruments for U.S. federal income tax purposes. In the event the Issuer issues contingent payment debt instruments, the applicable Final Terms will describe the principal U.S. federal income tax consequences thereof, as appropriate.

A Note, other than a Note with a term of one year or less (a "**Short Term Note**"), will be treated as issued with OID (a "**Discount Note**") if the excess of the Note's "stated redemption price at maturity" over its "issue price" is equal to or more than a *de minimis* amount (0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity (or the weighted average maturity in the case of instalment notes)). Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest." The term "**qualified stated interest**" generally means stated interest that is unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or, subject to certain conditions, at a variable rate based on one or more interest indices.

U.S. Holders of Discount Notes must include OID in income calculated on a constant yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of qualified stated interest on the Note allocable to the accrual period. In the case of a Note that pays a variable rate of interest (a "**Variable Interest Rate Note**") and that is a Discount Note, both the "yield to maturity" and "qualified stated interest" generally will be determined for these purposes as though the Discount Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to the interest payments on the Note on its date of issue or in the case of certain Variable Interest Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on a Variable Interest Rate Note is based on more than one interest index.) The "**adjusted issue price**" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Acquisition Premium

A U.S. Holder that purchases a Discount Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, but in excess of its adjusted issue price (any such excess being "**acquisition premium**") and that does not make the election described below under "*— Election to Treat All Interest as Original Issue Discount,*" is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, over the Note's adjusted issue price.

Market Discount

A Note, other than a Short Term Note, purchased in the secondary market or upon a further issuance that is a qualified reopening for U.S. federal income tax purposes generally will be treated as purchased at a market discount (a "**Market Discount Note**") if the Note's stated redemption price at maturity or, in the case of a Discount Note, the Note's adjusted issue price, exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25 per cent. of the Note's stated redemption price at maturity or adjusted issue price, respectively, multiplied by the number of complete years to the Note's maturity (or, in the case of a Note that is an instalment obligation, the Note's weighted average maturity). If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "*de minimis market discount.*"

Upon disposition or maturity of a Market Discount Note, or upon receipt of a partial principal payment on a Market Discount Note that is an instalment obligation, any gain will be treated as ordinary income to the extent that the gain does not exceed the market discount which has not been previously included in gross income and which accrued on the Note while held by such U.S. Holder. In general terms, market discount is accrued on a rateable basis, or, at the U.S. Holder's election, on a constant yield basis. A constant yield election is irrevocable unless the IRS consents to a revocation. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently (on either a rateable or constant yield basis) over the life of the Note. This election shall apply to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently will generally be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant yield method described above under "— *General*", with certain modifications. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, market discount, *de minimis* market discount and unstated interest, as adjusted by any amortisable bond premium (described below under "*Notes Purchased at a Premium*") or acquisition premium. This election generally will apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election discussed above under "*Market Discount*" to include market discount in income currently over the life of all debt instruments with market discount held or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisers concerning the propriety and consequences of this election.

Short Term Notes

In general, an individual or other cash basis U.S. Holder of a Short Term Note is not required to accrue OID (as specially defined below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short Term Notes on a straight line basis or, if the U.S. Holder so elects, under the constant yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realised on the sale or retirement of the Short Term Note will be ordinary income to the extent of the OID accrued on a straight line basis (unless an election is made to accrue the OID under the constant yield method) through the date of sale or retirement. U.S. Holders who are not required and do not elect to accrue OID on Short Term Notes will be required to defer deductions for interest on borrowings allocable to Short Term Notes in an amount not exceeding the deferred income until the deferred income is realised.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short Term Note are included in the Short Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short Term Note as if the Short Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Further Issues

The Issuer may, without the consent of the holders of outstanding Notes, issue additional Notes with identical terms. These additional Notes, even if they are treated for non tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount, or for a Discount Note, its stated redemption price at maturity, may elect to treat the excess as "amortisable bond premium," in which case the amount required to be included in the U.S. Holder's income each year with respect to interest on the Note will be reduced by the amount of amortisable bond premium allocable (based on the Note's yield to maturity) to that year. Any election to amortise bond premium shall apply to all bonds (other than bonds the interest on which is excludable from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS. See also "*— Original Issue Discount — Election to Treat All Interest as Original Issue Discount.*" A U.S. Holder that does not elect to take bond premium (other than acquisition premium) into account currently will recognise a capital loss when the Note matures.

Purchase, Sale, Exchange and Retirement of Notes

A U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realised on the sale, exchange or retirement (other than accrued but unpaid interest which will be taxable as such) and the tax basis of the Note. A U.S. Holder's tax basis in a Note generally will be its cost to the Holder increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note (whether or not *de minimis*) and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortisable bond premium applied to reduce interest on the Note. Except to the extent described above under "*— Original Issue Discount — Market Discount*" or "*— Original Issue Discount — Short Term Notes*" or attributable to accrued but unpaid interest or changes in exchange rates (as discussed below), gain or loss recognised on the sale or retirement of a Note will be capital gain or loss and will be long term capital gain or loss if the U.S. Holder's holding period in the Note exceeds one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source gain or loss. The deductibility of capital losses is subject to limitations.

Foreign Currency Notes

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale, exchange or retirement of a Note) denominated in, or determined by reference to, a foreign currency, the U.S. Holder may recognise exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars. If a payment received in a foreign currency is not immediately converted into U.S. dollars, the later disposition of the foreign currency may give rise to further exchange gain or loss.

OID

OID for each accrual period on a Discount Note denominated in, or determined by reference to, a foreign currency, will be determined in the foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above. Upon receipt of an amount attributable to OID (whether in connection with a payment on the Note or a sale of the Note), a U.S. Holder may recognise exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Premium

Amortisable bond premium (including acquisition premium) on a Note that is denominated in, or determined by reference to, a foreign currency, will be computed in units of the foreign currency, and any such bond premium that is taken into account currently will reduce interest income in units of the foreign currency. On the date bond premium offsets interest income, a U.S. Holder may recognise exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder.

Market Discount

Market Discount on a Note that is denominated in, or determined by reference to, a foreign currency, will be accrued in the foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount attributable to accrued market discount, the U.S. Holder may recognise exchange gain or loss (which will be taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognise, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Sale, Exchange or Retirement

As discussed above under "— *Purchase, Sale, Exchange and Retirement of Notes*", a U.S. Holder generally will recognise gain or loss on the sale, exchange or retirement of a Note equal to the difference between the amount realised on the sale, exchange or retirement and its tax basis in the Note. A U.S. Holder's tax basis in a Note that is denominated in a foreign currency will be determined by reference to the U.S. dollar cost of the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

The amount realised on a sale, exchange or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale, exchange or retirement or, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognise exchange rate gain or loss (taxable as ordinary income or loss) on the sale, exchange or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale, exchange or retirement.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale, exchange or retirement of a Note will have a tax basis equal to the U.S. dollar amount taken into account as interest or proceeds from sale, exchange or retirement of a Note. Foreign currency that is purchased will generally have a tax basis equal to the

U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognised on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) generally will be U.S. source ordinary income or loss.

U.S. Information Reporting and Backup Withholding Tax

A U.S. Holder may be subject to information reporting unless it establishes that payments to it made within the United States or by a U.S. payor or U.S. middleman are exempt from these rules. Payments that are subject to information reporting may be subject to backup withholding if a U.S. Holder does not provide its taxpayer identification number and otherwise comply with the backup withholding rules. Amounts withheld under the backup withholding rules are available to be credited against a U.S. Holder's U.S. federal income tax liability and may be refunded to the extent they exceed such liability, provided the required information is timely provided to the IRS.

U.S. Holders should consult their tax advisers as to any information reporting or special tax filing obligations they may have as a result of acquiring, owning or disposing of Notes. Failure to comply with these reporting or filing obligations could result in the imposition of substantial penalties.

Reportable Transactions

U.S. Treasury regulations require a U.S. taxpayer that participates in a "reportable transaction" to disclose such participation to the IRS. The scope and application of these rules is not entirely clear. In the event the acquisition, holding or disposition of Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS and the Issuer and its advisers may also be required to disclose the transaction to the IRS. In addition, the Issuer and its advisers may be required to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

CERTAIN ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, of 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 ERISA and the U.S. Department of Labor "plan assets" regulation, 29 CFR Section 2510.3-101 (the "**Plan Assets Regulation**"), and on those persons who are fiduciaries with respect to ERISA Plans.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code (together with ERISA Plans, "**Plans**")) and certain persons (referred to as "**parties in interest**" or "**disqualified persons**") having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, an extension of credit between a Plan and a "**party in interest**" or "**disqualified person**" may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other liabilities under ERISA and the Code.

The Issuer or the Trustee, directly or through affiliates, may be considered a party in interest or disqualified person with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which the Issuer or the Trustee or any of their respective affiliates is a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made. However, Notes may not be acquired by any Benefit Plan Investors as discussed below.

Under a "look through rule" set forth in Section 3(42) of ERISA and the Plan Assets Regulation, if a Plan invests in an "equity interest" of an entity and no other exception applies, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets. This rule will not apply where less than 25 per cent. of the value of any class of equity interest in the entity is held by Benefit Plan Investors immediately after the most recent acquisition of any equity interest in the entity (disregarding equity interests held by certain persons, other than Benefit Plan Investors, with discretionary authority or control over the assets of the entity or who provide investment advice with respect to such assets for a fee, directly or indirectly, or any affiliates (within the meaning of 29 CFR Section 2510.3-101(f)(3) of the Plan Assets Regulation) of such persons). An equity interest does not include debt (as determined by applicable local law) which does not have substantial equity features. Under Section 3(42) of ERISA a "Benefit Plan Investor" means (1) an "employee benefit plan" (as defined in Section 3(3) of ERISA) subject to the provisions of part 4 of subtitle B of Title I of ERISA, (2) a "plan" as defined in and to which Section 4975 of the Code applies, or (3) any entity whose underlying assets include "plan assets" by reason of any such employee benefit plan's or plan's investment in the entity, (to the extent of the percentage of the equity interests in such entity that are held by Benefit Plan Investors). The Plan Assets Regulation provides that where the value of an 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 relevant Loan, they may be regarded for ERISA purposes as equity interests in a separate entity whose sole asset is the relevant Loan. Further, neither the Issuer nor the Trustee will be able to monitor the Noteholders' possible status as Benefit Plan Investors. Accordingly, the Notes may not be purchased or held by Benefit Plan Investors. The Notes may be purchased and held by governmental, church or non U.S. plans which are subject to any U.S. Federal, state, local or non U.S. law that is substantially similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Laws**") if such purchase and holding does not and will not constitute or result in a non exempt violation of any Similar Laws, and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan.

It should be noted that an insurance company's general account may be deemed to include assets of Plans under certain circumstances, *e.g.*, where a Plan purchases an annuity contract issued by such insurance company, based on the reasoning of the United States Supreme Court in *John Hancock Mutual Life Ins. Co. v. Harris Trust and Savings Bank,* 114 S.Ct. 517 (1993).

EACH PURCHASER AND EACH TRANSFEREE OF THE NOTES OR ANY INTEREST THEREIN, AND EACH FIDUCIARY ACTING ON BEHALF OF THE PURCHASER OR TRANSFEREE (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY NOTE OR ANY INTEREST IN ANY NOTE, (A) IT IS NOT, AND IS NOT ACTING ON BEHALF OF A BENEFIT PLAN INVESTOR AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH NOTES OR ANY INTEREST THEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR AND (B) IF IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON U.S. PLAN, SUCH PURCHASE DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON EXEMPT VIOLATION OF ANY LAWS THAT ARE SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF ANY NOTE OR INTEREST THEREIN WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE SUCH PURCHASE OR TRANSFER OF SUCH NOTE. IN THE EVENT THAT THE ISSUER DETERMINES THAT ANY NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER OF SUCH NOTE.

THE PRECEDING DISCUSSION IS ONLY A SUMMARY OF CERTAIN ERISA AND OTHER U.S. IMPLICATIONS OF AN INVESTMENT IN THE NOTES AND DOES NOT PURPORT TO BE COMPLETE. PROSPECTIVE INVESTORS SHOULD CONSULT WITH THEIR OWN LEGAL, TAX, FINANCIAL AND OTHER ADVISORS PRIOR TO INVESTING TO REVIEW THESE IMPLICATIONS IN LIGHT OF SUCH INVESTOR'S PARTICULAR CIRCUMSTANCES.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale or other transfer offered hereby.

Rule144A Notes

Each purchaser of a beneficial interest in a Rule 144A Note, by accepting delivery of this Base Prospectus and the Rule 144A Notes, will be deemed to have represented, agreed and acknowledged that:

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 Rule 144A Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

It will (a) along with each account for which it is purchasing, hold and transfer interests in the Rule 144A 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.

It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB and that is also a QP purchasing for its own account or for the account of one or more QIBs, each of which is also a QP 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.

It understands that the Issuer has the power to compel any beneficial owner of Rule 144A Notes that is a U.S. person and is not a QIB and a QP to sell its interest in the Rule l44A Notes, or may sell such interest on behalf of such owner. The Issuer has the right to refuse to honour the transfer of an interest in the Rule 144A Notes to a U.S. person who is not a QIB and a QP.

It understands and acknowledges that its purchase and holding of such Notes (or any interest therein) constitutes a representation and agreement by it that (i) it is not, and is not acting on behalf of, a Benefit Plan Investor and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of such Benefit Plan Investor and (ii) if it is, or is acting on behalf of, a governmental, church or non U.S. plan, such purchase or holding of such Note does not and will not constitute or result in a non exempt violation of any laws that are substantially similar to Section 406 of ERISA or Section 4975 of the Code and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan. No purchase or transfer to a Benefit Plan Investor of any Note or interest therein will be effective, and neither the Issuer nor the Trustee will recognize such purchase or transfer of such Note. In the event that the Issuer determines that any Note is held by a Benefit Plan Investor, the Issuer may cause a sale or transfer of such Note.

It understands that the Rule 144A Global Note Certificates and any Rule 144A Individual 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 HEREBY AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE NOTES REPRESENTED HEREBY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY

PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE l44A (A "QIB") AND THAT IS A QUALIFIED PURCHASER ("QP") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "INVESTMENT COMPANY ACT") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS A QP WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN US$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON WHO IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, AND, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES REPRESENTED HEREBY IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT, WILL BE VOID *AB INITIO*, AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER OF THIS NOTE, THE TRUSTEE OR ANY INTERMEDIARY. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN US$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN; (4) IT IS HOLDING THE NOTES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE ISSUER OR THE NOTES REPRESENTED HEREBY; (6) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES AND (7) 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 THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, 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 THIS NOTE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR 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 HONOUR 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.

BY ACCEPTING THIS NOTE (OR ANY INTEREST IN THE NOTES REPRESENTED HEREBY) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN THIS NOTE (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF AN "EMPLOYEE BENEFIT PLAN" (AS DEFINED IN

SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA")) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A "PLAN" AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("CODE"), APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN'S OR PLAN'S INVESTMENT IN SUCH ENTITY (EACH, A "BENEFIT PLAN INVESTOR"), AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH NOTES OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR AND (B) IF IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON U.S. PLAN, SUCH ACQUISITION DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON EXEMPT VIOLATION OF ANY LAWS THAT ARE SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE AND WILL NOT SUBJECT THE ISSUER TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN SOLELY AS A RESULT OF THE INVESTMENT IN THE ISSUER BY SUCH PLAN. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS NOTE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE ISSUER NOR THE TRUSTEE WILL RECOGNISE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE ISSUER DETERMINES THAT THIS NOTE IS HELD BY A BENEFIT PLAN INVESTOR, THE ISSUER MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE PROSPECTUS.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THE NOTES REPRESENTED HEREBY THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATIONS TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.

It acknowledges that the Issuer, RAB, the Registrar, the Dealers 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 Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer, RAB and the applicable Dealer(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.

It understands that Rule l44A Notes of a Series will be represented by interests in one or more Rule 144A Global Note Certificates. Before any interest in a Rule l44A Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Rule 144A Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of a beneficial interest in the Regulation S Notes and each subsequent purchaser of Regulation S Notes (A) in the case of (1) and (2) below, prior to the expiration of the distribution compliance period (as such term is defined in Regulation S), and (B) in the case of (3), (4), (5), (6) and (7) below, throughout the period that it holds such Notes, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

(1) It is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and it is not an affiliate of the Issuer, RAB or a person acting on behalf of the Issuer, RAB or such an affiliate.

(2) It understands that prior to the expiration of the applicable distribution compliance period (as such term is defined in Regulation S) for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A in an amount not less than US$200,000 to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP each

of which is purchasing not less than US$200,000 principal amount of Notes or (b) in an offshore transaction 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 Regulation S Notes of a Series will be evidenced by a Regulation S Global Note Certificate. Before any interest in a Regulation S Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

(4) It is, or at the time Regulation S Notes are purchased it will be, the beneficial owner of such Regulation S Notes.

(5) It understands that the Regulation S Notes have not been and will not be registered under the Securities Act.

(6) It understands and acknowledges that its purchase and holding of such Notes (or any interest therein) constitutes a representation and agreement by it that (i) it is not, and is not acting on behalf of a Benefit Plan Investor and no part of the assets used by it to purchase or hold such Note or any interest therein constitutes the assets of such Benefit Plan and (ii) if it is, or is acting on behalf of, a governmental, church or non U.S. plan, such purchase or holding of such Note does not and will not constitute or result in a non exempt violation of any laws that are substantially similar to Section 406 of ERISA or Section 4975 of the Code and will not subject the Issuer to any laws, rules or regulations applicable to such plan solely as a result of the investment in the Issuer by such plan. No purchase or transfer to a Benefit Plan Investor of any Note or interest therein will be effective, and neither the Issuer nor the Trustee will recognize such purchase or transfer of such Note. In the event that the Issuer determines that any Note is held by a Benefit Plan Investor, the Issuer may cause a sale or transfer of such Note.

(7) It acknowledges that the Issuer, RAB, the Registrar, the Dealer(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 Regulation S Notes is no longer accurate, it shall promptly notify the Issuer, RAB and the applicable Dealer(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.

FORM OF FINAL TERMS

Final Terms dated [•]

RUSSIAN AGRICULTURAL BANK

Issue of [•][•] Loan Participation Notes due [•] by RSHB Capital S.A. (the "**Issuer**") for the purpose of financing a Loan to RUSSIAN AGRICULTURAL BANK ("**RAB**") under a U.S.$15,000,000,000 Programme for the Issuance of Loan Participation Notes (the "**Programme**"). Application has been made to The Irish Stock Exchange Limited (the "**Irish Stock Exchange**") for Notes issued under the Programme within 12 months of the Base Prospectus to be admitted to the Official List and to trading on its regulated market.

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Base Prospectus dated 11 May 2012 [and the supplemental Base Prospectus dated [*date*]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive 2003/71/EC (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and RAB and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the Supplemental Base Prospectus] [is] [are] available for viewing at the specified offices of the Trustee and the Paying Agent in Dublin and website and copies may be obtained from the specified offices of the Trustee and the Paying Agent in Dublin.

The following alternative language applies if the first issue of a Series which is being increased was issued under a Base Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the "**Conditions**") set forth in the Base Prospectus dated [*date*]. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive 2003/71/EC (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated 11 May 2012 [and the supplemental Base Prospectus dated [*date*]], which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [*date*] and are attached hereto. Full information on the Issuer and RAB and the offer of the Notes is only available on the basis of the combination of these Final Terms, the Conditions and the Base Prospectus dated 11 May 2012 [and the supplemental Prospectuses dated [*date*] and [*date*]]. The Base Prospectus [and the supplemental Base Prospectuses] [is] [are] available for viewing at the specified offices of the Trustee and the Paying Agent in Dublin and [*website*] and copies may be obtained from the specified offices of the Trustee and the Paying Agent in Dublin.

Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.

When completing Final Terms or adding any other final terms or information, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.

1.	(i)	Issuer:	RSHB Capital S.A.
	(ii)	Borrower:	Russian Agricultural Bank
2.	Series Number:		[•]
3.	Specified Currency:		[•]

4.	(i)	Aggregate Nominal Amount of Notes:	[•]
	(ii)	Principal Amount of the Loan:	[•]
5.	Issue Price:		[•] per cent. of the Aggregate Nominal Amount plus accrued interest from [*insert date*](*if applicable*)
6.	Specified Denominations:		*Specified denomination must not be below EUR100,000 save in circumstances where an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive*
7.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.	Maturity Date:		[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]
9.	Interest Basis:		[[•] per cent. Fixed Rate subject to interest rate step-up as specified below (*in the case of a Subordinated Series*)] [[*specify reference rate*] +/- [•] per cent. Floating Rate] [subject to margin step-up as specified below (*in the case of a Subordinated Series*)] (further particulars specified below)
10.	Redemption/Payment Basis:		Redemption at par [Other (specify)]
11.	Change of Interest or Redemption/Payment Basis:		[*Specify any details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
12.	Put/Call Options:		[Investor Put][Issuer Call][(further particulars specified below)]
13.	(i)	[Status of the Notes:	[Senior]
	(ii)	[Status of the Loan]	[Senior/ Subordinated] [*in the case of Subordinated Loan, provide further details of level of subordination, interest deferral*]
	(iii)	[Dates of Board approval for issuance of Notes and borrowing of the Loan obtained:	[•] and [•] respectively (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Loan*)
14.	Method of distribution:		Syndicated/Non-syndicated
15.	Financial Centres:		[•]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	Fixed Rate Note Provisions:		Applicable/Not Applicable (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(i)	Rate of Interest:	[•] per cent. per annum payable [annually/semi-annually/quarterly/monthly/other (*specify*)] in arrear (*in the case of the Senior Series*)] [*details of initial interest rate and interest rate step-up*] (*in the case of a Subordinated Series*)
	(ii)	Interest Payment Date(s):	[•] in each year adjusted in accordance with [*specify Business Day Convention and any applicable Business Centre(s) for the definition of* "*Business Day*"]/not adjusted
	(iii)	Fixed Coupon Amount:	[•] per [•] in Principal Amount
	(iv)	Broken Amount:	[•] per [•] in Principal Amount payable on the Interest Payment Date falling [in/on] [•]
	(v)	Day Count Fraction:	30/360/Actual/Actual(ICMA/ISDA)/other
	(vi)	[Determination Dates:	[•] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*]
	(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	Not Applicable/*give details*
17.	Floating Rate Note Provisions:		Applicable/Not Applicable (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i)	Interest Period(s):	[•]
	(ii)	Specified Interest Payment Dates:	[•]
	(iii)	First Interest Payment Date:	[•]
	(iv)	Business Day Convention:	Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)
	(v)	Business Centre(s):	[•]
	(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	Screen Rate Determination/ISDA Determination/other (*give details*)
	(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Calculation	[•]

		Agent):	
	(viii)	Screen Rate Determination:	As set out in the attached Senior Loan Supplement/Subordinated Loan Agreement
	(ix)	ISDA Determination:	As set out in the attached Senior Loan Supplement/Subordinated Loan Agreement
	(x)	Margin(s):	[+/-][•] per cent. per annum (*in the case of a Senior Series*) [*Details of initial margin to be specified*] (*in the case of a Subordinated Series*)
	(xi)	Minimum Rate of Interest:	[•] per cent. per annum
	(xii)	Maximum Rate of Interest:	[•] per cent. per annum
	(xiii)	Day Count Fraction	[•]
	(xiv)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes and Floating Rate Loans, if different from those set out in the Conditions:	[•]

PROVISIONS RELATING TO REDEMPTION

18.	Final Redemption Amount of each Note:	[•] per [•] in Principal Amount
19.	Early Redemption Amount(s) per [•] in Principal Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[•]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

20.	Form of the Notes:	[Bearer/Registered] Notes
21.	U.S. dollar payment option:	Condition 7(g) is [not] applicable.
22.	Other final terms:	[Not Applicable/give details] (*When adding any other final terms, consideration should be given as to whether such terms constitute a "significant new factor" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive*) *see Condition 6(d) – specify whether the Issuer has the option to purchase Subordinated Notes*

DISTRIBUTION

23.	(i)	If syndicated, names of Managers:	[Not Applicable/give names]
	(ii)	Stabilising (if any):	[Not Applicable/give name]

24. If non-syndicated, name of Dealer: [Not Applicable/give names]

25. U.S. Selling Restrictions: [Reg. S] [Reg. S and 144A]

[TEFRA D / TEFRA C / Not Applicable]

26. Additional selling restrictions: [Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on [*specify relevant regulated market*] of the Notes described herein pursuant to the U.S.$15,000,000,000 Programme for the Issuance of Loan Participation Notes of RSHB Capital S.A. for the purpose of financing loans to RAB.

RESPONSIBILITY

The Issuer and RAB accept responsibility for the information contained in these Final Terms. [•] (*Relevant third party information*) has been extracted from [•] (*specify source*). Each of the Issuer and RAB confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of **RSHB Capital S.A.**:

By: ....
Duly authorised

Signed on behalf of **Russian Agricultural Bank**:

By: ....
Duly authorised

PART B — OTHER INFORMATION

1. **LISTING**

(i)	Admission to trading:	Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [•] (*specify relevant regulated market*) with effect from [•]. (*Where documenting a fungible issue need to indicate that original Notes are already admitted to trading*.)
(ii)	Estimate of total expenses related to admission to trading:	[•]

2. **RATINGS**

Ratings:	[The Notes to be issued have been]/[are expected to be] rated [*insert details*] by [Fitch Ratings CIS Limited][,][and] [Moody's Investors Service, Inc.][and] Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc.]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating*) 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 agency. [Fitch Ratings CIS Limited is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended).] [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and is not registered in accordance with Regulation (EC) No. 1060/2009 (as amended).] [[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). However, the application for registration under the CRA Regulation of [*insert the legal name of the relevant EU credit rating agency entity that applied for registration*] which is established in the European Union and is registered under the CRA Regulation, disclosed the intention to endorse credit ratings of [*insert the legal name of the relevant non-EU credit rating agency entity*]. While notification of the corresponding final endorsement decision has not yet been provided by the relevant competent authority, the European Securities and Markets Authority has indicated that ratings issued in

third countries may continue to be used in the EU by relevant market participants for a transitional period ending on 30 April 2012.]]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). The ratings [[have been]/[are expected to be]] endorsed by *[insert the legal name of the relevant EU-registered credit rating agency entity*] in accordance with the CRA Regulation. [*Insert the legal name of the relevant EU-registered credit rating agency entity*] is established in the European Union and registered under the CRA Regulation.]

[[*Insert the legal name of the relevant non-EU credit rating agency entity*] is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") but it [is]/[has applied to be] certified in accordance with the CRA Regulation [although notification of the corresponding certification decision has not yet been provided by the relevant competent authority].]

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

"Save as discussed in "*Subscription and Sale*" in the Base Prospectus, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

[(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

(i)	Reasons for the offer:	[•] (*See "Use of Proceeds" wording in Base Prospectus — if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here*)]
(ii)	Estimated net proceeds of the Issue:	[•] (*If proceeds are intended for more than one use, will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding*)

(iii)	Estimated total expenses:	[•] include breakdown of expenses (*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosures is included at (i) above.*)
(iv)	Estimated proceeds of the Loan from the Issuer to the Borrower, less the estimated fees and expenses payable by the Borrower in connection with the Loan:	[•]

5. **FIXED RATE NOTES ONLY — YIELD**

Indication of yield:	[[•] The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield (in the case of a Senior Series)] [[•] The yield is calculated at the Issue Date on the basis of the Issue Price and in respect of the Initial Interest Term (as defined in the Subordinated Loan Agreement). Calculation of the yield beyond that period is subject to the interest rate step-up mechanism at the end of such period (in the case of a Subordinated Series)]

6. **OPERATIONAL INFORMATION**

ISIN Code:		
Common Code:	[•]	
CUSIP:	[•]	
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking société anonyme and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]	
Delivery:	Regulation S Notes:	[Delivery [against/free of] payment]
	Rule 144A Notes:	[Delivery[against/free of] payment]
Names and addresses of initial Paying Agent(s):	[•]	
Names and addresses of additional Paying Agent(s) (if any):	[•]	
Currency Agent (if any):	[Not Applicable/*specify*]	

[THE FINAL FORM OF THE SENIOR LOAN SUPPLEMENT (IN THE CASE OF A SENIOR SERIES) OR THE SUBORDINATED LOAN AGREEMENT (IN THE CASE OF A SUBORDINATED SERIES) WILL BE ATTACHED]

GENERAL INFORMATION

(1) RAB and the Issuer have obtained or will obtain all necessary consents, approvals and authorisations in Russia and Luxembourg in connection with any Loan and the issue and performance of the corresponding Series of Notes. The update of the Programme was authorised by a resolution of the board of directors of the Issuer dated 10 May 2012. Loans under the Programme will be subject to approval by either the Management Board, Supervisory Board or a General Meeting of Shareholders of RAB.

(2) Application has been made to the Irish Stock Exchange for Notes to be admitted to the Official List and trading on the Market. Prior to official listing, however, dealings will be permitted by the Irish Stock Exchange in accordance with the listing guidelines. Transactions will normally be effected for delivery on the third working day after the day of the transaction. However, Notes may be issued pursuant to the Programme which will not be listed on any stock exchange. The Listing Agent is not seeking admission to trading of the Notes on the Irish Stock Exchange for the purposes of the Prospectus Directive on its own behalf, but as agent on behalf of RAB and the Issuer.

(3) There has been no significant change in the financial or trading position or prospects of the Issuer, RAB or the RAB Group since 31 December 2011 and no material adverse change in the financial or trading position or prospects of the Issuer, RAB or the RAB Group since 31 December 2011. The Issuer has no subsidiaries.

(4) Neither RAB nor any of its subsidiaries is involved in, or has been involved in, any governmental, legal or arbitration proceedings that may have had in the twelve months before the date of this Base Prospectus, a significant effect on the financial position or profitability of the RAB Group, nor, so far as RAB is aware, are any such proceedings pending or threatened.

(5) The Issuer has not been involved in any governmental, legal or arbitration proceedings that may have had, in the twelve months before the date of this Base Prospectus, a significant effect on the Issuer's financial position or profitability, nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

(6) For so long as any Series of Notes is outstanding, copies (and English translations where the documents in question are not in English) of the following documents may be obtained in physical form free of charge at the specified offices of the Trustee and the Paying Agent in Dublin during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the audited consolidated financial statements of the RAB Group as of and for each of the years ended 31 December 2009, 2010 and 2011 prepared in accordance with IFRS, and
- the audited financial statements of the Issuer as of and for each of the years ended 31 December 2009, 2010 and 2011 prepared in accordance with IFRS;

and copies of the following documents will be available for inspection at the specified offices of the Trustee and the Paying Agent in Dublin during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the Memorandum and Articles of Incorporation of the Issuer;
- RAB's Articles of Association (charter);
- the Trust Deed in respect of the Notes (including the forms of the Global Note Certificates and Individual Note Certificates);
- the Paying Agency Agreement;
- the Senior Facility Agreement, or the Subordinated Loan Agreement, as the case may be;
- each Loan Agreement;

- each Final Terms for Notes which are listed on the Irish Stock Exchange or any other stock exchange (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, RAB and the Paying Agent as to its holding of Notes and identity); and

- a copy of this Base Prospectus together with any supplement to this Base Prospectus or further Prospectus.

The RAB Group and the RAB do not prepare financial statements in accordance with U.S. generally accepted accounting principles.

(7) The consolidated financial statements of the RAB Group as of and for each of the years ended 31 December 2011, 2010 and 2009 prepared in accordance with IFRS, which are included in this Base Prospectus, have been audited by ZAO Pricewaterhouse Coopers Audit of Butyrsky Val 10, Moscow 125047, Russian Federation independent auditor, as stated in their reports appearing herein. ZAO Pricewaterhouse Coopers Audit is a member of the Audit Chamber of the Russian Federation ("*Auditorskaya Palata Rossii*").

The financial statements of the Issuer as of and for each of the years ended 31 December 2011, 2010 and 2009 prepared in accordance with IFRS, which are incorporated in, and form part of this Base Prospectus, have been audited by L'Alliance Révision SARL, with its registered office at 1, rue des Glacis, L-1628 Luxembourg, Grand Duchy of Luxembourg and trade register number RCS Luxembourg B46 498, approved statutory auditor. The Issuer's independent auditor is a member of the *Institut des Réviseurs d' Entreprises* and is a *cabinet de révision agréé* that is subject to the supervision of the *Commission de Surveillance du Secteur Financier*.

(8) The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and DTC. The Common Code and the International Securities Identification Number (ISIN) and (where applicable) the CUSIP number and the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

(9) As of the date of this Base Prospectus, RAB is in compliance with applicable Russian law corporate governance requirements in all material respects.

(10) The Issuer does not intend to provide any post issuance information in respect of any Series of Notes.

INDEX TO FINANCIAL STATEMENTS

RAB Group Consolidated Financial Statements as of and for the year ended 31 December 2011 .... F-2
Independent Auditor's Report F-4
Consolidated Statement of Financial Position F-5
Consolidated Statement of Comprehensive Income F-6
Consolidated Statement of Changes in Equity F-7
Consolidated Statement of Cash Flows F-8
Notes to the Consolidated Financial Statements F-9

RAB Group Consolidated Financial Statements as of and for the year ended 31 December 2010 .... F-91
Independent Auditor's Report F-93
Consolidated Statement of Financial Position F-94
Consolidated Statement of Comprehensive Income F-95
Consolidated Statement of Changes in Equity F-96
Consolidated Statement of Cash Flows F-97
Notes to the Consolidated Financial Statements F-98

RAB Group Consolidated Financial Statements as of and for the year ended 31 December 2009 .... F-179
Independent Auditor's Report F-181
Consolidated Statement of Financial Position F-182
Consolidated Statement of Comprehensive Income F-183
Consolidated Statement of Changes in Equity F-184
Consolidated Statement of Cash Flows F-185
Notes to the Consolidated Financial Statements F-187

RUSSIAN AGRICULTURAL BANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2011

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position 1
Consolidated Statement of Comprehensive Income 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Introduction 5
2 Operating Environment of the Group 5
3 Summary of Significant Accounting Policies 6
4 Critical Accounting Estimates and Judgements in Applying Accounting Policies 17
5 Adoption of New or Revised Standards and Interpretations 18
6 New Accounting Pronouncements 19
7 Cash and Cash Equivalents 22
8 Trading Securities 23
9 Repurchase Receivables 25
10 Financial Instruments Designated at Fair Value Through Profit or Loss 26
11 Due from Other Banks 27
12 Loans and Advances to Customers 29
13 Investment Securities Available for Sale 36
14 Investment Securities Held to Maturity 38
15 Premises, Equipment and Intangible Assets 40
16 Other Assets 42
17 Due to Other Banks 43
18 Customer Accounts 44
19 Promissory Notes Issued 45
20 Other Borrowed Funds 45
21 Other Liabilities 48
22 Subordinated Debts 48
23 Share Capital 49
24 Interest Income and Expense 49
25 Fee and Commission Income and Expense 50
26 Losses net of Gains from Non-banking Activities 50
27 Administrative and Other Operating Expenses 51
28 Income Taxes 51
29 Dividends 53
30 Segment Analysis 53
31 Financial Risk Management 58
32 Management of Capital 72
33 Contingencies and Commitments 73
34 Derivative Financial Instruments 75
35 Fair Value of Financial Instruments 77
36 Presentation of Financial Instruments by Measurement Category 81
37 Related Party Transactions 83
38 Disposal of Subsidiaries and Groups Classified as Held for Sale 85
39 Events after the End of the Reporting Period 86

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Independent Auditor's Report

To the Shareholder and the Supervisory Board of Russian Agricultural Bank:

1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

2 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.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

4 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.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying 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 PricewaterhouseCoopers Audit

25 April 2012

Moscow, Russia

ZAO "PricewaterhouseCoopers Audit", White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
Telephone: +7 (495) 967 6000, Fax: +7 (495) 967 6001, www.pwc.ru

In millions of Russian Roubles	Note	31 December 2011	31 December 2010
ASSETS			
Cash and cash equivalents	7	133 959	81 010
Mandatory cash balances with the Central Bank of the Russian Federation		8 417	3 468
Trading securities	8	-	3 563
Repurchase receivables	9	2 369	15 240
Financial instruments designated at fair value through profit or loss	10	11 225	9 686
Derivative financial instruments	34	23 296	20 621
Due from other banks	11	39 569	34 477
Loans and advances to customers	12	903 697	688 556
Investment securities available for sale	13	76 595	15 687
Investment securities held to maturity	14	31 319	14 922
Deferred income tax asset		5 531	1 930
Intangible assets	15	1 531	1 563
Premises and equipment	15	25 093	25 985
Current income tax prepayment		820	191
Other assets	16	15 904	11 052
Assets of the disposal groups held for sale	38	5 101	2 849
TOTAL ASSETS		**1 284 426**	**930 800**
LIABILITIES			
Derivative financial instruments	34	739	541
Due to other banks	17	90 417	105 578
Customer accounts	18	607 295	386 279
Promissory notes issued	19	20 129	9 874
Other borrowed funds	20	342 499	257 559
Deferred income tax liability		1 322	1 405
Current income tax liability		7	17
Other liabilities	21	6 769	4 389
Subordinated debts	22	57 192	46 545
Liabilities directly associated with the disposal groups held for sale	38	1 282	1 015
TOTAL LIABILITIES		**1 127 651**	**813 202**
EQUITY			
Share capital	23	148 798	108 798
Revaluation reserve for premises		1 050	933
Revaluation reserve for investment securities available for sale		(898)	(101)
Retained earnings		7 017	6 851
Equity attributable to the Bank's owner		**155 967**	**116 481**
Non-controlling interest		**808**	**1 117**
TOTAL EQUITY		**156 775**	**117 598**
TOTAL LIABILITES AND EQUITY		**1 284 426**	**930 800**

Approved for issue and signed on behalf of the Management Board on 25 April 2012.

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Chief Accountant

ОТКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО * ОГРН 1027700342890 * МОСКВА *
Российский Сельскохозяйственный банк
ОАО «Россельхозбанк»

In millions of Russian Roubles	Note	2011	2010
Interest income	24	113 314	105 007
Interest expense	24	(59 699)	(53 383)
Net interest income		**53 615**	**51 624**
Provision for loan impairment	11, 12	(22 552)	(28 507)
Net interest income after provision for loan impairment		**31 063**	**23 117**
Fee and commission income	25	4 834	3 411
Fee and commission expense	25	(631)	(589)
(Losses net of gains)/gains less losses from trading securities		(76)	708
Losses net of gains from financial instruments designated at fair value through profit or loss		(749)	(734)
Foreign exchange translation losses net of gains		(8 136)	(1 737)
Gains less losses/(losses net of gains) from foreign exchange swaps with settlement dates of more than 30 working days		2 933	(456)
Gains less losses/(losses net of gains) from other derivative financial instruments		221	(342)
Gains less losses from dealing in foreign currencies		82	289
Gains less losses from disposal of investment securities available for sale	13	324	390
(Provision)/recovery of provision for other assets and litigation	16, 21	(78)	192
Gains from early redemption of other borrowed funds	20	25	41
Losses net of gains from non-banking activities	26	(1 245)	(269)
Gains on disposal of subsidiaries	38	21	-
Other operating income		927	296
Administrative and other operating expenses	27	(29 165)	(23 584)
Profit before tax		**350**	**733**
Income tax expense	28	(292)	(364)
Profit for the year		**58**	**369**
Other comprehensive (loss)/income			
Securities available for sale:			
- Revaluation of securities at fair value	13	(672)	246
- Realised revaluation reserve (at disposal)	13	(324)	(390)
Revaluation of premises		211	142
Income tax recorded directly in other comprehensive income	28	157	-
Other comprehensive loss for the year, net of tax		**(628)**	**(2)**
Total comprehensive (loss)/income for the year		**(570)**	**367**
Profit/(loss) is attributable to:			
Owner of the Bank		367	489
Non-controlling interest		(309)	(120)
Profit for the year		**58**	**369**
Total comprehensive (loss)/income is attributable to:			
Owner of the Bank		(261)	487
Non-controlling interest		(309)	(120)
Total comprehensive (loss)/income for the year		**(570)**	**367**

In millions of Russian Roubles	Note	Attributable to owner of the Bank: Share capital	Revaluation reserve for premises	Revaluation reserve for securities available for sale	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 31 December 2009		**106 973**	**842**	**14**	**6 572**	**114 401**	**1 135**	**115 536**
Profit/(loss) for the year, net of tax		-	-	-	489	489	(120)	369
Other comprehensive loss, net of tax		-	113	(115)	-	(2)	-	(2)
Total comprehensive income/(loss), net of tax		-	113	(115)	489	487	(120)	367
Share issue	23	1 825	-	-	-	1 825	-	1 825
Change in ownership interests		-	-	-	-	-	102	102
Realised revaluation reserve for premises, net of tax		-	(22)	-	22	-	-	-
Dividends declared	29	-	-	-	(232)	(232)	-	(232)
Balance at 31 December 2010		**108 798**	**933**	**(101)**	**6 851**	**116 481**	**1 117**	**117 598**
Profit/(loss) for the year, net of tax		-	-	-	367	367	(309)	58
Other comprehensive loss, net of tax		-	169	(797)	-	(628)	-	(628)
Total comprehensive income/(loss), net of tax		-	169	(797)	367	(261)	(309)	(570)
Share issue	23	40 000	-	-	-	40 000	-	40 000
Realised revaluation reserve for premises, net of tax		-	(52)	-	52	-	-	-
Dividends declared	29	-	-	-	(253)	(253)	-	(253)
Balance at 31 December 2011		**148 798**	**1 050**	**(898)**	**7 017**	**155 967**	**808**	**156 775**

In millions of Russian Roubles	Note	2011	2010
Cash flows from operating activities			
Interest received		104 112	99 098
Interest paid		(54 586)	(51 386)
Income received from trading in securities and financial instruments designated at fair value through profit or loss		424	1 091
Income received from foreign exchange swaps with settlement dates of more than 30 working days		75	7 624
Income received/(losses incurred) from other derivative financial instruments		602	(380)
Income received from dealings in foreign currencies		82	289
Fees and commissions received		4 930	3 411
Fees and commissions paid		(631)	(440)
Other operating income received		577	296
Staff costs paid		(17 831)	(14 794)
Administrative and other operating expenses paid		(9 915)	(6 873)
Income tax paid		(4 462)	(1 940)
Cash flows from operating activities before changes in operating assets and liabilities		**23 377**	**35 996**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(4 949)	(494)
Net decrease in trading securities		3 967	16 826
Net increase in financial instruments designated at fair value through profit or loss		(1 406)	(6 055)
Net (increase)/decrease in due from other banks		(3 147)	3 586
Net increase in loans and advances to customers		(225 985)	(125 768)
Net increase in other assets		(6 378)	(1 336)
Net decrease in due to other banks		(20 899)	(87 348)
Net increase in customer accounts		218 666	154 883
Net increase/(decrease) in promissory notes issued		9 807	(2 633)
Net increase in other liabilities		1 271	257
Net cash used in operating activities		**(5 676)**	**(12 086)**
Cash flows from investing activities			
Acquisition of premises and equipment	15	(1 820)	(2 855)
Proceeds from disposal of premises and equipment		75	702
Acquisition of intangible assets	15	(416)	(829)
Acquisition of investment securities available for sale	13	(116 178)	(40 136)
Proceeds from disposal of investment securities available for sale	13	51 385	16 825
Acquisition of investment securities held to maturity		(1 132)	(7 956)
Proceeds from redemption of investment securities held to maturity		1 625	865
Acquisition of subsidiaries, net of cash acquired		(17)	-
Cash outflow on disposal of subsidiaries, net of cash disposed of		(24)	-
Net cash used in investing activities		**(66 502)**	**(33 384)**
Cash flows from financing activities			
Issue of ordinary shares	23	40 000	1 825
Proceeds from subordinated debts		22 434	-
Repayment of subordinated debts		(15 748)	-
Proceeds from other borrowed funds	20	83 564	65 958
Repayment of other borrowed funds	20	(9 089)	(27 081)
Proceeds from sale of previously bought back other borrowed funds		1 137	-
Buy back of other borrowed funds		(102)	-
Dividends paid	29	(253)	(232)
Repayment of syndicated loans		-	(7 374)
Net cash from financing activities		**121 943**	**33 096**
Effect of exchange rate changes on cash and cash equivalents		**3 178**	**(1 568)**
Effect directly associated with disposal groups held for sale		**6**	**(6)**
Net increase/(decrease) in cash and cash equivalents		**52 949**	**(13 948)**
Cash and cash equivalents at the beginning of the year	7	81 010	94 958
Cash and cash equivalents at the end of the year	7	**133 959**	**81 010**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2011 for Open Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

Principal activity. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (2010: 78) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank's principal place of business is 119019 Russia, Moscow, Arbat, 1.

In August 2011 the Group acquired 100% of shares in Closed Joint-Stock Company «Insurance Company «GazGarant», which was later renamed to Closed Joint-Stock Company «RSHB-Insurance».

The number of the Group's employees at 31 December 2011 was 35 699 (2010: 36 120).

Presentation currency. These consolidated financial statements are presented in the currency of the Russian Federation, millions of Russian Roubles ("RR millions").

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by the banks operating in the Russian Federation (Note 33).

In the summer 2010, the Government declared a drought emergency in several Russian regions. This event had significant negative consequences, including an increase in consumer prices for certain food products. The Russian Government announced state support for drought-affected regions.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

In 2011 the harvest in Russia was significantly higher compared to the previous year due to favourable weather conditions in major agricultural regions.

2 Operating Environment of the Group (Continued)

The market in Russia for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosures may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

Under International Financial Reporting Standards ("IFRS"), impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised until such events arise.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises used in banking activity, investment securities available for sale, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities), in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interest that does not present ownership interest is measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

3 Summary of Significant Accounting Policies (Continued)

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest form a separate component of the Group's equity.

Purchases and sales of non-controlling interest. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Financial instruments — key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and the current asking price for financial liabilities, which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position, as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at fair value certain financial instruments, for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

3 Summary of Significant Accounting Policies (Continued)

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see accounting policy for income and expenses recognition).

Initial recognition of financial instruments. Trading securities, derivatives and financial instruments designated at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions with the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise are expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts which relate to funds that are of a restricted nature are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

3 Summary of Significant Accounting Policies (Continued)

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of comprehensive income as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Financial instruments designated at fair value through profit or loss. Financial instruments designated at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities available for sale. This classification includes investment securities which the Group 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 Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through profit or loss for the year.

3 Summary of Significant Accounting Policies (Continued)

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. An investment is not classified as held-to-maturity investment if the Group has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss category in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and significant financial difficulty of the debtor. Refer to Note 12 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

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

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

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

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

3 Summary of Significant Accounting Policies (Continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account through profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Promissory notes purchased. Promissory notes purchased are included in trading securities or investment securities held to maturity or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognised by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 15. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

Construction in progress is carried at historical cost less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40	20 - 40
Equipment	5 - 20	5 - 20
Leasehold improvements	10	-

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Intangible assets. The Group's intangible assets other than goodwill have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

3 Summary of Significant Accounting Policies (Continued)

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks and banking groups. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Promissory notes issued. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Other borrowed funds. Other borrowed funds represent amounts attracted from Eurobonds issue and bonds issued on domestic market. Issued Eurobonds and bonds issued on domestic market carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 Financial Instruments: Recognition and Measurement, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

3 Summary of Significant Accounting Policies (Continued)

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

3 Summary of Significant Accounting Policies (Continued)

Commissions on agency services are recognised based on the applicable service contracts.

Revenue recognition — sale of goods. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Foreign currency translation. The functional currency of the Group's consolidated entities is the currency of the primary economic environment in which each entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

At 31 December 2011 the principal rates of exchange used for translating foreign currency balances was USD 1 = RR 32.1961 (2010 USD 1 = RR 30.4769), EUR 1 = RR 41.6714 (2010: EUR 1 = RR 40.3331).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported in the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 33. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital. For these balances, the amounts expressed in the measuring unit current as at 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated profit or loss.

Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

3 Summary of Significant Accounting Policies (Continued)

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

Amendments of the financial statements after issue. Any further changes to these consolidated financial statements require approval of the Group's Management who authorised these consolidated financial statements for issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses by RR 2 045 million (2010: a 5% increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses by RR 1 480 million).

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 36.

Accounting for subordinated debt from Vnesheconombank. The Russian government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank Razvitiya i Vneshneekonomicheskoy Deyatelnosti ("Vnesheconombank") to grant subordinated debts to selected banks. This subordinated debt was attracted in accordance with the Federal Law # 173-FZ "On supplementary measures to support financial system of the Russian Federation" dated 13 October 2008 (the "Federal Law # 173-FZ").

4 Critical Accounting Estimated and Judgements in Applying Accounting Policies (Continued)

In October 2008 the Group attracted a subordinated debt from Vnesheconombank in the amount of RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a.

Due to its unique terms and conditions, subordinated nature and absence of observable current market transactions providing evidence of a market rate for such instruments, the debt was originally recognised and subsequently carried on the consolidated statement of financial position at amortised contractual value.

Had there been evidence that the market interest rate for such debt was higher than the contractual interest rate, the amortised contractual value of the debt would have been replaced by (i) the amortised value of the debt determined based on the fair value of the debt at the date of origination and (ii) the unamortised value of the government grant embedded in such low interest debt; there would have been no impact on the profit or loss for the year since the increased effective interest rate would have been offset by amortisation of the government grant.

Accounting for the change of interest rate on the subordinated debt from Vnesheconombank. In July 2010, Federal Law # 173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a. All other terms of the debt remained unchanged.

The Group accounted for such reduction in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and tested whether the modification was substantial. As the modification was not substantial, the Group accounted for the change in the interest rate as a prospective adjustment of the effective interest rate.

The alternative possible accounting treatment could have been to account for the above reduction of interest rate in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and the difference between the previous and revised carrying value of the debt in the amount of RR 2 375 million would have been recorded as a government grant and included in deferred income within other liabilities and would have to be amortised through interest expense until the debt's maturity date.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2011:

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted amendments to IAS 24. Refer to Note 37.

Amendment to IFRS 7, Financial Instruments: Disclosures (issued in May 2010 and effective from 1 January 2011). IFRS 7 was amended to clarify certain disclosure requirements, in particular: (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period. This amendment was adopted previously by the Group in its prior year's consolidated financial statements. The financial effect of collateral required to be disclosed by the amendments to IFRS 7 is presented in these consolidated financial statements by disclosing collateral values separately for (i) those financial assets where collateral and other credit enhancements are equal to, or exceed, gross amount (before impairment) of the asset ("over-collateralised assets") and (ii) those financial assets where collateral and other credit enhancements are less than the gross amount (before impairment) of the asset ("under-collateralised assets"). Refer to Note 12 .

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations:

5 Adoption of New or Revised Standards and Interpretations (Continued)

- IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements;

- IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interest that does not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on the acquiree's share-based payment arrangements that were not replaced, or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3;

- IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity;

- IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008);

- IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and

- IFRIC 13 was amended to clarify measurement of fair value of award credits.

The above improvements resulted in additional or revised disclosures, but had no material impact on measurement or recognition of transactions and balances reported in these consolidated financial statements.

Other revised standards and interpretations effective for the current period. IFRIC 19 "Extinguishing financial liabilities with equity instruments", amendments to IAS 32 on classification of rights issues, clarifications in IFRIC 14 "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction" relating to prepayments of minimum funding requirements and amendments to IFRS 1 "First-time adoption of IFRS", did not have any impact on these consolidated financial statements.

Unless otherwise stated above, the amendments, improvements and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2012 or later periods and which the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

6 New Accounting Pronouncements (Continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 11, Joint Arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interest in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interest, and detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 13, Fair value measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IAS 27, Separate Financial Statements (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. There is no impact of the amended standard on these consolidated financial statements.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures — Transfers of Financial Assets — Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user of an entity's financial statements to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its consolidated financial statements, but have no impact on measurement of transactions and balances.

Amended IAS 19, Employee Benefits (issued in June 2011, effective for periods beginning on or after 1 January 2013), makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. These include clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group is considering the implications of the amendments, the impact on the Group and the timing of theirs adoption by the Group.

6 New Accounting Pronouncements (Continued)

Other revised standards and interpretations: The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, will not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduces a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, will not have any impact on these consolidated financial statements. IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, which considers when and how to account for the benefits arising from the stripping activity in mining industry, will have no impact on these consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2011**	**2010**
Cash on hand	19 635	16 101
Cash balances with the CBRF (other than mandatory reserve deposits)	33 015	37 361
Correspondent accounts and deposits with other banks with original maturities less than one month	77 225	25 952
Settlement accounts with stock and currency exchanges	3 256	1 596
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month	828	-
Total cash and cash equivalents	**133 959**	**81 010**

As at 31 December 2011 cash equivalents of RR 828 million are effectively collateralized by securities purchased under reverse sale and repurchase agreements at fair value of RR 956 million (2010: no cash equivalents effectively collateralized by securities purchased under reverse sale and repurchase agreements). The Group has a right to sell or repledge these securities.

As at 31 December 2011 correspondent accounts and deposits with other banks with original maturities less than one month included the balance with one Russian banking group with rating of its state-owned parent bank BBB (S&P) in the amount of RR 45 505 million or 34% of total cash and cash equivalents (2010: one Russian banking group with rating of its state-owned parent bank BBB (S&P) in the amount of RR 21 457 million or 26% of total cash and cash equivalents).

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	**2011**	**2010**
Current and not impaired		
Cash on hand	19 635	16 101
Cash balances with the CBRF (other than mandatory reserve deposits)	33 015	37 361
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	58 815	23 441
- OECD banks and their subsidiary banks	17 099	2 498
- other Russian banks	1 303	3
- other non-resident banks	8	10
Settlement accounts with stock and currency exchanges	3 256	1 596
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month:		
- other Russian banks	828	-
Total cash and cash equivalents	**133 959**	**81 010**

Refer to Note 35 for the disclosure of fair value of cash and cash equivalents. Geographical and interest rate analyses of cash and cash equivalents are disclosed in Note 31.

8 Trading Securities

In millions of Russian Roubles	**2011**	**2010**
Corporate bonds	-	3 312
Municipal and subfederal bonds	-	251
Total trading securities	**-**	**3 563**

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of debt securities outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Total**
Corporate bonds	2 412	900	3 312
Municipal and subfederal bonds	251	-	251
Total debt trading securities	**2 663**	**900**	**3 563**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from May 2011 to December 2013, coupon rates from 10.0% to 13.5% p.a. and yield to maturity or next repricing date from 6.3% to 7.0% p.a., depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity date in June 2017, coupon rate 8.0% p.a. and yield to maturity 7.4% p.a.

Refer to Note 35 for the disclosure of fair value hierachy for trading securities. Geographical and interest rate analyses of trading securities are disclosed in Note 31.

8 Trading Securities (Continued)

The Group reclassified the following financial assets from held for trading category during 2008:

In million of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 141	7 825	5.7 – 7.3
Municipal and subfederal bonds	1 201	1 698	7.1 – 9.2
Corporate bonds	980	1 411	6.7 – 10.1
Corporate Eurobonds	793	1 300	7.0 – 8.8
Reclassified into available for sale			
Municipal and subfederal bonds	53	56	7.0
Corporate bonds	2 792	3 868	7.3 – 15.4
Corporate Eurobonds	1 959	2 918	6.2 – 11.6
Corporate shares	12	12	-
Total	**11 931**	**19 088**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which had also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognised, were as follows:

	2011		2010	
In millions of Russian Roubles	Carrying value	Fair value	Carrying value	Fair value
Reclassified into held to maturity	5 774	5 936	5 959	5 906
Reclassified into available for sale	292	292	1 183	1 183
Total	**6 066**	**6 228**	**7 142**	**7 089**

8 Trading Securities (Continued)

Income or loss recognised for 2011 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

In millions of Russian Roubles	Income/(loss) recognised in profit or loss after reclassification*				Fair Value gain/(loss) that would have been recognised if the assets had not been reclassified			
	2011	**2010**	**2009**	**2008**	**2011**	**2010**	**2009**	**2008**
Reclassified into held to maturity	486	480	540	482	84	441	833	(1 307)
Reclassified into available for sale	59	215	492	743	(40)	74	1 067	(1 612)
Total	**545**	**695**	**1 032**	**1 225**	**44**	**515**	**1 900**	**(2 919)**

* Income or loss recognised after reclassification comprises gains less losses from sale, interest income, foreign exchange gains less losses.

9 Repurchase Receivables

In millions of Russian Roubles	**2011**	**2010**
Trading securities		
Corporate bonds	-	618
Securities available for sale		
Corporate bonds	825	11 929
Federal loan bonds (OFZ)	443	-
State Eurobonds	-	2 658
Municipal and subfederal bonds	48	35
Securities held to maturity		
Corporate bonds	1 053	-
Total repurchase receivables	**2 369**	**15 240**

Analysis by credit quality of repurchase receivables outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Securities available for sale			
Corporate bonds	536	289	825
Federal loan bonds (OFZ)	443	-	443
Municipal and subfederal bonds	48	-	48
Securities held to maturity			
Corporate bonds	931	122	1 053
Total repurchase receivables	**1 958**	**411**	**2 369**

* or ratings of other analogous rating agencies

9 Repurchase Receivables (Continued)

Analysis by credit quality of repurchase receivables outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Trading securities				
Corporate bonds	618	-	-	618
Securities available for sale				
Corporate bonds	10 556	676	697	11 929
State Eurobonds	2 658	-	-	2 658
Municipal and subfederal bonds	35	-	-	35
Total repurchase receivables	**13 867**	**676**	**697**	**15 240**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds have maturity dates from September 2013 to June 2021 (2010: from October 2011 to November 2020), coupon rates from 7.5% to 15.0% p.a. (2010: from 7.0% to 14.8% p.a.) and yield to maturity or next repricing date from 7.6% to 10.4% p.a. (2010: from 6.3% to 11.2% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds have maturity date from June 2017 to March 2018, annual coupon rate from 7.4% to 7.5% p.a. and yield to maturity from 8.3% to 8.4% p.a. depending on the type of the bond issue and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds have maturity date in June 2017 (2010: June 2012), coupon rate 8% p.a. (2010: 9.5% p.a.) and yield to maturity 8.7% p.a. (2010: 6.7% p.a).

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2010 these bonds have maturity date in March 2030, annual coupon rate 7.5% p.a. payable semi-annually, and yield to maturity 4.8% p.a.

Refer to Note 35 for the disclosure of fair value hierarchy of repurchase receivables related to securities available for sale and fair values of repurchase receivables related to securities held to maturity. Geographical and interest rate analyses of repurchase receivables are disclosed in Note 31.

10 Financial Instruments Designated at Fair Value Through Profit or Loss

In millions of Russian Roubles	**2011**	**2010**
Credit Linked Note	848	825
Due from other banks	10 377	8 861
Total financial instruments designated at fair value through profit or loss	**11 225**	**9 686**

International credit ratings of issuers of the notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2011 (31 December 2010: not less than BB- (S&P)).

10 Financial Instruments Designated at Fair Value Through Profit or Loss (Continued)

Management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, although there was an option to separate the embedded derivative and value the host contract at amortised cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

Due from other banks with embedded derivatives are as follows:

In March 2010, the Group placed funds with the OECD bank in the total amount of USD 200 million, with maturity in April 2014 and interest rates of 10.0% and 10.4% p.a. The contracts have embedded derivatives FTD ("first to default"), linked to credit events associated with quasi-sovereign issuers.

In April 2010 and August 2010, the Group placed funds with the OECD bank in the total amount of USD 107 million, with maturity in March 2013 and August 2015 and interest rates of 10.3% and 10.1% p.a. The contracts have embedded derivatives linked to a credit risk of a quasi-sovereign issuer.

In May 2011, the Group placed funds with the OECD bank in the total amount of USD 50 million, with maturity in May 2016, an interest rate of 0.6% p.a. The contract has an embedded option linked to the performance of commodity index.

Refer to Note 35 for the disclosure of fair value hierarchy for financial instruments designated at fair value through profit or loss. Geographical and interest rate analyses of financial instruments designated at fair value through profit or loss are disclosed in Note 31.

11 Due from Other Banks

In millions of Russian Roubles	**2011**	**2010**
Current term placements with other banks	39 577	34 500
Less: Provision for impairment	(8)	(23)
Total due from other banks	**39 569**	**34 477**

Analysis of the movements in the provision for loan impairment for due from other banks is as follows:

In millions of Russian Roubles	**2011**	**2010**
Provision for loan impairment for due from other banks at 1 January	**23**	**7**
(Recovery of provision)/provision for loan impairment for due from other banks during the year	(15)	16
Provision for loan impairment for due from other banks at 31 December	**8**	**23**

11 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	2011	2010
Current and not impaired		
- OECD banks and their subsidiary banks	25 962	24 566
- Other non-resident banks	5 580	3 787
- Top 30 Russian banks (by net assets) and their subsidiary banks	4 831	916
- Other Russian banks	2 898	4 861
Total current and not impaired	**39 271**	**34 130**
Individually assessed for impairment		
- watch-list	306	370
Total individually assessed for impairment	**306**	**370**
Total due from other banks (before impairment)	**39 577**	**34 500**
Provision for impairment	**(8)**	**(23)**
Total due from other banks	**39 569**	**34 477**

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	2011	2010
Unsecured interbank loans	10 709	5 099
Interbank loans collateralised by:		
- guarantee deposits	25 962	24 566
- other assets	2 898	4 812
Total due from other banks	**39 569**	**34 477**

As at 31 December 2011 the Group has placements with one foreign bank with rating A+ (S&P) in the total amount of RR 25 962 million, or 66% of total due from other banks (2010: one foreign bank with rating AA- (S&P) in the total amount of RR 24 566 million, or 71% of total due from other banks).

Refer to Note 35 for the disclosure of fair value of due from other banks. Geographical and interest rate analyses of due from other banks are disclosed in Note 31.

12 Loans and Advances to Customers

In millions of Russian Roubles	2011	2010
Loans to legal entities		
- Loans to corporates	796 450	615 385
- Lending for food interventions	33 256	44 514
- Deals with securities purchased under “reverse-repo agreements”	1 990	-
- Investments in agricultural cooperatives	509	655
Loans to individuals	147 403	85 031
Total loans and advances to customers (before impairment)	**979 608**	**745 585**
Less: Provision for loan impairment	(75 911)	(57 029)
Total loans and advances to customers	**903 697**	**688 556**

As at 31 December 2011 included in gross amount of loans are loans in the principal amount of RR 502 982 million (2010: RR 419 590 million), where borrowers are eligible for interest subsidies from federal and regional budgets. Subsidies are paid directly to the borrowers.

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of the Bank of Russia of the contributions made. The Group’s management has a right to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

As at 31 December 2011, loans and advances to customers in the amount of RR 1 990 million are effectively collateralised by securities purchased under reverse repo agreements with a fair value RR 2 348 million (2010: no loans and advances to customers were effectively collateralised by securities purchased under reverse repo agreements). The Group has the right to sell or repledge securities.

12 Loans and Advances to Customers (Continued)

Analysis of the movements in the provision for loan impairment is as follows:

In millions of Russian Roubles	2011 Loans to corporates	2011 Investments in agricultural cooperatives	2011 Loans to individuals	2011 Total	2010 Loans to corporates	2010 Investments in agricultural cooperatives	2010 Loans to individuals	2010 Total
Provision for loan impairment at 1 January	**54 769**	**23**	**2 237**	**57 029**	**28 439**	**8**	**1 503**	**29 950**
Provision/(recovery of provision) for loan impairment during the year	22 000	(5)	572	22 567	27 742	15	734	28 491
Sale of loans	(3 203)	-	-	(3 203)	(1 405)	-	-	(1 405)
Loans and advances to customers written off during the year as uncollectible	(467)	-	-	(467)	(7)	-	-	(7)
Reclassification to assets of disposal groups held for sale	(15)	-	-	(15)	-	-	-	-
Provision for loan impairment at 31 December	**73 084**	**18**	**2 809**	**75 911**	**54 769**	**23**	**2 237**	**57 029**

No provision for “Lending for food interventions” and “Reverse repo agreements” was recorded as at 31 December 2011 and 2010.

The economic sector structure of the credit portfolio is as follows:

In millions of Russian Roubles	2011 Amount	2011 %	2010 Amount	2010 %
Agriculture	543 731	55	467 876	63
Individuals	147 403	15	85 031	11
Manufacturing	126 716	13	99 002	13
Trading	85 529	9	54 179	7
Construction	35 111	4	25 898	4
Other	41 118	4	13 599	2
Total loans and advances to customers (before impairment)	**979 608**	**100**	**745 585**	**100**

As at 31 December 2011, the aggregate amount of loans to individuals included loans in the principal amount of RR 61 884 million issued to individuals-sole farmers (2010: RR 52 689 million).

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower’s activities taking into account their financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower’s financial position the Group applies a system of coefficients according to which the borrower’s financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

12 Loans and Advances to Customers (Continued)

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category "*collectively assessed for impairment".*

As a *loss event* the Group recognizes objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs – sole farmers):*
  - significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
  - violation of contract – principal or interest overdue by more than 5 days;
- *for loans issued to individuals:*
  - significant financial difficulty of the borrower – changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - violation of contract – principal or interest overdue by more than 30 days.

As a *default* of a borrower/debtor, the Group recognizes objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs – sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
  - principal or interest overdue by over 365 days;
- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;

12 Loans and Advances to Customers (Continued)

- principal or interest overdue by over 365 days;
- the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

Analysis by credit quality of loans outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	**Loans to corporates**	**Lending for food interventions**	**Reverse repo agreements**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
1. Current and not impaired						
- good financial position	-	33 256	1 990	-	-	35 246
Total current and not impaired	**-**	**33 256**	**1 990**	**-**	**-**	**35 246**
2. Collectively assessed for impairment						
Current						
- good financial position	389 123	-	-	509	-	389 632
- average financial position	193 421	-	-	-	-	193 421
- included in portfolios of similar risk loans	441	-	-	-	143 244	143 685
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	9 427	-	-	-	1 002	10 429
Total collectively assessed for impairment	**592 412**	**-**	**-**	**509**	**144 246**	**737 167**
3. Individually assessed for impairment						
- watch list	120 524	-	-	-	-	120 524
- poor financial position	2 972	-	-	-	-	2 972
- 6 to 30 days overdue	3 244	-	-	-	-	3 244
- 31 to 90 days overdue	8 452	-	-	-	470	8 922
- 91 to 180 days overdue	8 680	-	-	-	338	9 018
- 181 to 365 days overdue	16 324	-	-	-	394	16 718
- over 365 days overdue	43 842	-	-	-	1 955	45 797
Total individually assessed for impairment	**204 038**	**-**	**-**	**-**	**3 157**	**207 195**
Total loans and advances to customers (before impairment)	**796 450**	**33 256**	**1 990**	**509**	**147 403**	**979 608**
Provision for loan impairment	**(73 084)**	**-**	**-**	**(18)**	**(2 809)**	**(75 911)**
Total loans and advances to customers	**723 366**	**33 256**	**1 990**	**491**	**144 594**	**903 697**

12 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2010 is as follows:

In millions of Russian Roubles	**Loans to corporates**	**Lending for food interventions**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
1. Current and not impaired					
- good financial position	-	44 514	-	-	44 514
Total current and not impaired	**-**	**44 514**	**-**	**-**	**44 514**
2. Collectively assessed for impairment					
Current					
- good financial position	316 256	-	-	-	316 256
- average financial position	149 659	-	-	-	149 659
- included in portfolios of similar risk loans	1 313	-	655	81 900	83 868
Overdue					
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	5 229	-	-	425	5 654
Total collectively assessed for impairment	**472 457**	**-**	**655**	**82 325**	**555 437**
3. Individually assessed for impairment					
- watch list	73 990	-	-	-	73 990
- poor financial position	3 372	-	-	-	3 372
- 6 to 30 days overdue	3 273	-	-	-	3 273
- 31 to 90 days overdue	8 241	-	-	238	8 479
- 91 to 180 days overdue	18 267	-	-	302	18 569
- 181 to 365 days overdue	10 296	-	-	529	10 825
- over 365 days overdue	25 489	-	-	1 637	27 126
Total individually assessed for impairment	**142 928**	**-**	**-**	**2 706**	**145 634**
Total loans and advances to customers (before impairment)	**615 385**	**44 514**	**655**	**85 031**	**745 585**
Provision for loan impairment	**(54 769)**	**-**	**(23)**	**(2 237)**	**(57 029)**
Total loans and advances to customers	**560 616**	**44 514**	**632**	**82 794**	**688 556**

Overdue loans represent not only past due payments but also outstanding balances of such loans.

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 6 to 180 days of RR 14 879 million (2010: RR 26 878 million) and loans and advances to customers overdue more than 180 days of RR 46 439 million (2010: RR 7 869 million). The remaining loans included in the watch list are not overdue.

Loans included in portfolio with similar risk loans consist of small value loans with homogeneous credit characteristics without any signs of impairment, which are not analysed by the Group on an individual basis.

12 Loans and Advances to Customers (Continued)

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	2011	2010
Current loans	824 162	636 912
Past due instalments	92 816	50 825
Current portion of past due loans	62 630	57 848
Provision for loan impairment	(75 911)	(57 029)
Total loans and advances to customers	**903 697**	**688 556**

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group’s requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management; and
- control over the Group’s regional branches with respect to issued loans.

The majority of collateral (over 78%) (2010: over 70%) relates to the following types: real estate – 49% (2010: 41%), equipment – 17% (2010: 17%) and goods in turnover – 12% (2010: 15%).

According to the Group’s internal documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts; and
- for individuals – loans up to RR 50 thousand (or equivalent in foreign currency) under the programs “Consumer loans”, “Loans to the sole farmers”, “Reliable Customer”; loans up to RR 750 thousand (or equivalent in foreign currency) under the program of lending to individuals without collateral; loans up to RR 3 million (or equivalent in foreign currency) under the program "Credit card" and overdrafts (up to RR 300 thousand or equivalent in foreign currency).

12 Loans and Advances to Customers (Continued)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those loans and advances to customers where collateral and other credit enhancements are equal to, or exceed, gross amount (before impairment) of the asset ("over-collateralised assets") and (ii) those loans and advances to customers where collateral and other credit enhancements are less than the gross amount (before impairment) of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2011 was as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Russian Roubles	**Loans and advances to customers (before impairment)**	**Fair value of collateral**	**Loans and advances to customers (before impairment)**	**Fair value of collateral**
Loans to legal entities				
- Loans to corporates	544 897	1 168 542	251 553	25 268
- Lending for food interventions	31 087	31 087	2 169	446
- Deals with securities purchased under "reverse-repo agreements"	1 990	2 348	-	-
- Investments in agricultural cooperatives	-	-	509	-
Loans to individuals	18 543	35 597	128 860	770
Total	**596 517**	**1 237 574**	**383 091**	**26 484**

The effect of collateral at 31 December 2010 was as follows:

	Over-collateralised assets		**Under-collateralised assets**	
In millions of Russian Roubles	**Loans and advances to customers (before impairment)**	**Fair value of collateral**	**Loans and advances to customers (before impairment)**	**Fair value of collateral**
Loans to legal entities				
- Loans to corporates	504 262	986 522	111 123	16 899
- Lending for food interventions	44 514	44 543	-	-
- Investments in agricultural cooperatives	-	-	655	-
Loans to individuals	7 125	15 287	77 906	391
Total	**555 901**	**1 046 352**	**189 684**	**17 290**

Refer to Note 35 for the disclosure of fair value of each class of loans and advances to customers. Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 31. The information on related party transactions is disclosed in Note 37.

13 Investment Securities Available for Sale

In millions of Russian Roubles	2011	2010
Corporate bonds	44 083	7 139
Corporate Eurobonds	22 650	4 955
Federal loan bonds (OFZ)	8 003	-
Municipal and subfederal bonds	1 140	524
State Eurobonds	707	3 054
Corporate shares	12	15
Total investment securities available for sale	**76 595**	**15 687**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2011 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	35 368	5 466	3 249	44 083
Corporate Eurobonds	21 743	907	-	22 650
Federal loan bonds (OFZ)	8 003	-	-	8 003
Municipal and subfederal bonds	1 038	102	-	1 140
State Eurobonds	707	-	-	707
Total debt investment securities available for sale	**66 859**	**6 475**	**3 249**	**76 583**

* or ratings of other analogous rating agencies

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	5 482	201	1 456	7 139
Corporate Eurobonds	4 645	310	-	4 955
State Eurobonds	3 054	-	-	3 054
Municipal and subfederal bonds	322	202	-	524
Total debt investment securities available for sale	**13 503**	**713**	**1 456**	**15 672**

* or ratings of other analogous rating agencies

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually depending on the type of the bond issue and the issuer. As at 31 December 2011 these bonds have maturity dates from January 2012 to January 2025 (2010: from October 2011 to November 2020), annual coupon rates from 6.3% to 14.8% p.a. (2010: from 7.0% to 14.8% p.a.) and yield to maturity or next repricing date from 6.1% to 14.9% p.a. (2010: from 6.3% to 17.7% p.a), depending on the type of the bond issue, the issuer and the market conditions.

13 Investment Securities Available for Sale (Continued)

Corporate Eurobonds are bonds denominated in USD and in Russian Roubles issued by major Russian companies. As at 31 December 2011 these bonds have maturity dates from April 2014 to September 2017 (2010: from January 2011 to October 2020), annual coupon rates from 5.4% to 9.8% p.a. (2010: 5.4% to 12.0% p.a.), payable semi-annually, and yield to maturity or next repricing date from 5.5% to 10.6% p.a. (2010: from 4.3% to 10.9%p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal loan bonds (OFZ) are represented by state securities denominated in Russian Roubles issued by Ministry of Finance of Russian Federation. Federal loan bonds (OFZ) are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2011 these bonds have maturity date from February 2013 to March 2018, annual coupon rate from 6.7% to 12.0% p.a. and yield to maturity from 6.7% p.a to 8.4% p.a. depending on the type of the bond issue and the market conditions.

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2011 these bonds have maturity dates from June 2012 to June 2017 (2010: June 2012 to December 2014), annual coupon rates from 7.6% to 9.3% p.a. (2010: from 8.3% to 9.5%p.a.) and yield to maturity or next repricing date from 6.8% to 9.0% p.a. (2010: from 6.7% to 8.9%p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD and in Russian Roubles. As at 31 December 2011 these bonds have maturity date from March 2018 to March 2030 (2010: April 2020), annual coupon rate from 7.5% p.a. to 7.9% p.a. (2010: 5.0%p.a.), payable semi-annually, and yield to maturity from 4.6% p.a. to 7.6% p.a. (2010: 5.0% p.a.).

The movements in investment securities available for sale are as follows:

In millions of Russian Roubles	Note	2011	2010
Carrying amount at 1 January		**15 687**	**7 800**
Purchases		116 178	40 136
Addition in the result of acquisition of subsidiary		14	-
Reclassification to investment securities held to maturity		(17 187)	-
Fair value gains less losses		(672)	246
Realised revaluation reserve (at disposal)		(324)	(390)
Interest income accrued	24	4 441	1 346
Interest income received		(3 554)	(1 010)
Proceeds from disposal		(51 385)	(17 966)
Foreign exchange differences gains less losses		91	147
Reclassification from/(to) Repurchase receivables	9	13 306	(14 622)
Carrying amount at 31 December		**76 595**	**15 687**

During 2008 and 2011 the Group reclassified the following financial assets from the available-for-sale category:

In million of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity during 2008			
Corporate Eurobonds	222	739	8.2
Reclassified into held to maturity during 2011			
Corporate bonds	14 546	20 606	6.2 - 8.9
Municipal and subfederal bonds	2 641	3 099	7.7 - 8.1
Total	**17 409**	**24 444**	

13 Investment Securities Available for Sale (Continued)

The reclassification during 2008 was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which had also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices which occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

During 2011 the Group reclassified financial assets from the available-for-sale category as result of reassessment of its intention to held-to-maturity.

Refer to Note 35 for the disclosure of the fair value hierachy for investment securities available for sale. Geographical and interest rate analyses of investment securities available for sale are disclosed in Note 31.

14 Investment Securities Held to Maturity

In millions of Russian Roubles	**2011**	**2010**
Corporate bonds	14 306	1 087
State Eurobonds	7 058	6 682
Municipal and subfederal bonds	3 732	1 082
Federal Loan bonds (OFZ)	3 196	3 317
Corporate Eurobonds	1 564	1 473
Promissory notes	1 463	1 281
Total investment securities held to maturity	**31 319**	**14 922**

Analysis by credit quality of investment securities held to maturity at 31 December 2011 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Corporate bonds	13 476	-	830	14 306
State Eurobonds	7 058	-	-	7 058
Municipal and subfederal bonds	3 328	404	-	3 732
Federal Loan bonds (OFZ)	3 196	-	-	3 196
Corporate Eurobonds	1 564	-	-	1 564
Promissory notes	-	1 463	-	1 463
Total investment securities held to maturity	**28 622**	**1 867**	**830**	**31 319**

* or ratings of other analogous rating agencies

14 Investment Securities Held to Maturity (Continued)

Analysis by credit quality of investment securities held to maturity at 31 December 2010 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Total**
State Eurobonds	6 682	-	6 682
Federal Loan bonds (OFZ)	3 317	-	3 317
Corporate Eurobonds	1 473	-	1 473
Promissory notes	-	1 281	1 281
Corporate bonds	1 087	-	1 087
Municipal and subfederal bonds	1 082	-	1 082
Total investment securities held to maturity	**13 641**	**1 281**	**14 922**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have overdue securities held to maturity, no provisions for impairment of these securities were recognised.

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually, depending on the type of the bond issue and the issuer. As at 31 December 2011 these bonds have maturity dates from October 2012 to Jule 2023 (2010: from July 2011 to September 2020), annual coupon rates from 7.0% to 15.0% p.a. (2010: from 7.2% to 8.5% p.a.) and yield to maturity or next repricing date from 6.6% to 9.8% p.a. (2010: from 5.5% to 8.9% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2011 these bonds have maturity date in April 2020 (2010: in April 2020), annual coupon rate 5.0% p.a.(2010: 5.0% p.a) payable semi-annually, and yield to maturity 4.6% p.a. (2010: 5.0% p.a.).

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2011 these bonds have maturity dates from June 2012 to December 2015 (2010: from June 2012 to December 2015), annual coupon rates from 7.0% to 14.0% p.a. (2010: from 7.0% to 8.0% p.a.) and yield to maturity from 7.1% to 8.9% p.a. (2010: from 7.1% to 8.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2011 these OFZ have maturity dates from July 2012 to February 2036 (2010: from July 2012 to February 2036), annual coupon rates from 6.1% to 8.0% p.a. (2010: from 6.1% to 8.0% p.a.) payable quarterly or semi-annually, and yield to maturity from 6.0% to 8.2% p.a. (2010: from 5.1% to 8.0% p.a.), depending on the type of the bond issue and the market conditions.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2011 these bonds have maturity dates from January 2012 to August 2037 (2010: from January 2012 to August 2037), annual coupon rates from 6.7% to 9.6% p.a. (2010: from 6.7% to 9.6%p.a.) payable semi-annually, and yield to maturity or next repricing date from 3.5% to 8.5% p.a. (2010: from 2.7% to 6.9% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes are represented by promissory notes denominated in USD at a discount to nominal value issued by one Russian bank. As at 31 December 2011 these promissory notes have maturity date in November 2013 (2010: in November 2013) and yield to maturity 9.0% p.a. (2010: 9.0% p.a.).

Refer to Note 35 for the disclosure of the fair value of investment securities held to maturity. Geographical and interest rate analyses of securities held to maturity are disclosed in Note 31.

15 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improvements	Used in banking activities: Office and computer equipment	Used in banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2010		7 249	1 507	4 966	281	13 823	1 804	161	29 791	1 538	31 329
Accumulated depreciation		(338)	(302)	(1 344)	-	(273)	(88)	-	(2 345)	(515)	(2 860)
Carrying amount at 1 January 2010		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**
Acquisitions through business combinations		-	-	-	-	292	98	-	390	-	390
Additions		1 151	62	1 068	72	94	408	-	2 855	829	3 684
Disposals		-	(5)	(17)	(3)	(764)	-	-	(789)	-	(789)
Depreciation charge: before revaluation	26, 27	(133)	(162)	(868)	-	(603)	(207)	-	(1 973)	(287)	(2 260)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(14)	-	-	-	-	-	-	(14)	-	(14)
Changes in gross carrying value resulting from revaluation		209	-	-	-	-	-	-	209	-	209
Changes in accumulated depreciation resulting from revaluation		(17)	-	-	-	-	-	-	(17)	-	(17)
Reclassification to assets of the disposal groups held for sale	38	(96)	-	(4)	-	(1 526)	(396)	(100)	(2 122)	(2)	(2 124)
Carrying amount at 31 December 2010		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**
Cost at 31 December 2010		8 500	1 562	5 969	350	11 883	1 819	61	30 144	2 359	32 503
Accumulated depreciation		(489)	(462)	(2 168)	-	(840)	(200)	-	(4 159)	(796)	(4 955)
Carrying amount at 31 December 2010		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**

15 Premises, Equipment and Intangible Assets (Continued)

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improvements	Used in banking activities: Office and computer equipment	Used in non-banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2011		8 500	1 562	5 969	350	11 883	1 819	61	30 144	2 359	32 503
Accumulated depreciation		(489)	(462)	(2 168)	-	(840)	(200)	-	(4 159)	(796)	(4 955)
Carrying amount at 1 January 2011		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**
Additions		664	34	743	37	405	121	57	2 061	416	2 477
Disposals		(6)	(29)	(76)	(1)	(6)	(19)	-	(137)	-	(137)
Depreciation charge: before revaluation	26, 27	(165)	(166)	(965)	-	(563)	(132)	-	(1 991)	(448)	(2 439)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(17)	-	-	-	-	-	-	(17)	-	(17)
Changes in accumulated depreciation resulting from revaluation		(34)	-	-	-	-	-	-	(34)	-	(34)
Reclassification to assets of the disposal groups held for sale		-	-	-	-	(560)	(214)	-	(774)	-	(774)
Carrying amount at 31 December 2011		**8 453**	**939**	**3 503**	**386**	**10 319**	**1 375**	**118**	**25 093**	**1 531**	**26 624**
Cost at 31 December 2011		9 158	1 545	6 490	386	11 688	1 660	118	31 045	2 775	33 820
Accumulated depreciation		(705)	(606)	(2 987)	-	(1 369)	(285)	-	(5 952)	(1 244)	(7 196)
Carrying amount at 31 December 2011		**8 453**	**939**	**3 503**	**386**	**10 319**	**1 375**	**118**	**25 093**	**1 531**	**26 624**

15 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2011 was RR 1 259 million (2010: RR 2 859 million).

Carrying amount of office premises without revaluation at 31 December 2011 is RR 7 935 million (2010: RR 7 442 million), including cost in amount of RR 8 478 million (2010: RR 7 820 million) and accumulated depreciation of RR 543 million (2010: RR 378 million). Premises were independently valued as at 31 December 2011. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, which hold a relevant professional qualification and which have recent experience in valuation of assets of similar location and category.

16 Other Assets

In millions of Russian Roubles	Note	2011	2010
Non-financial assets			
Repossessed collateral		5 334	5 395
Prepayment for goods		2 572	305
Inventory		1 050	847
Prepayment for services		389	421
Prepaid taxes		69	102
Goodwill		8	-
Other		9	9
Financial assets			
Settlements on banking cards		3 850	1 937
Trade receivables		1 253	1 215
Restricted cash	33	202	-
Settlements on funds transfer operations		165	75
Other		1 250	913
Provision for impairment of other financial assets		(247)	(167)
Total other assets		**15 904**	**11 052**

Repossessed collateral mainly represents the land and production premises measured in accordance with IAS 40 «Investment Property». The Group is not going to use repossessed collateral in its own operations.

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in the provision for impairment of other financial assets are as follows:

In millions of Russian Roubles	2011	2010
Provision for impairment of other financial assets at 1 January	**167**	**170**
Provision for impairment of other financial assets during the year	78	8
Reclassification to assets of the disposal groups held for sale	3	(6)
Other financial assets written off during the year as uncollectible	(1)	(5)
Provision for impairment of other financial assets at 31 December	**247**	**167**

16 Other Assets (Continued)

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	Note	2011	2010
Repossessed collateral at 1 January		**5 395**	**5 610**
Additions for the year		138	1 088
Disposal for the year		(157)	(1 279)
Depreciation charge	27	(42)	(24)
Repossessed collateral at 31 December		**5 334**	**5 395**

As at 31 December 2011 the fair value of repossessed collateral was RR 5 486 million (2010: RR 5 544 million).

Movements in goodwill arising on the acquisition of subsidiaries are as follows:

In millions of Russian Roubles	Note	2011	2010
Carrying amount at 1 January		**-**	**298**
Acquisition of subsidiaries		8	-
Impairment loss	27	-	(298)
Carrying amount at 31 December		**8**	**-**

Refer to the Note 35 for the disclosure of fair value of other financial assets. Geographical analysis of other assets is disclosed in Note 31.

17 Due to Other Banks

In millions of Russian Roubles	2011	2010
Borrowings from other banks with term to maturity		
- sale and repurchase agreements less than 30 days	2 006	12 911
- less than 30 days	3 090	7 378
- from 31 to 180 days	2 678	4 793
- from 181 days to 1 year	14 297	4 652
- from 1 year to 3 years	49 504	53 558
- more than 3 years	18 490	18 192
Borrowings from the CBRF with term to maturity		
- less than 30 days	-	1 058
- from 31 to 180 days	-	2 795
Correspondent accounts and overnight placements of other banks	352	241
Total due to other banks	**90 417**	**105 578**

As at 31 December 2011 the Group had balances due to one foreign bank with the aggregated amount of RR 31 105 million, or 34% of total due to other banks (2010: due to one foreign bank with the aggregated amount of RR 29 254 million, or 28% of total due to other banks).

Refer to Note 35 for the disclosure of the fair value of due to other banks. Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 31.

18 Customer Accounts

In millions of Russian Roubles	**2011**	**2010**
State and public organisations		
- Current/settlement accounts	4 757	5 333
- Term deposits	192 706	74 300
Other legal entities		
- Current/settlement accounts	57 226	50 317
- Term deposits	201 264	128 443
- Sale and repurchase agreements with securities	89	195
Individuals		
- Current/demand accounts	23 556	16 835
- Term deposits	127 697	110 856
Total customer accounts	**607 295**	**386 279**

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

	2011		**2010**	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
State and public organisations	197 463	33	79 633	21
Individuals	151 253	25	127 691	33
Financial services and pension funds	88 081	15	33 260	9
Insurance	38 740	6	29 444	8
Manufacturing	33 718	6	35 371	9
Agriculture	23 149	3	25 203	6
Trading	18 795	3	13 685	4
Construction	13 755	2	12 738	3
Leasing	9 662	2	8 920	2
Telecommunication	9 046	1	7 404	2
Other	23 633	4	12 930	3
Total customer accounts	**607 295**	**100**	**386 279**	**100**

As at 31 December 2011, the Group had four customers with balances above RR 15 000 million (2010: three customers with balances above RR 11 500 million). The aggregate balance of these customers was RR 197 372 million, or 33% of total customer accounts (2010: RR 60 639 million, or 16% of total customer accounts).

As at 31 December 2011, customer accounts include secured deposit of RR 6 168 million (2010: RR 5 928 million). The deposit was secured by State Eurobonds with carring value of RR 7 058 million (2010: RR 6 682 million). Refer to Note 33.

Refer to Note 35 for the disclosure of the fair value of customer accounts. Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

19 Promissory Notes Issued

In millions of Russian Roubles	2011	2010
Promissory notes issued	20 129	9 874
Total promissory notes issued	**20 129**	**9 874**

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 11% p.a. and maturity dates from January 2012 to December 2016 (2010: promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 11% p.a. and maturity dates from January 2011 to December 2016).

As at 31 December 2011, promissory notes issued, which were initially purchased by one counterparty, amounted to RR 13 969 million or 69% of total promissory notes issued by the Group (2010: one counterparty, amounted to RR 3 948 million or 40% of total promissory notes issued by the Group).

Refer to Note 35 for the disclosure of the fair value of promissory notes issued. Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 31.

20 Other Borrowed Funds

In millions of Russian Roubles	2011	2010
Eurobonds issued	231 155	169 102
Bonds issued on domestic market	111 344	88 457
Total other borrowed funds	**342 499**	**257 559**

20 Other Borrowed Funds (Continued)

As at 31 December 2011, other borrowed funds consist of US Dollars, Russian Roubles and Swiss Francs denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	4.06%
US Dollars	1 148	14 May 2007	15 May 2017	-	6.299%	6 months	6.29%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	4.08%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	5.20%
- tranche B	901	29 May 2008	29 May 2018	-	7.750%	6 months	6.51%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.43%
Russian Roubles	30 000	25 March 2010	25 March 2013	-	7.500%	6 months	8.71%
Russian Roubles	20 000	17 March 2011	17 March 2016	-	8.700%	6 months	9.67%
Russian Roubles	12 000	20 April 2011	17 March 2016	-	8.700%	6 months	9.67%
Russian Roubles	20 000	23 November 2011	23 November 2016	-	6.970%	6 months	7.38%
Bonds issued on domestic market							
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	8.90%
Russian Roubles	9 010	10 October 2007	27 September 2017	4 October 2013	7.500%	6 months	7.69%
Russian Roubles	585	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	9.78%
Russian Roubles	5 000	17 June 2008	5 June 2018	14 June 2013	6.850%	6 months	8.56%
Russian Roubles	10 000	9 December 2008	27 November 2018	5 December 2013	8.750%	6 months	8.94%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	7.42%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	7.49%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	9.68%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	8.35%
Russian Roubles	5 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.40%
Russian Roubles	10 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.42%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	7.65%
Russian Roubles	10 000	12 July 2011	29 June 2021	09 July 2015	7.700%	6 months	9.22%
Russian Roubles	5 000	14 July 2011	1 July 2021	13 July 2015	7.700%	6 months	8.94%
Russian Roubles	5 000	15 July 2011	2 July 2021	14 July 2015	7.700%	6 months	8.19%
Russian Roubles	10 000	8 November 2011	26 October 2021	7 November 2013	8.750%	6 months	8.92%

20 Other Borrowed Funds (Continued)

As at 31 December 2010, the Group's other borrowed funds included Eurobonds denominated in US Dollars and Swiss Francs that are issued by the Group through its special purpose entity, RSHB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	4.17%
US Dollars	1 127	14 May 2007	15 May 2017	-	6.299%	6 months	6.20%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	3.50%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	4.76%
- tranche B	898	29 May 2008	29 May 2018	-	7.750%	6 months	6.42%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.02%
Russian Roubles	29 700	25 March 2010	25 March 2013	-	7.500%	6 months	7.56%
Bonds issued in domestic market							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	7.64%
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	7.98%
Russian Roubles	10 000	10 October 2007	27 September 2017	7 October 2011	11.500%	6 months	5.43%
Russian Roubles	264	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	8.08%
Russian Roubles	5 000	17 June 2008	5 June 2018	16 June 2011	6.900%	6 months	4.93%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.93%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.84%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.79%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	7.71%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	7.62%
Russian Roubles	5 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	1 September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	6.90%

Refer to Note 35 for the disclosure of the fair value for other borrowed funds. Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 31.

21 Other Liabilities

In millions of Russian Roubles	2011	2010
Non-financial liabilities		
Accrued staff costs	1 465	922
Taxes payable other than on income	364	294
Insurance contribution	139	114
Other	467	302
Financial liabilities		
Settlements on banking cards	2 463	1 495
Trade payables	949	704
Other subsidiaries' payables	621	371
Financial liabilities associated with issuance of guarantees by subsidiaries	187	187
Carryng value of guarantees issued	114	-
Total other liabilities	**6 769**	**4 389**

Trade payables are related to the business activities of subsidiaries.

Refer to Note 35 for the disclosure of the fair value of other financial liabilities. Geographical analysis of other liabilities is disclosed in Note 31.

22 Subordinated Debts

As at 31 December 2011, the Group's subordinated debts totalled RR 57 192 million (2010: RR 46 545 million).

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017 and bearing an interest rate of Libor +1.875%. The Group has an option to terminate this subordinated debt at the nominal value in the last five years before its maturity date.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 million with maturity in December 2019 and an interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law # 173-FZ "On supplementary measures to support financial system of the Russian Federation". In July 2010, Federal Law # 173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a.

In June 2011, the Group attracted a subordinated debt totalling USD 800 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in June 2021, have contractual interest rate of 6.0% p.a., and yield to the next repricing date, i.e. in June 2016 at 8.3% p.a. The Group has an option to terminate this subordinated debt at the nominal value in June 2016.

In September 2011, the Group executed its option to early terminate the subordinated debt attracted in September 2006 in the total amount of USD 500 million.

Refer to Note 35 for the disclosure of the fair value of subordinated debts. Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 31. The information on related party balances is disclosed in Note 37.

23 Share Capital

Share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2010	**106 223**	**106 223**	**106 973**
New shares issued	1 825	1 825	1 825
At 31 December 2010	**108 048**	**108 048**	**108 798**
New shares issued	40 000	40 000	40 000
At 31 December 2011	**148 048**	**148 048**	**148 798**

Issued and fully paid authorised share capital comprises 148 048 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 million per share and rank equally. Each share carries one vote.

In 2011, the Bank increased its share capital by issuing 40 000 ordinary shares with the total nominal amount of RR 40 000 million. All shares were purchased by the Bank's only shareholder - the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

24 Interest Income and Expense

In millions of Russian Roubles	Note	2011	2010
Interest income			
Loans and advances to customers		103 276	97 749
Investment securities available for sale and related repurchase receivables	13	4 441	1 346
Due from other banks		2 480	3 246
Financial instruments designated at fair value through profit or loss		1 139	813
Investment securities held to maturity and related repurchase receivables		1 006	665
Cash equivalents		658	210
Trading securities and related repurchase receivables		314	978
Total interest income		**113 314**	**105 007**
Interest expense			
Other borrowed funds		(22 834)	(20 003)
Term deposits of legal entities		(17 096)	(10 849)
Term deposits of individuals		(7 711)	(8 268)
Term deposits of other banks		(7 040)	(7 557)
Subordinated debts		(3 381)	(3 090)
Promissory notes issued		(841)	(1 590)
Current/settlement accounts		(748)	(720)
Term deposits of the CBRF		(48)	(1 282)
Syndicated loans		-	(24)
Total interest expense		**(59 699)**	**(53 383)**
Net interest income		**53 615**	**51 624**

Interest income on loans and advances to customers includes interest income recognised on impaired loans in the total amount of RR 21 486 million (2010: RR 15 911 million).

25 Fee and Commission Income and Expense

In millions of Russian Roubles	2011	2010
Fee and commission income		
Commission on cash transactions	3 553	2 668
Commission on settlement transactions	537	423
Agency fees for sale of insurance contracts	246	-
Commission on banking cards	235	137
Agency fees for debt collection and currency control	100	77
Commission on guarantees issued	25	10
Other	138	96
Total fee and commission income	**4 834**	**3 411**
Fee and commission expense		
Commission on cash collection	(426)	(349)
Commission on settlement transactions	(163)	(59)
Commission on restructuring of loans	-	(148)
Other	(42)	(33)
Total fee and commission expense	**(631)**	**(589)**
Net fee and commission income	**4 203**	**2 822**

26 Losses net of Gains from Non-banking Activities

In millions of Russian Roubles	2011	2010
Sales of goods	8 873	3 799
Cost of goods sold	(8 443)	(4 205)
Impairment charge of trade receivables and prepayments	(359)	-
Financial result from netting receivables and payables before impairment charge	-	614
Other non-banking income	446	1 399
Other non-banking expenses	(1 762)	(1 876)
Total losses net of gains from non-banking activities	**(1 245)**	**(269)**

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other nonfoods.

During 2010, the Group settled receivables for the total amount of RR 1 801 million on the net basis with payables in the total amount of RR 2 415 million. As a result the Group recognised a gain in the total amount of RR 614 million.

Included in cost of goods sold is depreciation of non-banking premises and equipment in the total amount of RR 695 million (2010: RR 810 million).

27 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2011	2010
Staff costs		18 734	15 301
Rental expenses		2 383	2 050
Depreciation of premises and equipment	15	1 314	1 177
Taxes other than on income		1 114	895
Security services		836	716
Other costs of premises and equipment		682	536
Communications and information services		669	565
Advertising and marketing services		508	185
Payments to the Deposit Insurance Fund		499	279
Amortization of intangible assets	15	448	287
Supplies and other materials		428	258
Impairment of premises /(reversals of impairment)		246	(51)
Depreciation of repossessed collateral	16	42	24
Impairment of goodwill	16	-	298
Other		1 262	1 064
Total administrative and other operating expenses		**29 165**	**23 584**

Included in staff costs are statutory social security and contributions to a state and non-state pension funds of RR 3 720 million (2010: RR 2 496 million).

28 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2011	2010
Current tax	3 823	1 995
Deferred tax	(3 531)	(1 631)
Income tax expense for the year	**292**	**364**

The income tax rate applicable to the majority of the Group's income is 20% (2010: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2011	2010
IFRS profit before tax	**350**	**733**
Theoretical tax charge at statutory rate (2011: 20%; 2010: 20%)	70	147
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible interest expenses	133	1
- Non deductible staff costs	38	53
- Non deductible charity costs	6	8
- Impairment of goodwill	-	58
- Income on government securities taxed at different rates	(36)	(19)
- Other nontemporary differences	81	116
Income tax expense for the year	**292**	**364**

Differences between IFRS and Russian statutory tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2010: 20%), except for income on government securities that is taxed at 15% (2010: 15%).

28 Income Taxes (Continued)

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In millions of Russian Roubles	31 December 2010	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Transfer to disposal groups classified as held for sale	31 December 2011
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	1 968	1 905	-	(2)	3 871
Provision for impairment	648	20	-	-	668
Fair valuation of derivative financial instruments	(325)	667	-	-	342
Accrued staff costs	178	113	-	2	293
Accruals on due to other banks	74	215	-	-	289
Fair valuation of securities	(110)	70	199		159
Defferal of fees on guarantees issued	-	23	-	-	23
Promissory notes issued	(3)	10	-	-	7
Premises and equipment	(1 895)	22	(42)	27	(1 888)
Accruals on other borrowed funds and subordinated debts	(218)	3	-	-	(215)
Intangible assets	(57)	13	-	-	(44)
Other	265	470	-	(31)	704
Net deferred income tax asset	**525**	**3 531**	**157**	**(4)**	**4 209**
Recognised deferred income tax asset	1 930	3 601	-	-	5 531
Recognised deferred income tax liability	(1 405)	(70)	157	(4)	(1 322)
Net deferred income tax asset	**525**	**3 531**	**157**	**(4)**	**4 209**

28 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2009	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Transfer to disposal groups classified as held for sale	31 December 2010
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	1 455	515	-	(2)	1 968
Provision for impairment	418	240	-	(10)	648
Accrued staff costs	153	25	-	-	178
Fair valuation of derivative financial instruments	(526)	201	-	-	(325)
Premises and equipment	(2 294)	127	(29)	301	(1 895)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(202)	(16)	-	-	(218)
Fair valuation of securities	(186)	47	29	-	(110)
Intangible assets	(49)	(8)	-	-	(57)
Accruals on due to other banks	(26)	100	-	-	74
Promissory notes issued	(3)	-	-	-	(3)
Other	(155)	400	-	20	265
Net deferred income tax asset/(liability)	**(1 415)**	**1 631**	**-**	**309**	**525**
Recognised deferred income tax asset	400	1 530	-	-	1 930
Recognised deferred income tax liability	(1 815)	101	-	309	(1 405)
Net deferred income tax asset/(liability)	**(1 415)**	**1 631**	**-**	**309**	**525**

29 Dividends

In millions of Russian Roubles	2011 Ordinary shares	2010 Ordinary shares
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	253	232
Dividends paid during the year	(253)	(232)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.0023**	**0.0022**

30 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

30 Segment Analysis (Continued)

Based on IFRS 8 requirements Group also discloses those operational segments where revenue, profit or total assets are higher than 10% of related Group's indicators.

As at 31 December 2011 and at 31 December 2010 the Group defines the following reportable segments:

- Head office,
- Central federal district,
- Far Eastern federal district,
- Volga federal district,
- North-West federal district,
- North-Caucasian federal district,
- Siberian federal district,
- Ural federal district,
- Krasnodar branch,
- Southern federal district (without Krasnodar branch).

For analysis of revenue by products refer to Notes 24, 25.

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments. Intrersegment income/(expense) represents mainly income from/(costs of) funding provided by Head Office to other reportable segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2011 and 31 December 2010 and segment reporting of the Group's assets at 31 December 2011 and 31 December 2010 is as follows:

30 Segment Analysis (Continued)

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the year ended 31 December 2011											
Revenue from external customers:	**15 102**	**27 242**	**3 952**	**22 989**	**6 821**	**9 622**	**12 334**	**2 459**	**8 240**	**5 026**	**113 787**
- Income from loans and advances to customers, due from other banks and other placed funds	13 981	25 776	3 622	21 866	6 457	9 116	11 570	2 343	7 857	4 714	107 302
- Fee and commission income from credit related operations	1 121	1 466	330	1 123	364	506	764	116	383	312	6 485
Gains less losses / (losses net of gains) arising from securities	(2 414)	(25)	(1)	(61)	(1)	(3)	4	(1)	(2)	(17)	(2 521)
Net interest and commissions from current/correspondent/settlement accounts	(79)	772	126	586	188	595	369	86	186	173	3 002
Expenses from due to other banks, term deposits and other borrowed funds	(46 176)	(4 760)	(673)	(2 355)	(1 139)	(386)	(1 421)	(319)	(712)	(573)	(58 514)
Provision charge for impairment	(920)	(10 060)	(578)	510	(1 118)	(916)	63	(223)	(11 587)	(572)	(25 401)
Administrative and Maintenance expense	(6 029)	(4 862)	(1 749)	(4 507)	(1 711)	(1 830)	(3 563)	(784)	(1 973)	(1 194)	(28 202)
Including depreciation charge for the reporting period	(160)	(252)	(63)	(230)	(77)	(114)	(155)	(34)	(46)	(43)	(1 174)
Intersegment income and expense*	**54 524**	**(12 961)**	**(1 865)**	**(12 078)**	**(3 737)**	**(5 735)**	**(6 475)**	**(1 389)**	**(7 556)**	**(2 728)**	**-**
Profit/(loss) of reportable segments	**(44 277)**	**8 297**	**1 089**	**17 233**	**2 977**	**7 303**	**7 850**	**1 218**	**(3 286)**	**2 869**	**1 273**
For the year ended 31 December 2010											
Revenue from external customers:	**17 132**	**24 352**	**3 660**	**19 397**	**7 253**	**7 759**	**10 850**	**2 421**	**12 273**	**4 072**	**109 169**
- Income from loans and advances to customers, due from other banks and other placed funds	15 769	22 997	3 386	18 494	6 886	7 407	10 246	2 298	11 676	3 879	103 038
- Fee and commission income from credit related operations	1 363	1 355	274	903	367	352	604	123	597	193	6 131
Gains less losses / (losses net of gains) arising from securities	(4 283)	(37)	-	(60)	3	-	9	-	2	(14)	(4 380)
Net interest and commissions from current/correspondent/settlement accounts	(389)	623	122	467	148	452	278	65	151	127	2 044
Expenses from due to other banks, term deposits and other borrowed funds	(40 307)	(4 257)	(697)	(2 372)	(1 345)	(467)	(1 386)	(331)	(1 041)	(569)	(52 772)
Provision charge for impairment	(552)	(4 947)	(492)	(5 071)	(1 748)	(101)	(3 797)	(882)	(9 667)	(536)	(27 793)
Administrative and Maintenance expense	(4 152)	(4 292)	(1 468)	(3 926)	(1 684)	(1 759)	(3 068)	(650)	(843)	(1 244)	(23 086)
Including depreciation charge for the reporting period	(136)	(245)	(63)	(235)	(75)	(112)	(154)	(34)	(48)	(48)	(1 150)
Intersegment income and expense*	**49 724**	**(11 876)**	**(1 665)**	**(10 653)**	**(3 700)**	**(4 614)**	**(5 781)**	**(1 282)**	**(7 818)**	**(2 335)**	**-**
Profit/(loss) of reportable segments	**(35 315)**	**11 640**	**1 148**	**8 452**	**2 788**	**6 089**	**2 805**	**633**	**909**	**1 865**	**1 014**
Total assets											
31 December 2011	1 577 279	443 342	58 505	303 908	107 959	129 403	168 682	35 754	163 520	69 749	3 058 101
31 December 2010	1 183 530	311 373	44 238	237 058	99 122	94 890	131 428	26 113	150 337	47 362	2 325 451
Provision for loan impairment (RAR)											
31 December 2011	(1 151)	(18 111)	(2 429)	(9 318)	(5 566)	(3 733)	(7 789)	(1 888)	(19 960)	(3 190)	(73 135)
31 December 2010	(55)	(9 479)	(1 978)	(10 281)	(4 754)	(3 106)	(8 167)	(1 667)	(11 293)	(2 744)	(53 524)

***** Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

30 Segment Analysis (Continued)

The amount of additions/(disposals) in premises and equipment and land for the reporting period ended 31 December 2011 and 31 December 2010 is as follows:

In millions of Russian Roubles	2011	2010
Additions/(disposals)*		
Head office	(11)	126
Central federal district	707	4 156
Far Eastern federal district	29	86
Volga federal district	143	1 316
North-West federal district	(21)	145
North-Caucasian federal district	(23)	110
Siberian federal district	132	494
Ural federal district	37	43
Krasnodar branch	35	35
Southern federal district (without Krasnodar branch)	22	34
Total additions	**1 050**	**6 545**

* Based on RAR including revaluation as at 31 December 2010.

(d) Reconciliation of reportable segment revenues, profit or loss, assets and provision for loan impairment

Reconciliation of profit and assets of the reporting segments for the reporting period ended 31 December 2011 and 31 December 2010 is as follows:

In millions of Russian Roubles	2011	2010
Total profit of reportable segments (after tax)	**1 273**	**1 014**
Adjustments of deferred tax	3 720	1 479
Adjustments of provisions for impairment	1 184	1 300
Revenue of non-reportable segments, including the effect of consolidation*	341	(307)
Accounting for derivative financial instruments at fair value	(3 348)	(960)
Accounting for financial assets and liabilities carried at amortised cost	(1 704)	(482)
Losses less gains from revaluation of other financial assets at fair value through profit and loss	(749)	(734)
Revaluation of premises	(246)	23
Accrued staff costs	(165)	(132)
Other expenses from non-reportable segments, including the effect of consolidation*	(156)	(636)
Other	(92)	(196)
The Group's profit under IFRS (after tax)	**58**	**369**
Assets of reportable segments	**3 058 101**	**2 325 451**
Elimination of settlements between branches	(1 561 892)	(1 228 300)
Elimination of back-to-back deposits	(124 963)	(105 506)
Provision for loan impairment	(75 926)	(57 052)
Assets of non-reportable segments, including the effect of consolidation*	4 227	1 737
Other	(15 121)	(5 530)
The Group's assets under IFRS	**1 284 426**	**930 800**
Provision for loan impairment for loans and advances to customers of reportable segments	**(73 135)**	**(53 524)**
Accounting for provision under IFRS	(4 694)	(4 156)
Provision related to non-reportable segments, including the effect of consolidation*	1 918	451
Accounting for provision for litigation	-	200
The Group's provision for loan impairment for loans and advances to customers under IFRS	**(75 911)**	**(57 029)**

* Non-reportable segments are represented by subsidiaries of the Group.

30 Segment Analysis (Continued)

Reconciliation of material items of income and expenses for the years ended 31 December 2011 and 31 December 2010 is as follows:

In millions of Russian Roubles	2011	2010
Total revenue of reportable segments from external customers	**113 787**	**109 169**
Reclassification of income related to back-to-back deposits to income from derivative financial instruments	(5 530)	(7 144)
Reclassification of income not included in segment revenue	11 373	7 682
Interest income related to effective interest rate implication	(258)	(966)
Revenue of non-reportable segments, including the effect of consolidation*	341	(307)
Effect of disposal of loans	(1 557)	-
Other	(8)	(16)
The Group's revenue under IFRS	**118 148**	**108 418**
Total expenses from due to other banks, term deposits and other borrowed funds of reportable segments	**(58 514)**	**(52 772)**
Reclassification of expense related to back-to-back deposits to expense from derivative financial instruments	8 915	9 512
Interest expense related to the securities issued by the Bank	(8 971)	(9 526)
Effective interest rate adjustments	(1 248)	(628)
Results of non-reportable segments, including the effect of consolidation*	103	82
Other	16	(51)
The Group's interest expense under IFRS	**(59 699)**	**(53 383)**
Provision charge for impairment	**(25 401)**	**(27 793)**
Accounting for provision under IFRS	13	1 300
Provision related to non-reportable segments, including the effect of consolidation*	2 758	(2 022)
Accounting for provision for litigation	-	200
The Group's provision charge for impairment	**(22 630)**	**(28 315)**
Administrative and Maintenance expenses of reportable segments	**(28 202)**	**(23 086)**
Reclassification of results from loan restructuring	1 171	1 121
Expense of non-reportable segments, including the effect of consolidation*	36	(341)
Taxes other than income tax and charity expense	(1 542)	(980)
Accrued staff costs	(165)	(132)
Other	(463)	(166)
The Group's administrative and other operating expenses under IFRS	**(29 165)**	**(23 584)**

* Non-reportable segments are represented by subsidiaries of the Group.

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

30 Segment Analysis (Continued)

- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognised as back-to-back deposits, whereas in IFRS financial statements such transactions are recognised at fair value. Refer to Note 34. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

- Adjustments to fair value of securities resulted from application of different valuation techniques and input data.

- Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method.

- There is no concept of deferred tax accounting in RAR for credit organizations.

- Reclassification of income non included in segment revenue mainly related to interest income from securities.

- Interest income and interest expense under IFRS are accounted using the effective interest rate method.

- Balances of intercompany settlements related to regional branches of the Bank are presented in assets and liabilities, while in IFRS such balances are shown on a net basis.

All other differences also resulted from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major Customers

The Group does not have any customer, from which it earns revenue representing 10% or more of the total revenues.

31 Financial Risk Management

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, and also by separate structural divisions and executives on the basis of their competence.

The Risks Department (hereinafter, the RD) is responsible for risk control and evaluation and performs its functions independently from business units. The RD is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and adjust actions in order to reveal and minimize negative consequences on early stages.

31 Financial Risk Management (Continued)

In order to ensure stable operation of the Bank in 2011, the Bank took the following priority steps.

For its lending activities the Bank developed Methodology of limits and internal rating of counterparties and issuers, existing lending regulation was amended in order to improve the credit portfolio quality and mitigate credit risks. These amendments provide, in particular, for inclusion of cooperation with a credit history bureau into the lending business process, also specific actions were taken to ensure appropriate quality of monitoring of loans issued. A vertically-arranged unit for risk assessment and control in the Banks' regional branches was established in order to carry out independent control of the level of risks taken by the branches and additional offices. The role of risk managers in taking lending decisions was enhanced.

The Bank took a set of measures aimed at intensification of actions with regard to non-performing loans and certain steps were taken to establish an infrastructure providing for various actions resolving issues in the area of non-performing loans.

The Head Office tightened its control over target use of the allocated resources in priority areas and over compliance with established limits. The Bank approved and applied additional control measures for liquidity control, which include estimated liquidity indicators. These indicators allowed to timely identify imbalances between the volume of claims and liabilities of the Bank in different time intervals and to promptly identify the necessity of management actions.

To exclude the possibility of losses from transactions in the interbank market the Bank ensured control over the credit risk level of counterparty banks and significantly optimised the limits for transactions with the counterparties. The Bank performs stress-testing of exposed financial risks on quarterly basis.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 33.

The credit risk approval competencies in 2011 and 2010 are determined as follows:

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 million (2010: RR 4 000 million).

- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 million (2010: up to RR 4 000 million) .

- The Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 2 000 million (2010: RR 500 million till February 2010, RR 1 000 million since February 2010 till April 2010, RR 2 000 million since April 2010).

31 Financial Risk Management (Continued)

- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.

- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration per one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

In selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);

- lending to borrowers with different specialisation in different regions;

- a combination of several types of production in one entity typical for agricultural producers;

- diversification of investments in effective and reliable projects of other economic sectors;

- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

31 Financial Risk Management (Continued)

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and the RD within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board or the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the RD.

The RD's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Operations Department are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The RD jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the RD monitors limits and reports information on compliance with the set limits to the Bank's management. The RD also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The RD is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

31 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk at 31 December 2011 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	212 593	136 996	116 685	168 666	339 439	314 256	1 288 635
Total interest bearing financial liabilities*	109 718	198 283	175 403	171 616	301 365	199 962	1 156 347
Sensitivity gap	**102 875**	**(61 287)**	**(58 718)**	**(2 950)**	**38 074**	**114 294**	**132 288**
Cummulative sensitivity gap	**102 875**	**41 588**	**(17 130)**	**(20 080)**	**17 994**	**132 288**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

31 Financial Risk Management (Continued)

For the year ended 31 December 2011, if interest rates at that date had been 100 basis points lower with all other variables held constant, net interest income for the year would have been RR 12 million higher (2010: RR 592 million higher); other components of equity (pre-tax) would have been RR 1 943 million higher (2010: RR 303 million higher), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale.

For the year ended 31 December 2011, if interest rates at that date had been 100 basis points higher with all other variables held constant, net interest income for the year would have been RR 12 million lower (2010: RR 592 million lower); other components of equity (pre-tax) would have been RR 1 943 million lower (2010: RR 303 million lower), as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale.

The table below summarises the Group's exposure to interest rate risk at 31 December 2010 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	83 313	83 673	105 389	171 807	245 424	252 650	942 256
Total interest bearing financial liabilities*	100 699	111 641	132 739	163 084	151 178	183 152	842 493
Sensitivity gap	**(17 386)**	**(27 968)**	**(27 350)**	**8 723**	**94 246**	**69 498**	**99 763**
Cummulative sensitivity gap	**(17 386)**	**(45 354)**	**(72 704)**	**(63 981)**	**30 265**	**99 763**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

31 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

	2011				2010			
In % p.a.	RR	US Dollars	Euros	Other	RR	US Dollars	Euros	Other
Assets								
Cash and cash equivalents*	6	-	-	-	3	1	-	-
Mandatory cash balances with the CBRF	0	-	-	-	0	-	-	-
Debt trading securities and related repurchase receivables	-	-	-	-	12	-	-	-
Financial instruments designated at fair value through profit or loss	12	9	-	-	12	10	-	-
Due from other banks*	-	7	-	-	-	8	-	-
Loans and advances to customers	13	8	9	7	14	9	10	7
Debt investment securities available for sale and related repurchase receivables	8	8	-	-	8	6	-	-
Debt investment securities held to maturity and related repurchase receivables	8	6	-	-	8	6	-	-
Liabilities								
Due to other banks*	7	8	3	5	7	8	3	5
Customer accounts*	8	3	3	-	7	7	6	-
Promissory notes issued	7	1	5	-	6	1	5	-
Other borrowed funds	8	8	-	6	9	8	-	6
Subordinated debts	7	5	-	-	7	6	-	-

* disclosed rates on term deposits

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the RD to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VaR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VaR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VaR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VaR shows the maximum possible loss as per RR 1 of investments, and absolute VaR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

31 Financial Risk Management (Continued)

VaR is calculated by historical method and, subsequently, the most adequate evaluation of calculations' parameters is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a quarterly basis.

Although VaR is a valuable tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VaR; and
- VaR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VaR and Expected ShortFall methods.

In millions of Russian Roubles		2011	2010
At period end	Short position	(35)	(1 068)
	VAR	2	9
	Expected ShortFall	3	11

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions.

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in stock quotations, evaluated on the basis of VaR and Expected ShortFall methods.

In millions of Russian Roubles		2011	2010
At period end	Short position	9	15
	VAR	-	-
	Expected ShortFall	-	1

31 Financial Risk Management (Continued)

Geographical risk concentration.

The geographical concentration of the Group's assets and liabilities at 31 December 2011 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	130 071	3 883	5	133 959
Mandatory cash balances with the CBRF	8 417	-	-	8 417
Repurchase receivables	2 369	-	-	2 369
Financial instruments designated at fair value through profit or loss	-	11 225	-	11 225
Derivative financial instruments	-	23 296	-	23 296
Due from other banks	8 019	25 962	5 588	39 569
Loans and advances to customers	903 697	-	-	903 697
Investment securities available for sale	76 595	-	-	76 595
Investment securities held to maturity	31 319	-	-	31 319
Deferred income tax asset	5 531	-	-	5 531
Intangible assets	1 531	-	-	1 531
Premises and equipment	25 093	-	-	25 093
Current income tax prepayment	820	-	-	820
Other assets	15 903	1	-	15 904
Assets of the disposal groups held for sale	5 099	2	-	5 101
Total assets	**1 214 464**	**64 369**	**5 593**	**1 284 426**
Liabilities				
Derivative financial instruments	386	353	-	739
Due to other banks	13 424	75 772	1 221	90 417
Customer accounts	600 925	6 168	202	607 295
Promissory notes issued	20 129	-	-	20 129
Other borrowed funds	111 344	231 155	-	342 499
Deferred income tax liability	1 322	-	-	1 322
Current income tax liability	7	-	-	7
Other liabilities	6 762	7	-	6 769
Subordinated debts	25 004	32 188	-	57 192
Liabilities directly associated with disposal groups held for sale	1 281	1	-	1 282
Total liabilities	**780 584**	**345 644**	**1 423**	**1 127 651**
Net position in on-balance sheet positon	**433 880**	**(281 275)**	**4 170**	**156 775**
Credit related commitments	**29 896**	**-**	**-**	**29 896**

* OECD – Organisation for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located. Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

31 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2010 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	80 504	496	10	81 010
Mandatory cash balances with the CBRF	3 468	-	-	3 468
Trading securities	3 563	-	-	3 563
Repurchase receivables	15 240	-	-	15 240
Financial instruments designated at fair value through profit or loss	-	9 686	-	9 686
Derivative financial instruments	42	20 579	-	20 621
Due from other banks	5 777	24 566	4 134	34 477
Loans and advances to customers	688 556	-	-	688 556
Investment securities available for sale	15 687	-	-	15 687
Investment securities held to maturity	14 922	-	-	14 922
Deferred income tax asset	1 930	-	-	1 930
Intangible assets	1 563	-	-	1 563
Premises and equipment	25 985	-	-	25 985
Current income tax prepayment	191	-	-	191
Other assets	11 050	1	1	11 052
Assets of the disposal groups held for sale	2 847	2	-	2 849
Total assets	**871 325**	**55 330**	**4 145**	**930 800**
Liabilities				
Derivative financial instruments	31	510	-	541
Due to other banks	31 825	73 498	255	105 578
Customer accounts	375 817	7 473	2 989	386 279
Promissory notes issued	9 874	-	-	9 874
Other borrowed funds	88 457	169 102	-	257 559
Deferred income tax liability	1 405	-	-	1 405
Current income tax liability	17	-	-	17
Other liabilities	4 389	-	-	4 389
Subordinated debts	25 000	21 545	-	46 545
Liabilities directly associated with disposal groups held for sale	1 014	1	-	1 015
Total liabilities	**537 829**	**272 129**	**3 244**	**813 202**
Net position in on-balance sheet positon	**333 496**	**(216 799)**	**901**	**117 598**
Credit related commitments	**1 155**	**-**	**-**	**1 155**

* OECD – Organisation for Economic Cooperation and Development.

Liquidity risk. Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

31 Financial Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- setting limits on asset-side transactions by types of investments;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to Resource Committee and the Management Board Resource Committee.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Group's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2011 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

31 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities at 31 December 2011 is as follows:

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(5 223)	(20 569)	(16 714)	(51 799)	(79 554)	(173 859)
- outflow	5 440	19 102	15 969	53 215	65 867	159 593
Net settled derivative financial instruments (liabilities)	386	-	-	-	-	386
Due to other banks	948	3 880	11 232	52 113	27 507	95 680
Customer accounts	151 076	252 654	140 738	82 113	7 758	634 339
Promissory notes issued	888	13 365	5 695	405	660	21 013
Other borrowed funds	1 573	26 818	37 611	193 386	160 173	419 561
Subordinated debts	-	8 107	1 581	6 341	60 392	76 421
Other financial liabilities	2 563	100	1 387	-	187	4 237
Off-balance sheet financial liabilities						
Sureties issued	20 732	-	-	-	-	20 732
Guarantees issued	7 736	-	-	-	-	7 736
Letters of credit	1 428	-	-	-	-	1 428
Other credit related commitments*	36 368	-	-	-	-	36 368
Total potential future payments for financial obligations	**223 915**	**303 457**	**197 499**	**335 774**	**242 990**	**1 303 635**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

31 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities at 31 December 2010 is as follows:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(308)	(8 877)	(36 045)	(23 664)	(81 748)	(150 642)
- outflow	377	9 362	34 439	23 540	75 238	142 956
Net settled derivative financial instruments (liabilities)	31	-	-	-	-	31
Due to other banks	21 753	9 458	7 285	61 787	27 659	127 942
Customer accounts	119 173	161 625	91 715	18 920	7 604	399 037
Promissory notes issued	855	2 046	5 785	1 167	700	10 553
Other borrowed funds	762	21 504	29 652	127 663	144 492	324 073
Subordinated debts	-	1 003	17 075	9 409	34 714	62 201
Other financial liabilities	1 498	-	797	27	435	2 757
Off-balance sheet financial liabilities						
Guarantees issued	320	-	-	-	-	320
Letters of credit	835	-	-	-	-	835
Other credit related commitments*	24 497	-	-	-	-	24 497
Total potential future payments for financial obligations	**169 793**	**196 121**	**150 703**	**218 849**	**209 094**	**944 560**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 33.

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

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

31 Financial Risk Management (Continued)

The table below summarizes analysis of liquidity risk at 31 December 2011:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	262 869	135 061	120 662	179 511	342 473	318 885	72 234	1 431 695
Total financial liabilities*	164 881	188 073	117 141	189 420	319 816	266 434	-	1 245 765
Net liquidity gap	**97 988**	**(53 012)**	**3 521**	**(9 909)**	**22 657**	**52 451**	**72 234**	**185 930**
Cumulative liquidity gap	**97 988**	**44 976**	**48 497**	**38 588**	**61 245**	**113 696**	**185 930**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2010:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	138 516	77 425	106 128	175 921	255 616	258 207	42 489	1 054 302
Total financial liabilities*	143 975	99 962	89 495	164 073	188 906	229 389	-	915 800
Net liquidity gap	**(5 459)**	**(22 537)**	**16 633**	**11 848**	**66 710**	**28 818**	**42 489**	**138 502**
Cumulative liquidity gap	**(5 459)**	**(27 996)**	**(11 363)**	**485**	**67 195**	**96 013**	**138 502**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the liquidity risks of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

32 Management of Capital

The Group's objectives when managing capital are:

i. to comply with the capital requirements set by the Central Bank of the Russian Federation;

ii. to ensure the Group's ability to continue as a going concern; and

iii. to maintain a sufficient capital base and to achieve a capital adequacy ratio of at least 8% in accordance with the requirements as defined in the June 2004 Basel II Framework and in the reference on the application of Basel II to Trading activities and the Treatment of Double Default Effects, and elements of the 1988 Accord, and the 1996 Amendment to the Capital Accord to Incorporate Market risks.

Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

Under the current capital requirements set by the Central Bank of the Russian Federation banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level.

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel Accord and based on the IFRS figures.

The composition of the Group's capital calculated based on IFRS in accordance with Basel Accord is as follows:

In millions of Russian Roubles	**2011**	**2010**
Share capital	148 798	108 798
Retained earnings	7 017	6 851
Goodwill	(8)	-
Total tier 1 capital	155 807	115 649
Revaluation reserves	152	832
Subordinated debts	57 192	46 545
Total tier 2 capital	57 344	47 377
Total capital	**213 151**	**163 026**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Central Bank of the Russian Federation and loan covenants.

33 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 31 December 2011, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements (2010: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements).

Tax contingencies. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation enacted during the current period is effective prospectively to new transactions from 1 January 2012. It introduces significant reporting and documentation requirements. The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provides the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying transfer pricing legislation in practice. Any prior existing court decisions may provide guidance, but are not legally binding for decisions by other, or higher level, courts in the future.

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

The Group includes company incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that this company is not subject to Russian profits tax, because it does not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. In addition to the aforementioned risks, the Group estimates that as at 31 December 2011 it had other possible obligations from exposure to other than remote tax risks of up to approximately RR 513 million (2010: RR 311 million). These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these consolidated financial statements if these are challenged by the authorities.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

33 Contingencies and Commitments (Continued)

Capital expenditure commitments. At 31 December 2010, the Group had contractual capital expenditure commitments of RR 135 million (2010: RR 307 million).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In millions of Russian Roubles	2011	2010
Not later than 1 year	2 433	1 676
Later than 1 year and not later than 5 years	6 977	3 679
Later than 5 years	3 591	2 391
Total operating lease commitments	**13 001**	**7 746**

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, sureties 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 authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	2011	2010
Sureties issued	20 732	-
Guarantees issued	7 736	320
Letters of credit	1 428	835
Total credit related commitments	**29 896**	**1 155**

As at 31 December 2011 sureties issued are represented by financial guaranties to the Central Bank of the Russian Federation for one state-owned Russian bank with rating not less than BB- (S&P). There were no such sureties issued as at 31 December 2010.

The total outstanding contractual amount of sureties issued, undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at 31 December 2011 the fair value of guarantees issued was RR 114 million (2010: the fair value was negligible).

33 Contingencies and Commitments (Continued)

In 2011 no provision for losses on credit related commitments was created (2010: nil).

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	2011	2010
Russian Roubles	28 749	356
Euros	1 024	291
US Dollars	23	508
Other currencies	100	-
Total	**29 896**	**1 155**

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

The fiduciary assets fall into the following categories:

In millions of Russian Roubles	2011	2010
Corporate bonds held with the National Settlement Depository	3 396	3 564
Promissory notes issued by the Bank	714	803
Shares and bonds of companies held with other depositories	220	184

Assets pledged and restricted. The Group had assets pledged as follows:

In millions of Russian Roubles	Note	2011	2010
Under secured loans from the CBRF			
- loans to customers		-	7 101
Under term deposits from clients:			
- State Eurobonds	18	7 058	6 682
Under repo agreements			
- Corporate bonds	9	1 878	12 547
- Federal loan bonds (OFZ)	9	443	-
- Municipal and subfederal bonds	9	48	35
- State Eurobonds	9	-	2 658
Restricted cash	16	202	-

As at 31 December 2011, mandatory cash balances with the CBRF of RR 8 417 million (2010: RR 3 468 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2011, the Bank's subsidiaries pledged production premises and equipment under loan agreements with other banks in the total amount of RR 1 375 million (2010: RR 1 863 million).

34 Derivative Financial Instruments

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

34 Derivative Financial Instruments (Continued)

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

Foreign exchange swaps with original settlement dates of more than 30 working days are structured as loans issued by the Bank in US Dollars, Euros, Swiss Francs and Japanese yens to five OECD banks and one Russian banking group with maturities from January 2012 to May 2023, and deposits in Russian Roubles received from the same six counterparties with the same maturities ("back to back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

As at 31 December 2011, international credit ratings of these counterparties were not less than BB- (S&P) (31 December 2010: not less than BB- (S&P)).

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (including bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring of any Bank's obligation on its debts, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. No further mutual payment obligation between the parties is due, if a credit event or default event happens and the Group receives a formal Event Notice from its counterparty. Other of these swap agreements, in the case of a default event, will be terminated with a mark-to-market payment.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2011 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	**Contracts with positive fair value**	**Contracts with negative fair value**	**Total**
Foreign exchange swaps with settlement dates of more than 30 working days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	122 903	9 519	132 422
RR payable on settlement (-)	(101 774)	(9 826)	(111 600)
CHF receivable on settlement (+)	5 411	-	5 411
RR payable on settlement (-)	(3 684)	-	(3 684)
EUR receivable on settlement (+)	-	2 770	2 770
RR payable on settlement (-)	-	(2 816)	(2 816)
JPY receivable on settlement (+)	4 317	-	4 317
RR payable on settlement (-)	(3 877)	-	(3 877)
Foreign exchange forwards with settlement dates from 2 to 30 working days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	-	28 270	28 270
USD payable on settlement (-)	-	(28 629)	(28 629)
USD receivable on settlement (+)	-	3 860	3 860
RR payable on settlement (-)	-	(3 877)	(3 877)
Foreign exchange futures with settlement dates of more than 30 working dates: fair value at the end of the reporting period, of			
USD receivable on settlement (+)	-	966	966
RR payable on settlement (-)	-	(976)	(976)
Total net fair value	**23 296**	**(739)**	**22 557**

34 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2010 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 working days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	95 172	21 373	116 545
RR payable on settlement (-)	(76 548)	(21 883)	(98 431)
CHF receivable on settlement (+)	5 313	-	5 313
RR payable on settlement (-)	(3 824)	-	(3 824)
JPY receivable on settlement (+)	4 364	-	4 364
RR payable on settlement (-)	(3 898)	-	(3 898)
Foreign exchange forwards with settlement dates from 2 to 30 working days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	31	3 954	3 985
USD payable on settlement (-)	(31)	(3 966)	(3 997)
USD receivable on settlement (+)	14 257	13 430	27 687
RR payable on settlement (-)	(14 215)	(13 449)	(27 664)
Total net fair value	**20 621**	**(541)**	**20 080**

As at 31 December 2011 receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 46 486 million and RR 41 122 million, respectively, or 32% of total receivables or 34% of total payables on settlement of foreign exchange swaps (2010: RR 52 878 million and RR 43 137 million, respectively, or 42% of total receivables or 41% of total payables on settlement of foreign exchange swaps).

35 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is the quotation of the financial instrument in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

35 Fair Value of Financial Instruments (Continued)

Financial instruments carried at fair value. Trading securities, securities available for sale, and related repurchase receivables are carried on the consolidated statement of financial position at their fair value based on quoted market prices.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities related repurchase receivables is based on market prices/dealer price quotations.

Liabilities carried at amortised cost. The fair value of other borrowed funds is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2011	**2010**
Due from other banks		
Short-term placements with other banks with original maturity more than one month	0% - 12%	3% - 12%
Loans and advances to customers		
Corporate loans	5% - 16%	6% - 16%
Loans to individuals	11% - 29%	9% - 22%
Securities held to maturity	4% - 10%	3% - 9%
Due to other banks	0% - 9%	1% - 9%
Customer accounts		
Term deposits of legal entities	1% - 13%	1% - 13%
Term deposits of individuals	2% - 9%	1% - 7%
Promissory notes issued	2% - 10%	2% - 11%
Subordinated debts	3% - 7%	2% - 7%

35 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments carried at amortised cost and at fair value:

	2011		2010	
In millions of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents	133 959	133 959	81 010	81 010
Mandatory cash balances with the CBRF	8 417	8 417	3 468	3 468
Due from other banks	39 569	41 531	34 477	36 835
Loans and advances to customers				
- Loans to corporates	723 366	724 085	560 616	569 632
- Lending for food interventions	33 256	33 256	44 514	44 514
- Reverse repo agreements	1 990	1 990	-	-
- Investments in agricultural cooperatives	491	491	632	632
- Loans to individuals	144 594	144 280	82 794	83 945
Investment securities held to maturity related repurchase receivables	32 372	32 107	14 922	14 753
Other financial assets	6 473	6 473	3 973	3 973
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**1 124 487**	**1 126 589**	**826 406**	**838 762**
FINANCIAL ASSETS CARRIED AT FAIR VALUE	**112 432**	**112 432**	**64 797**	**64 797**
TOTAL FINANCIAL ASSETS	**1 236 919**	**1 239 021**	**891 203**	**903 559**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Term borrowings from other banks	90 065	92 523	101 484	110 102
- Term borrowings from the CBRF	-	-	3 853	3 853
- Correspondent accounts and overnight placements of other banks	352	352	241	241
Customer accounts				
- State and public organisations	197 463	197 463	79 633	79 633
- Other legal entities	258 579	258 579	178 955	178 955
- Individuals	151 253	151 316	127 691	128 673
Promissory notes issued	20 129	20 129	9 874	9 874
Other borrowed funds				
- Eurobonds issued	231 155	237 489	169 102	179 233
- Bonds issued on domestic market	111 344	112 179	88 457	90 899
Other financial liabilities	4 334	4 334	2 757	2 757
Subordinated debts	57 192	54 420	46 545	46 665
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**1 121 866**	**1 128 784**	**808 592**	**830 885**
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**739**	**739**	**541**	**541**
TOTAL FINANCIAL LIABILITIES	**1 122 605**	**1 129 523**	**809 133**	**831 426**

35 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value

Analysis of financial instruments at fair value at 31 December 2011 is as follows:

In million of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets			
Repurchase receivables related to available for sale securities	1 316	-	1 316
Financial instruments designated at fair value through profit or loss	-	11 225	11 225
Investment securities available for sale	76 595	-	76 595
Derivative financial instruments assets	-	23 296	23 296
Financial liabilities			
Derivative financial instruments liabilities	-	(739)	(739)

Analysis of financial instruments at fair value at 31 December 2010 is as follows:

In million of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Total
Financial assets			
Trading securities	3 563	-	3 563
Repurchase receivables related to trading securities and available for sale securities	15 240	-	15 240
Financial instruments designated at fair value through profit or loss	-	9 686	9 686
Investment securities available for sale	15 687	-	15 687
Derivative financial instruments assets	-	20 621	20 621
Financial liabilities			
Derivative financial instruments liabilities	-	(541)	(541)

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) at 31 December 2011 (2010: nil).

36 Presentation of Financial Instruments by Measurement Category

According to the IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2011.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Held-to-maturity assets**	**Total**
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	19 635	-	-	-	-	19 635
- cash balances with the CBRF (other than mandatory reserve deposits)	33 015	-	-	-	-	33 015
- correspondent accounts and placements with other banks with original maturities of less than one month	81 309	-	-	-	-	81 309
Mandatory cash balances with the CBRF	8 417	-	-	-	-	8 417
Repurchase receivables	-	1 316	-	-	1 053	2 369
Financial instruments designated at fair value through profit or loss	-	-	-	11 225	-	11 225
Derivative financial instruments	-	-	23 296	-	-	23 296
Due from other banks	39 569	-	-	-	-	39 569
Loans and advances to customers						
- Loans to corporates	723 366	-	-	-	-	723 366
- Lending for food interventions	33 256				-	33 256
- Deals with securities purchased under “reverse-repo agreements”	1 990	-	-	-	-	1 990
- Investments in agricultural cooperatives	491	-	-	-	-	491
- Loans to individuals	144 594	-	-	-	-	144 594
Investment securities available for sale	-	76 595	-	-	-	76 595
Investment securities held to maturity	-	-	-	-	31 319	31 319
Other financial assets	6 473	-	-	-	-	6 473
TOTAL FINANCIAL ASSETS	**1 092 115**	**77 911**	**23 296**	**11 225**	**32 372**	**1 236 919**
Non-financial assets						**47 507**
TOTAL ASSETS	**1 092 115**	**77 911**	**23 296**	**11 225**	**32 372**	**1 284 426**

36 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2010.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial assets designated at fair value through profit or loss	Held-to-maturity assets	Total
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	16 101	-	-	-	-	16 101
- cash balances with the CBRF (other than mandatory reserve deposits)	37 361	-	-	-	-	37 361
- correspondent accounts and placements with other banks with original maturities of less than one month	27 548	-	-	-	-	27 548
Mandatory cash balances with the CBRF	3 468	-	-	-	-	3 468
Trading securities						
- Debt securities	-	-	3 563	-	-	3 563
Repurchase receivables	-	14 622	618	-	-	15 240
Financial instruments designated at fair value through profit or loss	-	-	-	9 686	-	9 686
Derivative financial instruments	-	-	20 621	-	-	20 621
Due from other banks	34 477	-	-	-	-	34 477
Loans and advances to customers						
- Loans to corporates	560 616	-	-	-	-	560 616
- Lending for food interventions	44 514	-	-	-	-	44 514
- Investments in agricultural cooperatives	632	-	-	-	-	632
- Loans to individuals	82 794	-	-	-	-	82 794
Investment securities available for sale	-	15 687	-	-	-	15 687
Investment securities held to maturity	-	-	-	-	14 922	14 922
Other financial assets	3 973	-	-	-	-	3 973
TOTAL FINANCIAL ASSETS	**811 484**	**30 309**	**24 802**	**9 686**	**14 922**	**891 203**
Non-financial assets						**39 597**
TOTAL ASSETS	**811 484**	**30 309**	**24 802**	**9 686**	**14 922**	**930 800**

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

37 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1).

The Group early adopted amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011) in the consolidated financial statements for the year ended 31 December 2009.

In these consolidated financial statements, the most significant balances and transactions with related parties owned by the Russian State and balances and transactions with related parties represented by key management and their family members are disclosed.

In millions of Russian Roubles	**2011**	**2010**
Loans and advances to customers (before impairment)		
State-owned entities (contractual interest rate: 7%-12% p.a. (2010: 7%-12% p.a.))	39 233	45 937
Key management and their family members (2010: contractual interest rate 5% p.a.)	-	21
Provision for loan impairment at the year end		
State-owned entities	(11)	(8)
Customer accounts		
State-owned entities (contractual interest rate for term deposits: 4%-10% p.a. (2010: 1%-9% p.a.))	225 451	89 763
Key management and their family members (contractual interest rate for term deposits: 1%-10% p.a. (2010: 1%-7% p.a.))	24	235
Subordinated debts		
State-owned entities (contractual interest rate: 6.5% p.a. (2010: 6.5% p.a.))	25 004	25 000

The income and expense items with related parties were as follows:

In millions of Russian Roubles	**2011**	**2010**
Interest income on loans and advances to customers		
State-owned entities	3 040	3 458
Key management and their family members	-	1
Interest expense on customer accounts		
State-owned entities	(10 765)	(5 169)
Key management and their family members	(11)	(36)
Interest expense on subordinated debts		
State-owned entities	(1 621)	(1 867)

37 Related Party Transactions (Continued)

The Group had also the following insignificant balances and transactions with related parties:

- cash and cash equivalents as at 31 December 2011 and as at 31 December 2010 (refer to Note 7);
- repurchase receivables as at 31 December 2011 and as at 31 December 2010 (refer to Note 9);
- due from state-owned banks as at 31 December 2011 and as at 31 December 2010;
- securities of state-owned companies and banks in portfolio of securities avalaible for sale as at 31 December 2011 and as at 31 December 2010 (refer to Note 13);
- securities of state-owned companies and banks in portfolio of securities held to maturity as at 31 December 2011 and as at 31 December 2010 (refer to Note 14);
- due to state-owned banks as at 31 December 2010;
- credit related commitments as at 31 December 2011 (refer to Note 33);
- foreign exchange swap with one state-owned Banking Group as at 31 December 2011;
- interest income on cash equivalents, trading securities, securities available for sale, securities held to maturity and related repurchase receivables, due from other banks;
- interest expense on due to other banks;
- results from operation with trading securities and securities available for sale;
- other.

In 2011 and 2010, the only transactions with the shareholder were share capital increase, dividends and taxes paid. Refer to Note 28 and 29.

As at 31 December 2011, investment securities available for sale and investment securities held to maturity included securities issued by Russian Federation in the total amount of RR 19 403 million (31 December 2010: RR 15 710 million); interest income from these securities for the year ended 31 December 2011 amounted to RR 1 042 million (for the year ended 31 December 2010: RR 532 million).

Key management of the Group represents members of the Management Board and Chief Accountant of the Bank. In 2011 short-term benefits of the key management amounted to RR 113 million (2010: RR 139 million).

In millions of Russian Roubles	2011 Remuneration paid	2011 Accrued liability	2010 Remuneration paid	2010 Accrued liability
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	108	4	118	6
Post-employment benefits:				
- Defined contribution retirement scheme	-	-	14	-
- State pension and social costs	1	-	1	-
Total	**109**	**4**	**133**	**6**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

38 Disposal of Subsidiaries and Groups Classified as Held for Sale

a) Disposal of Subsidiaries

In June 2011 the Group completed disposal of its subsidiary Chelyabinskiy Commercial Land Bank.

In millions of Russian Roubles	**06 June 2011**
Cash and cash equivalents	250
Mandatory cash balances with the Central Bank of the Russian Federation	2
Intangible assets	1
Premises and equipment	58
Customer accounts	(30)
Current income tax liability	(2)
Other liabilities	(74)
Net assets of subsidiary	**205**
Carrying amount of net assets disposed of	**205**
Total disposal consideration	**226**
Less: cash and cash equivalents in subsidiary disposed of	(250)
Cash outflow on disposal	**(24)**

In millions of Russian Roubles	**Gain on disposal of subsidiary**
Consideration for disposal of the subsidiary	226
Carrying amount of net assets disposed of	(205)
Gains on disposal of subsidiary	**21**

b) Groups Classified as Held for Sale

As at 31 December 2011 the Group has classified the assets and liabilities related to companies in Bashkortostan and Leningrad Region as disposal groups held for sale (31 December 2010: the assets and liabilities related to companies in Leningrad Region and Chelyabinskiy Commercial Land Bank).

Major classes of assets of disposal groups held for sale are as follows:

In millions of Russian Roubles	**2011**	**2010**
Premises and equipment	2 861	2 122
Trade receivables	1 119	364
Inventory	745	125
Loans and advances to customers	108	93
Cash and cash equivalents	6	12
Other	262	133
Total assets of the disposal groups held for sale	**5 101**	**2 849**

38 Disposal of Subsidiaries and Groups Classified as Held for Sale (Continued)

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In millions of Russian Roubles	2011	2010
Trade payables	639	498
Deferred income tax liability	301	309
Due to other banks	-	158
Customer accounts	-	16
Other	342	34
Total liabilities directly associated with disposal groups held for sale	**1 282**	**1 015**

Cumulative income or expenses recognised in statement of comprehensive income relating to disposal groups classified as held for sale as part of gains net of losses from non-banking activity:

In millions of Russian Roubles	2011	2010
Sales of goods	3 845	1 363
Cost of goods sold	(3 276)	(1 240)
Administrative and other operating expenses	(436)	(199)
Interest income	27	93
Interest expenses	(79)	(32)
Other income	311	138
Other expenses	(222)	(120)
Total income directly associated with disposal groups held for sale	**170**	**3**

The Group actively markets these assets and expects the sale to be completed by the end of first half of 2012.

39 Events after the End of the Reporting Period

In February 2012, the Group attracted RR 10 000 million through the issue of bonds denominated in Russian Roubles with semi-annual payment of coupon at 8.2% p.a. and maturing in February 2015. According to the issue terms the Group has the right to amend interest rate or offer a full redemption in one and a half year term.

In February 2012, the Group attracted RR 10 000 million through the issue of Eurobonds (loan participation notes) denominated in Russian Roubles with semi-annual payment of coupon at 8.625% p.a. and maturing in February 2017.

In April 2012, the Group attracted RR 10 000 million through the issue of bonds denominated in Russian Roubles with semi-annual payment of coupon at 8.55% p.a. and maturing in April 2022. According to the issue terms the Group has the right to amend interest rate or offer a full redemption in three years term.

RUSSIAN AGRICULTURAL BANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2010

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position....1
Consolidated Statement of Comprehensive income....2
Consolidated Statement of Changes in Equity....3
Consolidated Statement of Cash Flows....4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Introduction....5
2 Operating Environment of the Group....5
3 Summary of Significant Accounting Policies....6
4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies....17
5 Adoption of New or Revised Standards and Interpretations....18
6 New Accounting Pronouncements....20
7 Cash and Cash Equivalents....23
8 Trading Securities....24
9 Repurchase Receivables....27
10 Financial Instruments Designated at Fair Value Through Profit or Loss....28
11 Due from Other Banks....29
12 Loans and Advances to Customers....30
13 Investment Securities Available for Sale....36
14 Investment Securities Held to Maturity....39
15 Goodwill....40
16 Premises, Equipment and Intangible Assets....41
17 Other Assets....43
18 Due to Other Banks....44
19 Customer Accounts....45
20 Promissory Notes Issued....46
21 Other Borrowed Funds....46
22 Syndicated Loans....47
23 Other Liabilities....48
24 Subordinated Debts....48
25 Share Capital....49
26 Interest Income and Expense....49
27 Fee and Commission Income and Expense....50
28 Losses net of Gains from Non-banking Activities....50
29 Administrative and Other Operating Expenses....51
30 Income Taxes....51
31 Dividends....53
32 Segment Analysis....53
33 Financial Risk Management....58
34 Management of Capital....72
35 Contingencies and Commitments....73
36 Derivative Financial Instruments....75
37 Fair Value of Financial Instruments....77
38 Presentation of Financial Instruments by Measurement Category....81
39 Related Party Transactions....83
40 Disposal Groups Classified as Held for Sale....84
41 Events after the End of the Reporting Period....85

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Supervisory Board of Russian Agricultural Bank:

1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

2 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

28 April 2011
Moscow, Russian Federation

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In millions of Russian Roubles	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	81 010	94 958
Mandatory cash balances with the Central Bank of the Russian Federation		3 468	2 974
Trading securities	8	3 563	18 022
Repurchase receivables	9	15 240	3 467
Financial instruments designated at fair value through profit or loss	10	9 686	4 070
Derivative financial instruments	36	20 621	28 289
Due from other banks	11	34 477	37 792
Loans and advances to customers	12	688 556	584 407
Investment securities available for sale	13	15 687	7 800
Investment securities held to maturity	14	14 922	7 732
Deferred income tax asset	30	1 930	400
Goodwill	15	-	298
Intangible assets	16	1 563	1 023
Premises and equipment	16	25 985	27 446
Current income tax prepayment	30	191	229
Other assets	17	11 052	11 757
Assets of the disposal groups held for sale	40	2 849	-
TOTAL ASSETS		**930 800**	**830 664**
LIABILITIES			
Derivative financial instruments	36	541	167
Due to other banks	18	105 578	192 010
Customer accounts	19	386 279	230 303
Promissory notes issued	20	9 874	12 567
Other borrowed funds	21	257 559	216 484
Syndicated loans	22	-	7 570
Deferred income tax liability	30	1 405	1 815
Current income tax liability	30	17	-
Other liabilities	23	4 389	7 842
Subordinated debts	24	46 545	46 370
Liabilities directly associated with disposal groups held for sale	40	1 015	-
TOTAL LIABILITIES		**813 202**	**715 128**
EQUITY			
Share capital	25	108 798	106 973
Revaluation reserve for premises		933	842
Revaluation reserve for investment securities available for sale		(101)	14
Retained earnings		6 851	6 572
Equity attributable to the Bank's owner		**116 481**	**114 401**
Non-controlling interests		**1 117**	**1 135**
TOTAL EQUITY		**117 598**	**115 536**
TOTAL LIABILITES AND EQUITY		**930 800**	**830 664**

Approved for issue and signed on behalf of the Management Board on 28 April 2011.

D.N. Patrushev
Chairman of the Management Board

E.A. Romankova
Chief Accountant

In millions of Russian Roubles	Note	2010	2009
Interest income	26	105 007	93 146
Interest expense	26	(53 383)	(58 069)
Net interest income		**51 624**	**35 077**
Provision for loan impairment	11, 12	(28 507)	(13 421)
Net interest income after provision for loan impairment		**23 117**	**21 656**
Fee and commission income	27	3 411	3 244
Fee and commission expense	27	(589)	(489)
Gains less losses arising from trading securities		708	106
(Losses net of gains)/gains less losses arising from financial instruments designated at fair value through profit or loss		(734)	285
Foreign exchange translation losses net of gains		(1 737)	(2 515)
Losses net of gains from foreign exchange swaps with settlement dates of more than 30 days		(456)	(3 089)
Losses net of gains arising from other derivative financial instruments		(342)	(553)
Gains less losses arising from dealings in foreign currencies		289	472
Gains less losses arising from disposal of investment securities available for sale	13	390	528
Impairment of investment securities available for sale	13	-	(475)
Recovery of provision/(provision) for other assets and litigation	17, 23	192	(319)
Gains from early redemption of other borrowed funds and buy-back of subordinated debts	21, 24	41	2 075
Losses net of gains from non-banking activities	28	(269)	(299)
Other operating income		296	212
Administrative and other operating expenses	29	(23 584)	(19 999)
Profit before tax		**733**	**840**
Income tax expense	30	(364)	(589)
Profit for the year		**369**	**251**
Other comprehensive (expense)/income			
Securities available for sale:			
-Revaluation of securities at fair value	13	246	2 292
-Realised revaluation reserve (at disposal)	13	(390)	(528)
-Impairment losses recycled to profit or loss		-	134
Revaluation of premises		142	(106)
Income tax recorded directly in other comprehensive income	30	-	(358)
Other comprehensive (expense)/income for the year, net of tax		**(2)**	**1 434**
Total comprehensive income for the year		**367**	**1 685**
Profit/(loss) is attributable to:			
Owner of the Bank		489	358
Non-controlling interests		(120)	(107)
Profit for the year		**369**	**251**
Total comprehensive income/(expense) is attributable to:			
Owner of the Bank		487	1 792
Non-controlling interests		(120)	(107)
Total comprehensive income for the year		**367**	**1 685**

In millions of Russian Roubles	Note	Attributable to owner of the Bank					Non-controlling interests	Total equity
		Share capital	Revaluation reserve for premises	Revaluation reserve for securities available for sale	Retained earnings	Total		
Balance at 31 December 2008		**61 973**	**952**	**(1 504)**	**6 337**	**67 758**	**-**	**67 758**
Total comprehensive income, net of tax		-	(84)	1 518	358	1 792	(107)	1 685
Share issue	25	45 000	-	-	-	45 000	-	45 000
Business combinations		-	-	-	-	-	1 242	1 242
Realised revaluation reserve for premises, net of tax		-	(26)	-	26	-	-	-
Dividends declared	31	-	-	-	(149)	(149)	-	(149)
Balance at 31 December 2009		**106 973**	**842**	**14**	**6 572**	**114 401**	**1 135**	**115 536**
Total comprehensive income, net of tax		-	113	(115)	489	487	(120)	367
Share issue	25	1 825	-	-	-	1 825	-	1 825
Change in ownership interests		-	-	-	-	-	102	102
Realised revaluation reserve for premises, net of tax		-	(22)	-	22	-	-	-
Dividends declared	31	-	-	-	(232)	(232)	-	(232)
Balance at 31 December 2010		**108 798**	**933**	**(101)**	**6 851**	**116 481**	**1 117**	**117 598**

In millions of Russian Roubles	Note	2010	2009
Cash flows from operating activities			
Interest received		99 098	92 450
Interest paid		(51 386)	(56 614)
Income received/(losses incurred) from trading in securities and financial instruments designated at fair value through profit or loss		1 091	(419)
Income received/(losses incurred) from foreign exchange swaps with settlement dates of more than 30 days		7 624	(4 478)
Losses incurred from other derivative financial instruments		(380)	(762)
Income received from dealings in foreign currencies		289	472
Fees and commissions received		3 411	3 031
Fees and commissions paid		(440)	(452)
Other operating income received		296	207
Staff costs paid		(14 794)	(11 847)
Administrative and other operating expenses paid		(6 873)	(6 401)
Income tax paid		(1 940)	(1 718)
Cash flows from operating activities before changes in operating assets and liabilities		**35 996**	**13 469**
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(494)	(2 011)
Net decrease/(increase) in trading securities		16 826	(3 677)
Net (increase)/decrease in financial instruments designated at fair value through profit or loss		(6 055)	2 357
Net decrease in due from other banks		3 586	66 501
Net increase in loans and advances to customers		(125 768)	(158 326)
Net increase in other assets		(1 336)	(1 573)
Net decrease in due to other banks		(87 348)	(58 083)
Net increase in customer accounts		154 883	73 240
Net (decrease)/increase in promissory notes issued		(2 633)	3 072
Net increase in other liabilities		257	1 511
Net cash used in operating activities		**(12 086)**	**(63 520)**
Cash flows from investing activities			
Acquisition of premises and equipment	16	(2 855)	(4 486)
Proceeds from disposal of premises and equipment		702	108
Acquisition of intangible assets	16	(829)	(498)
Acquisition of investment securities available for sale	13	(40 136)	(14 391)
Proceeds from disposal of investment securities available for sale		16 825	11 984
Acquisition of investment securities held to maturity		(7 956)	(2 251)
Proceeds from redemption of investment securities held to maturity		865	4 609
Acquisition of subsidiaries net of cash disposed of		-	(1 531)
Net cash used in investing activities		**(33 384)**	**(6 456)**
Cash flows from financing activities			
Proceeds from other borrowed funds	21	65 958	49 509
Repayment of other borrowed funds	21	(27 081)	(11 161)
Repayment of syndicated loans	22	(7 374)	(3 281)
Proceeds from placement of bought-back subordinated debt	24	-	163
Issue of ordinary shares	25	1 825	45 000
Dividends paid	31	(232)	(149)
Net cash from financing activities		**33 096**	**80 081**
Effect of exchange rate changes on cash and cash equivalents		**(1 568)**	**1 676**
Effect directly associated with disposal groups held for sale		**(6)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(13 948)**	**11 781**
Cash and cash equivalents at the beginning of the year	7	94 958	83 177
Cash and cash equivalents at the end of the year	7	**81 010**	**94 958**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the “IASB”) for the year ended 31 December 2010 for Open Joint-Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation (“CBRF”) since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (2009: 78) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3.

The number of the Group’s employees at 31 December 2010 was 36 120 (2009: 33 134).

Presentation currency. These consolidated financial statements are presented in the currency of the Russian Federation, millions of Russian Roubles ("RR millions").

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates.

The recent global financial crisis has had a severe effect on the Russian economy and the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. In 2010, the Russian economy experienced a moderate recovery of economic growth. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the exchange rate of the Russian Rouble against major foreign currencies, and increased money market liquidity levels.

In summer 2010, the Government declared drought emergency in several Russian regions. This event had significant negative consequences, including increase in consumer prices for certain food products. The Russian Government announced state support for drought-affected regions.

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes (Note 35). The need for further developments in the bankruptcy laws, formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments continue to contribute to the challenges faced by banks operating in the Russian Federation.

2 Operating Environment of the Group (Continued)

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period and applied the ‘incurred loss’ model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. Refer to Note 4.

Management is unable to predict all developments which could have an impact on the banking sector and wider economy and consequently what effect, if any, they could have on the future financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises used in banking activity, investment securities available for sale, and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities), in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date, on which control is transferred to the Group and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Non-controlling interests are that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group’s equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity.

3 Summary of Significant Accounting Policies (Continued)

The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

Financial instruments-key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount, for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities, which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments, for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (see accounting policy for income and expenses recognitotion).

Initial recognition of financial instruments. Trading securities, derivatives and financial instruments designated at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3 Summary of Significant Accounting Policies (Continued)

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group’s day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flow.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader’s margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of comprehensive income as interest income. Dividends are included in dividend income within other operating income when the Group’s right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements (“repo agreements”), which effectively provide a lender’s return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the consolidated statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell (“reverse repo agreements”) which effectively provide a lender’s return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

3 Summary of Significant Accounting Policies (Continued)

Financial instruments designated at fair value through profit or loss. Financial instruments designated at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities available for sale. This classification includes investment securities which the Group 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 Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through profit or loss for the year.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each end of the reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss or available for sale categories in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets carried at amortised cost. Impairment losses are recognized in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. Refer to Note 12 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

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

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

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

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account through profit or loss for the year.

***Repossessed collateral*.** Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation).

3 Summary of Significant Accounting Policies (Continued)

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each end of the reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Promissory notes purchased. Promissory notes purchased are included in trading securities or investment securities held to maturity or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognized by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These changes in values are shown separately in the reconciliation of movements in premises in Note 16. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Premises owned by the Group and used in non-banking activities are stated at cost less accumulated depreciation and provision for impairment, where required.

Construction in progress is carried at historical cost, less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

At each end of reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

Useful lives in years	Used in banking activities	Used in non-banking activities
Premises	40	20 - 40
Equipment	5 - 20	5 - 20
Leasehold improvements	10	-

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognized in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

3 Summary of Significant Accounting Policies (Continued)

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads.

Non-current assets classified as held for sale. Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative consolidated statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit, to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Promissory notes issued. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Other borrowed funds. Other borrowed funds represent amounts attracted from Eurobonds issue and bonds denominated in Russian roubles. Issued Eurobonds and bonds denominated in Russian roubles carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

3 Summary of Significant Accounting Policies (Continued)

Syndicated loans. Syndicated loans include the amounts attracted by organisation of syndications, are redeemable on a specific date and carried at amortised cost.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 Financial Instruments: Recognition and Measurement, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

3 Summary of Significant Accounting Policies (Continued)

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

Commission on agency services are recognized based on the applicable service contracts.

Revenue recognition – sale of goods. Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognized when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

3 Summary of Significant Accounting Policies (Continued)

Foreign currency translation. The functional currency of the Group's consolidated entities is the currency of the primary economic environment in which each entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Russian Federation, Russian Roubles ("RR").

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.4769 (2009: USD 1 = RR 30.2442), EUR 1 = RR 40.3331 (2009: EUR 1 = RR 43.3883).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 35. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated profit or loss.

Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas.

Amendments of the financial statements after issue. Any further changes to these financial statements require approval of the Group's Management who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease in actual loss given default compared to estimated loss given default used would result in an increase or decrease in loan impairment losses of RR 1 480 million (2009: a 5% decrease in actual loss given default compared to estimated loss given default used would result in a decrease in loan impairment losses of RR 1 186 million; a 5% increase in actual loss given default compared to estimated loss given default used would not result in any additional loan impairment losses).

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 38.

Derecognition of financial assets. During 2010 the Group entered into an arrangement with the subsidiary of a foreign bank regarding the sale of defaulted borrowers' loans for the total amount of RR 1 405 million. The Group has determined that it transferred substantially all the risks and rewards of ownership of these loans, both the risks in respect of default payments and the time value of money. Accordingly, these loans were derecognised.

Accounting for subordinated debt from Vnesheconombank. The Russian government provided assistance to the Russian financial system by instructing the Russian State Corporation Bank Razvitiya i Vneshneekonomicheskoy Deyatelnosti ("Vnesheconombank") to grant subordinated debts to selected banks. This subordinated debt was attracted in accordance with the Federal Law №173-FZ "About supplementary measures to support financial system of the Russian Federation".

In October 2008 the Group attracted a subordinated debt from Vnesheconombank in the amount of RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a.

Due to its unique terms and conditions, subordinated nature and absence of observable current market transactions providing evidence of a market rate for such instruments, the debt were originally recognized and subsequently carried on the consolidated statement of financial position at amortised contractual value.

Had there been evidence that the market interest rate for such loans was higher than the contractual interest rates, the amortised contractual value of the debt would has been replaced by (i) the amortised value of the loans determined based on the fair value of the debt at the date of origination and (ii) the unamortised value of the government grant embedded in such low interest debt; there would have been no impact on the profit or loss for the year since the increased effective interest rates would have been offset by amortisation of the government grant.

4 Critical Accounting Estimated, and Judgements in Applying Accounting Policies (Continued)

Accounting for change of interest rate on the subordinated debt from Vnesheconombank. In July 2010, Federal Law №173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a. All other terms of the debt remain unchanged.

The Group accounted for such reduction in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and tested whether the modification was substantial. As the modification was not substantial, the Group accounted for the change in the interest rate as a prospective adjustment of the effective interest rate.

The alternative possible accounting treatment could have been to account for the above reduction of interest rate in accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" and the difference between the previous and revised carrying value of the debt in the amount of RR 2 375 million would be recorded as government grant deferred income within other liabilities and is to be amortised through interest expense until the debts' maturity date.

5 Adoption of New or Revised Standards and Interpretations

(a) Certain amendments were early adopted by the Group

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group has early adopted amendments to IAS 24. Refer to Note 39.

Amendment to IFRS 7, Financial Instruments: Disclosures (issued in May 2010 and effective from 1 January 2011). IFRS 7 was amended to clarify certain disclosure requirements, in particular: (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period. The Group has early adopted amendments to IFRS 7. Refer to Note 12 and 17.

(b) Certain new standards and interpretations became effective for the Group from 1 January 2010

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. The amended standard did not have a material impact on these consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these consolidated financial statements.

Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these consolidated financial statements.

Group Cash-settled Share-based Payment Transactions-Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these consolidated financial statements.

Additional Exemptions for First-time Adopters-Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these consolidated financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these consolidated financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later periods and which the Group has not been early adopted.

Classification of Rights Issues-Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect IFRIC 19 to have any material effect on its consolidated financial statements.

Prepayments of a Minimum Funding Requirement - Amendment to IFRIC 14 (are effective for annual periods beginning on or after 1 January 2011). This amendment has a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plans. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amendment to have any material effect on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group concluded that the amendment will not have any effect on its consolidated financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify the requirements for the presentation and content of the statement of changes in equity; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, IAS 28 and IAS 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its consolidated financial statements except the amendment to IFRS 7 which was early adopted by the Group as explained in Note 5.

Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position.

The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes. The Group concluded that the amendments will not have any effect on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	2010	2009
Cash on hand	16 101	12 373
Cash balances with the CBRF (other than mandatory reserve deposits)	37 361	17 691
Correspondent accounts and deposits with other banks with original maturities less than one month	25 952	63 006
Settlement accounts with MICEX, RTS and NCC	1 596	1 749
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month	-	139
Total cash and cash equivalents	**81 010**	**94 958**

There were no cash equivalents effectively collateralized by securities purchased under reverse sale and repurchase agreements as at 31 December 2010 (2009: RR 139 million collateralized by securities under reverse sale and repurchase agreements at fair value RR 252 million). The Group had a right to sell or repledge these securities.

As at 31 December 2010 correspondent accounts and deposits with other banks with original maturities less than one month included the balance with one Russian banking group with rating of its parent bank BBB (S&P) in the amount of RR 21 457 million or 26% of total cash and cash equivalents (2009: foreign bank with rating AA- (S&P) in the amount of RR 46 914 million or 49% of total cash and cash equivalents).

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	2010	2009
Current and not impaired		
Cash on hand	16 101	12 373
Cash balances with the CBRF (other than mandatory reserve deposits)	37 361	17 691
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- OECD banks and their subsidiary banks	2 498	47 536
- top 30 Russian banks (by net assets) and their subsidiary banks	23 441	15 165
- other Russian banks	3	303
- other non-resident banks	10	2
Settlement accounts with MICEX, RTS and NCC	1 596	1 749
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	-	100
- other Russian banks	-	39
Total cash and cash equivalents	**81 010**	**94 958**

Refer to Note 37 for the disclosure of fair value of cash and cash equivalents. Geography analysis and interest rate analysis of cash and cash equivalents are disclosed in Note 33.

8 Trading Securities

In millions of Russian Roubles	2010	2009
Corporate bonds	3 312	16 481
Municipal and subfederal bonds	251	321
Securities in trust	-	1 220
Total trading securities	**3 563**	**18 022**

As at 31 December 2009 the securities in trust were corporate bonds managed by the trust company in accordance with the investment declaration.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

Analysis by credit quality of debt securities outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	2 412	900	-	3 312
Municipal and subfederal bonds	251	-	-	251
Total debt trading securities	**2 663**	**900**	**-**	**3 563**

* or ratings of other analogous rating agencies

Analysis by credit quality of debt securities outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	15 881	236	364	16 481
Securities in trust	750	285	185	1 220
Municipal and subfederal bonds	321	-	-	321
Total debt trading securities	**16 952**	**521**	**549**	**18 022**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from May 2011 to December 2013 (2009: from May 2011 to February 2014), coupon rates from 10.0% to 13.5% p.a. (2009: from 11.5% to 20.0% p.a.) and yield to maturity or next repricing date from 6.3% to 7.0% p.a. (2009: from 9.6% to 21.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity date in June 2017 (2009: from September 2010 to June 2017), coupon rate 8.0% p.a. (2009: from 6.8% to 8.0% p.a.) and yield to maturity 7.4% p.a. (2009: from 9.1% to 9.9% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

Refer to Note 37 for the disclosure of fair value hierachy for trading securities. Geographical and interest rate analyses of trading securities are disclosed in Note 33.

8 Trading Securities (Continued)

The Group reclassified the following financial assets from held for trading category during 2008:

In million of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 141	7 825	5.7 – 7.3
Municipal and subfederal bonds	1 201	1 698	7.1 – 9.2
Corporate bonds	980	1 411	6.7 – 10.1
Corporate Eurobonds	793	1 300	7.0 – 8.8
Reclassified into available for sale			
Municipal and subfederal bonds	53	56	7.0
Corporate bonds	2 792	3 868	7.3 – 15.4
Corporate Eurobonds	1 959	2 918	6.2 – 11.6
Corporate shares	12	12	-
Total	**11 931**	**19 088**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognized, were as follows:

In millions of Russian Roubles	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Reclassified into held to maturity				
Federal loan bonds (OFZ)	3 317	3 171	3 917	3 573
Municipal and subfederal bonds	1 020	1 009	1 148	1 040
Corporate bonds	710	727	695	628
Corporate Eurobonds	912	999	1 033	1 078
Reclassified into available for sale				
Corporate bonds	62	62	422	422
Corporate Eurobonds	1 106	1 106	2 097	2 097
Corporate shares	15	15	10	10
Total	**7 142**	**7 089**	**9 322**	**8 848**

8 Trading Securities (Continued)

Income or loss recognised for 2010 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification			**Gain from revaluation that would have been recognised in profit or loss if the assets had not been reclassified**
In millions of Russian Roubles	**Gains less losses from sale**	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity				
Federal loan bonds (OFZ)	-	237	-	188
Municipal and subfederal bonds	-	97	-	109
Corporate bonds	-	66	-	99
Corporate Eurobonds	-	71	9	45
Reclassified into available for sale				
Corporate bonds	20	22	-	6
Corporate Eurobonds	31	135	7	63
Corporate shares	-	-	-	5
Total	**51**	**628**	**16**	**515**

Income or loss recognised for 2009 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification			**Gain from revaluation that would have been recognised in profit or loss if the assets had not been reclassified**
In millions of Russian Roubles	**(Losses net of gains)/gains less losses from sale**	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity				
Federal loan bonds (OFZ)	-	264	-	169
Municipal and subfederal bonds	-	105	-	184
Corporate bonds	-	56	-	115
Corporate Eurobonds	-	88	27	365
Reclassified into available for sale				
Municipal and subfederal bonds	(2)	2	-	-
Corporate bonds	(2)	207	-	98
Corporate Eurobonds	3	220	64	964
Corporate shares	-	-	-	5
Total	**(1)**	**942**	**91**	**1 900**

8 Trading Securities (Continued)

Income or loss recognised for six months 2008 after reclassification, and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		**Loss from revaluation that would have been recognised in profit or loss if the assets had not been reclassified**
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity			
Federal loan bonds (OFZ)	150	-	(536)
Municipal and subfederal bonds	51	-	(287)
Corporate bonds	38	-	(177)
Corporate Eurobonds	35	208	(307)
Reclassified into available for sale			
Municipal and subfederal bonds	3	-	(2)
Corporate bonds	142	-	(484)
Corporate Eurobonds	92	506	(1 119)
Corporate shares	-	-	(7)
Total	**511**	**714**	**(2 919)**

9 Repurchase Receivables

In millions of Russian Roubles	**2010**	**2009**
Trading securities		
Corporate bonds	618	3 410
Municipal and subfederal bonds	-	57
Securities available for sale		
Corporate bonds	11 929	-
State Eurobonds	2 658	-
Municipal and subfederal bonds	35	-
Total repurchase receivables	**15 240**	**3 467**

Analysis by credit quality of repurchase receivables outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Trading securities				
Corporate bonds	618	-	-	618
Securities available for sale				
Corporate bonds	10 556	676	697	11 929
State Eurobonds	2 658	-	-	2 658
Municipal and subfederal bonds	35	-	-	35
Total repurchase receivables	**13 867**	**676**	**697**	**15 240**

* or ratings of other analogous rating agencies

9 Repurchase Receivables (Continued)

Analysis by credit quality of debt securities outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Trading securities				
Corporate bonds	3 410	-	-	3 410
Municipal and subfederal bonds	57	-	-	57
Total repurchase receivables	**3 467**	**-**	**-**	**3 467**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from October 2011 to November 2020 (2009: from October 2011 to February 2014), coupon rates from 7.0% to 14.8% p.a. (2009: from 11.5% to 13.5% p.a.) and yield to maturity or next repricing date from 6.3% to 11.2% p.a. (2009: from 9.7% to 13.7% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2010 there bonds have maturity date in March 2030, annual coupon rate 7.5% p.a. payable semi-annually, and yield to maturity 4.8% p.a. (2009: nil).

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable semi-annually. As at 31 December 2010 these bonds have maturity date in June 2012 (2009: July 2014), coupon rate 9.5% p.a. (2009: 8.0% p.a.) and yield to maturity 6.7% p.a. (2009: 9.5% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

Refer to Note 37 for the disclosure of fair value hierarchy for repurchase receivables. Geographical and interest rate analyses of repurchase receivables are disclosed in Note 33.

10 Financial Instruments Designated at Fair Value Through Profit or Loss

In millions of Russian Roubles	**2010**	**2009**
Credit Linked Notes	825	700
Due from other banks	8 861	3 370
Total financial instruments designated at fair value through profit or loss	**9 686**	**4 070**

International credit rankings of issuers of the above notes and of counterparty banks were not less than BB- (S&P) as at 31 December 2010 (2009: not less than BB- (S&P)).

The management classified financial instruments with embedded derivatives as financial instruments designated at fair value through profit or loss, while there was an option to separate the embedded derivative and value the host contract at amortized cost.

In May 2008, the Group purchased a Credit Linked Note from an OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of the nominal amount with maturity in May 2023 and a zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

In March 2010, the Group placed funds with the same OECD bank in the total amount of USD 200 million, with maturity in April 2014 and interest rates of 10.0% and 10.4% p.a. The contracts have embedded derivatives FTD ("first to default"), linked to credit events associated with quasi-sovereign issuers.

In April 2010 and August 2010, the Group placed funds with another OECD bank in the total amount of USD 107 million, with maturity dates in March 2013 and August 2015 and interest rates of 10.3% and 10.1% p.a. The contracts have embedded derivatives linked to credit risk of a quasi-sovereign issuer.

10 Financial Instruments Designated at Fair Value Thought Profit or Loss (Continued)

Refer to Note 37 for the disclosure of fair value hierarchy for financial instruments designated at fair value through profit or loss. Geography analysis and interest rate analysis of financial instruments designated at fair value through profit or loss are disclosed in Note 33.

11 Due from Other Banks

In millions of Russian Roubles	**2010**	**2009**
Current term placements with other banks	34 500	37 643
Overdue deposits in other banks	-	156
Less: Provision for impairment	(23)	(7)
Total due from other banks	**34 477**	**37 792**

Analysis of the movements in the provision for impairment of due from other banks is as follows:

In millions of Russian Roubles	**2010**	**2009**
Provision for impairment at 1 January	**7**	**-**
Provision for impairment during the year	16	7
Provision for impairment at 31 December	**23**	**7**

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	**2010**	**2009**
Current and not impaired		
- OECD banks and their subsidiary banks	24 566	24 380
- Other non-resident banks	3 787	7 194
- Top 30 Russian banks (by net assets) and their subsidiary banks	916	-
- Other Russian banks	4 861	6 069
Total current and not impaired	**34 130**	**37 643**
Individually assessed for impairment		
- watch-list	370	-
- 6 to 30 days overdue	-	156
Total individually assessed for impairment	**370**	**156**
Total due from other banks (before impairment)	**34 500**	**37 799**
Provision for impairment	**(23)**	**(7)**
Total due from other banks	**34 477**	**37 792**

Overdue loans represent not only past due payments but the whole outstanding balance of such loans.

11 Due from Other Banks (Continued)

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	2010	2009
Unsecured interbank loans	5 099	9 481
Interbank loans collateralised by:		
- guarantee deposits	24 566	24 374
- other assets	4 812	3 937
Total due from other banks	**34 477**	**37 792**

As at 31 December 2010 the Group has placements with one foreign bank with rating AA- (S&P) in the total amount of RR 24 566 million, or 71% of total due from other banks (2009: the same foreign bank with rating AA- (S&P) in the total amount of RR 24 374 million, or 64% of total due from other banks).

Refer to Note 37 for the disclosure of fair value of due from other banks. Geographical and interest rate analyses of due from other banks are disclosed in Note 33.

12 Loans and Advances to Customers

In millions of Russian Roubles	2010	2009
Loans to legal entities		
- Loans to corporates	615 385	503 568
- Lending for food interventions	44 514	42 666
- Deals with securities purchased under “reverse-repo agreements”	-	894
- Investments in agricultural cooperatives	655	702
Loans to individuals	85 031	66 527
Total loans and advances to customers (before impairment)	**745 585**	**614 357**
Less: Provision for loan impairment	(57 029)	(29 950)
Total loans and advances to customers	**688 556**	**584 407**

As at 31 December 2010 included in gross amount of loans are loans in the amount of RR 419 590 million (2009: RR 362 335 million), where borrowers are eligible for interest subsidies from federal and regional budgets. Subsidies are paid directly to the borrowers.

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of the Bank of Russia of the contributions made. The Group’s management has a right to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

As at 31 December 2010, no loans and advances to customers are effectively collateralised by securities purchased under reverse repo agreements (2009: RR 894 million with a fair value RR 985 million). The Group had the right to sell or repledge securities.

12 Loans and Advances to Customers (Continued)

Analysis of the movements in the provision for loan impairment is as follows:

In millions of Russian Roubles	2010 Loans to corporates	2010 Investments in agricultural cooperatives	2010 Loans to individuals	2010 Total	2009 Loans to corporates	2009 Investments in agricultural cooperatives	2009 Loans to individuals	2009 Total
Provision for loan impairment at 1 January	**28 439**	**8**	**1 503**	**29 950**	**15 249**	**20**	**1 288**	**16 557**
Provision for loan impairment during the year	27 742	15	734	28 491	13 211	(12)	215	13 414
Provision for uncollectible loans sold during the year	(1 405)	-	-	(1 405)	-	-	-	-
Loans and advances to customers written off during the year as uncollectible	(7)	-	-	(7)	(21)	-	-	(21)
Provision for loan impairment at 31 December	**54 769**	**23**	**2 237**	**57 029**	**28 439**	**8**	**1 503**	**29 950**

In 2010 no provision for “Lending for food interventions” was created (2009: no provision for “Lending for food interventions” and “Reverse repo agreements” was created).

The economic sector structure of the credit portfolio is as follows:

In millions of Russian Roubles	2010 Amount	2010 %	2009 Amount	2009 %
Agriculture	467 876	63	392 916	64
Manufacturing	99 002	13	82 608	13
Individuals	85 031	11	66 527	11
Trading	54 179	7	40 039	6
Construction	25 898	4	22 034	4
Other	13 599	2	10 233	2
Total loans and advances to customers (before impairment)	**745 585**	**100**	**614 357**	**100**

As at 31 December 2010, the aggregate amount of loans to individuals included loans in the amount of RR 52 689 million issued to individuals-sole farmers (2009: RR 49 026 million).

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower’s activities taking into account their financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower’s financial position the Group applies a system of coefficients according to which the borrower’s financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

12 Loans and Advances to Customers (Continued)

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category "*collectively assessed for impairment".*

As a *loss event* the Group recognizes objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs – sole farmers):*
  - significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
  - violation of contract – principal or interest overdue by more than 5 days;
- *for loans issued to individuals:*
  - significant financial difficulty of the borrower – changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - violation of contract – principal or interest overdue by more than 30 days.

As a *default* of a borrower/debtor the Group recognizes objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs – sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
  - principal or interest overdue by over 365 days;
- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;

12 Loans and Advances to Customers (Continued)

- principal or interest overdue by over 365 days;
- the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

Analysis by credit quality of loans outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	**Loans to corporates**	**Lending for food interventions**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
1. Current and not impaired					
- good financial position	-	44 514	-	-	44 514
Total current and not impaired	**-**	**44 514**	**-**	**-**	**44 514**
2. Collectively assessed for impairment					
Current					
- good financial position	316 256	-	-	-	316 256
- average financial position	149 659	-	-	-	149 659
- included in portfolios of similar risk loans	1 313	-	655	81 900	83 868
Overdue					
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	5 229	-	-	425	5 654
Total collectively assessed for impairment	**472 457**	**-**	**655**	**82 325**	**555 437**
3. Individually assessed for impairment					
- watch list	73 990	-	-	-	73 990
- poor financial position	3 372	-	-	-	3 372
- 6 to 30 days overdue	3 273	-	-	-	3 273
- 31 to 90 days overdue	8 241	-	-	238	8 479
- 91 to 180 days overdue	18 267	-	-	302	18 569
- 181 to 365 days overdue	10 296	-	-	529	10 825
- over 365 days overdue	25 489	-	-	1 637	27 126
Total individually assessed for impairment	**142 928**	**-**	**-**	**2 706**	**145 634**
Total loans and advances to customers (before impairment)	**615 385**	**44 514**	**655**	**85 031**	**745 585**
Provision for loan impairment	**(54 769)**	**-**	**(23)**	**(2 237)**	**(57 029)**
Total loans and advances to customers	**560 616**	**44 514**	**632**	**82 794**	**688 556**

12 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2009 is as follows:

In millions of Russian Roubles	Loans to corporates	Lending for food interven-tions	Reverse repo agreements	Investments in agricultural cooperatives	Loans to individuals	Total
1. Current and not impaired						
- good financial position	-	42 666	894	-	-	43 560
Total current and not impaired	**-**	**42 666**	**894**	**-**	**-**	**43 560**
2. Collectively assessed for impairment						
Current						
- good financial position	283 580	-	-	702	-	284 282
- average financial position	156 025	-	-	-	-	156 025
- included in portfolios of similar risk loans	618	-	-	-	63 928	64 546
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	5 096	-	-	-	380	5 476
Total collectively assessed for impairment	**445 319**	**-**	**-**	**702**	**64 308**	**510 329**
3. Individually assessed for impairment						
- watch list	23 828	-	-	-	-	23 828
- poor financial position	2 841	-	-	-	-	2 841
- 6 to 30 days overdue	1 925	-	-	-	-	1 925
- 31 to 90 days overdue	5 193	-	-	-	314	5 507
- 91 to 180 days overdue	4 905	-	-	-	321	5 226
- 181 to 365 days overdue	7 815	-	-	-	681	8 496
- over 365 days overdue	11 742	-	-	-	903	12 645
Total individually assessed for impairment	**58 249**	**-**	**-**	**-**	**2 219**	**60 468**
Total loans and advances to customers (before impairment)	**503 568**	**42 666**	**894**	**702**	**66 527**	**614 357**
Provision for loan impairment	**(28 439)**	**-**	**-**	**(8)**	**(1 503)**	**(29 950)**
Total loans and advances to customers	**475 129**	**42 666**	**894**	**694**	**65 024**	**584 407**

Overdue loans represent not only past due payments but also outstanding balances of such loans.

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 6 to 180 days of RR 26 878 million (2009: RR 554 million) and loans and advances to customers overdue more than 180 days of RR 7 869 million (2009: RR 2 259 million).

Loans included in portfolio with similar risk loans consist of small value loans with homogeneous credit characteristics without any signs of impairment, which are not analysed by the Group on an individual basis.

12 Loans and Advances to Customers (Continued)

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	2010	2009
Current loans	636 912	572 269
Past due instalments	50 825	20 966
Current portion of past due loans	57 848	21 122
Provision for loan impairment	(57 029)	(29 950)
Total loans and advances to customers	**688 556**	**584 407**

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Where appropriate, the value of collateral was incorporated in the assessment of recoverable amount of loans and advances to customers.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management; and
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 70%) (2009: over 70%) relates to the following types: real estate – 41% (2009: 41%), equipment – 17% (2009: 19%) and goods in turnover – 15% (2009: 16%).

According to the Group's internal documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts; and
- for individuals – overdrafts and loans issued within the scope of Selskoe Podvorje (Rural Farm) program – loans up to RR 50 thousand (or equivalent in currency) under the programs "Consumer loans"; "Loans to the sole farmers", "Reliable Customer".

Refer to Note 37 for the disclosure of fair value of each class of loans and advances to customers. Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 33. The information on related party transactions is disclosed in Note 39.

13 Investment Securities Available for Sale

In millions of Russian Roubles	2010	2009
Corporate bonds	7 139	3 449
Corporate Eurobonds	4 955	2 355
State Eurobonds	3 054	1 531
Municipal and subfederal bonds	524	92
Corporate shares	15	10
Federal loan bonds (OFZ)	-	363
Total investment securities available for sale	**15 687**	**7 800**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	5 482	201	1 456	7 139
Corporate Eurobonds	4 645	310	-	4 955
State Eurobonds	3 054	-	-	3 054
Municipal and subfederal bonds	322	202	-	524
Total debt investment securities available for sale	**13 503**	**713**	**1 456**	**15 672**

* or ratings of other analogous rating agencies

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	825	-	2 624	3 449
Corporate Eurobonds	1 835	520	-	2 355
State Eurobonds	1 531	-	-	1 531
Federal loan bonds (OFZ)	363	-	-	363
Municipal and subfederal bonds	92	-	-	92
Total debt investment securities available for sale	**4 646**	**520**	**2 624**	**7 790**

* or ratings of other analogous rating agencies

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly, semi-annually or annually depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from October 2011 to November 2020 (2009: from November 2010 to November 2014), annual coupon rates from 7.0% to 14.8% p.a. (2009: from 7.8% to 20.0% p.a.) and yield to maturity or next repricing date from 6.3% to 17.7% p.a. (2009: from 7.6% to 21.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

13 Investment Securities Available for Sale (Continued)

Corporate Eurobonds are bonds denominated in USD issued by major Russian companies. As at 31 December 2010 these bonds have maturity dates from January 2011 to October 2020 (2009: from January 2010 to February 2017), annual coupon rates from 5.4% to 12.0% p.a. (2009: from 7.5% to 12.0% p.a.), payable semi-annually, and yield to maturity or next repricing date from 4.3% to 10.9% p.a. (2009: from 3.9% to 16.3% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2010 these bonds have maturity date in April 2020 (2009: March 2030), annual coupon rate 5.0% p.a. (2009: 7.5% p.a.), payable semi-annually, and yield to maturity 5.0% p.a. (2009: 5.5% p.a.).

Municipal and subfederal bonds are represented by Russian Roubles bonds of Russian municipal and subfederal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from June 2012 to December 2014 (2009: June 2012), annual coupon rates from 8.3% to 9.5% p.a. (2009: 9.6% p.a.) and yield to maturity or next repricing date from 6.7% to 8.9% p.a. (2009: 16.3% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

The movements in investment securities available for sale are as follows:

In millions of Russian Roubles	Note	2010	2009
Carrying amount at 1 January		**7 800**	**4 793**
Purchases		40 136	14 391
Fair value gains less losses		246	2 292
Realised revaluation reserve (at disposal)		(390)	(528)
Interest income accrued	26	1 346	955
Interest income received		(1 010)	(923)
Proceeds from disposal		(17 966)	(12 588)
Foreign exchange differences gains less losses		147	(251)
Impairment recognised directly in profit or loss		-	(341)
Reclassification to Repurchase receivables	9	(14 622)	-
Carrying amount at 31 December		**15 687**	**7 800**

The Group reclassified the following financial assets from the available-for-sale category during 2008:

In million of Russian Roubles	Amount reclassified	Undiscounted cash flows expected to be recovered	Effective interest rate (%)
Reclassified into held to maturity			
Corporate Eurobonds	222	739	8.2
Total	**222**	**739**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices, which occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

13 Investment Securities Available for Sale (Continued)

The carrying amounts and fair values of all financial assets that have been reclassified from available for sale securities and which were not yet sold or otherwise derecognized, were as follows:

	2010		2009	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Reclassified into held to maturity				
Corporate Eurobonds	290	325	287	288
Total	**290**	**325**	**287**	**288**

Income or loss recognised for 2010, and fair value gain or loss that would have been recognised if the assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		Gains from revaluation that would have been recognised in other comprehensive income if the assets had not been reclassified
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity			
Corporate Eurobonds	25	2	35
Total	**25**	**2**	**35**

Income or loss recognised for 2009, and fair value gain or loss that would have been recognised if the assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		Gains from revaluation that would have been recognised in other comprehensive income if the assets had not been reclassified
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity			
Corporate Eurobonds	23	9	97
Total	**23**	**9**	**97**

As at 31 December 2008, income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		Losses from revaluation that would have been recognised in other comprehensive income if the assets had not been reclassified
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity			
Corporate Eurobonds	10	59	(94)
Total	**10**	**59**	**(94)**

Refer to Note 37 for the disclosure of the fair value hierachy for investment securities available for sale. Geographical and interest rate analysis of investment securities available for sale are disclosed in Note 33.

14 Investment Securities Held to Maturity

In millions of Russian Roubles	2010	2009
State Eurobonds	6 682	-
Federal Loan bonds (OFZ)	3 317	3 917
Corporate Eurobonds	1 473	1 586
Promissory notes	1 281	-
Corporate bonds	1 087	1 073
Municipal and subfederal bonds	1 082	1 156
Total investment securities held to maturity	**14 922**	**7 732**

Analysis by credit quality of investment securities held to maturity at 31 December 2010 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Total
State Eurobonds	6 682	-	6 682
Federal Loan bonds (OFZ)	3 317	-	3 317
Corporate Eurobonds	1 473	-	1 473
Promissory notes	-	1 281	1 281
Corporate bonds	1 087	-	1 087
Municipal and subfederal bonds	1 082	-	1 082
Total investment securities held to maturity	**13 641**	**1 281**	**14 922**

* or ratings of other analogous rating agencies

Analysis by credit quality of investment securities held to maturity at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Total
Federal Loan bonds (OFZ)	3 917	-	3 917
Corporate Eurobonds	1 586	-	1 586
Corporate bonds	1 073	-	1 073
Municipal and subfederal bonds	763	393	1 156
Total investment securities held to maturity	**7 339**	**393**	**7 732**

* or ratings of other analogous rating agencies

If a security's rating is unavailable, the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have overdue securities held to maturity, no provisions for impairment of these securities were recognised.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2010 these bonds have maturity date in April 2020, annual coupon rate 5.0% p.a. payable semi-annually, and yield to maturity 5.0% p.a. (2009: nil).

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. As at 31 December 2010 these OFZ have maturity dates from July 2012 to February 2036 (2009: from May 2010 to February 2036), annual coupon rates from 6.1% to 8.0% p.a. (2009: from 5.8% to 10.0%, p.a.) payable quarterly or semi-annually, and yield to maturity from 5.1% to 8.0% p.a. (2009: from 6.2% to 9.7% p.a.), depending on the type of the bond issue and the market conditions.

14 Investment Securities Held to Maturity (Continued)

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2010 these bonds have maturity dates from January 2012 to August 2037 (2009: from May 2010 to August 2037), annual coupon rates from 6.7% to 9.6% p.a. (2009: from 6.7% to 9.6% p.a.) payable semi-annually, and yield to maturity or next repricing date from 2.7% to 6.9% p.a. (2009: from 3.6% to 8.1% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Promissory notes are represented by promissory notes denominated in USD at a discount to nominal value issued by one Russian bank. As at 31 December 2010 these promissory notes have maturity date in November 2013 and yield to maturity 9.0% p.a. (2009: nil).

Corporate bonds are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from July 2011 to September 2020 (2009: from July 2011 to September 2020), annual coupon rates from 7.2% to 8.5% p.a. (2009: from 7.2% to 8.5% p.a.) and yield to maturity or next repricing date from 5.5% to 8.9% p.a. (2009: from 8.5% to 14.3% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal and subfederal bonds are represented by bonds issued by Russian municipal and subfederal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2010 these bonds have maturity dates from June 2012 to December 2015 (2009: from December 2010 to December 2015), annual coupon rates from 7.0% to 8.0% p.a. (2009: from 7.0% to 9.0% p.a.) and yield to maturity from 7.1% to 8.5% p.a. (2009: from 8.1% to 14.0% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Refer to Note 37 for the disclosure of the fair value hierarchy for investment securities held to maturity. Geographical and interest rate analyses of securities held to maturity are disclosed in Note 33.

15 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Russian Roubles	**Note**	**2010**	**2009**
Carrying amount at 1 January		**298**	**-**
Acquisition of subsidiaries		-	728
Impairment loss	29	(298)	(430)
Carrying amount at 31 December		**-**	**298**

16 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improvements	Used in banking activities: Office and computer equipment	Used in banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2009		5 210	1 423	3 213	237	-	-	-	10 083	1 040	11 123
Accumulated depreciation		(212)	(159)	(780)	-	-	-	-	(1 151)	(299)	(1 450)
Carrying amount at 1 January 2009		**4 998**	**1 264**	**2 433**	**237**	**-**	**-**	**-**	**8 932**	**741**	**9 673**
Acquisitions through business combinations		-	-	-	-	13 367	1 709	1 322	16 398	-	16 398
Additions		2 394	120	1 816	50	444	80	-	4 904	498	5 402
Disposals		(39)	(27)	(19)	(6)	(18)	(8)	-	(117)	-	(117)
Transfer to other assets		-	-	-	-	-	-	(1 161)	(1 161)	-	(1 161)
Depreciation charge: before revaluation	28, 29	(121)	(152)	(608)	-	(243)	(65)	-	(1 189)	(216)	(1 405)
Depreciation charge: realised revaluation reserve and revaluation loss	29	(20)	-	-	-	-	-	-	(20)	-	(20)
Changes in gross carrying value resulting from revaluation		(316)	-	-	-	-	-	-	(316)	-	(316)
Changes in accumulated depreciation resulting from revaluation		15	-	-	-	-	-	-	15	-	15
Carrying amount at 31 December 2009		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**
Cost at 31 December 2009		7 249	1 507	4 966	281	13 823	1 804	161	29 791	1 538	31 329
Accumulated depreciation		(338)	(302)	(1 344)	-	(273)	(88)	-	(2 345)	(515)	(2 860)
Carrying amount at 31 December 2009		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**

16 Premises, Equipment and Intangible Assets (Continued)

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improvements	Used in banking activities: Office and computer equipment	Used in banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2010		7 249	1 507	4 966	281	13 823	1 804	161	29 791	1 538	31 329
Accumulated depreciation		(338)	(302)	(1 344)	-	(273)	(88)	-	(2 345)	(515)	(2 860)
Carrying amount at 1 January 2010		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**
Acquisitions through business combinations		-	-	-	-	292	98	-	390	-	390
Additions		1 151	62	1 068	72	94	408	-	2 855	829	3 684
Disposals		-	(5)	(17)	(3)	(764)	-	-	(789)	-	(789)
Depreciation charge: before revaluation	28, 29	(133)	(162)	(868)	-	(603)	(207)	-	(1 973)	(287)	(2 260)
Depreciation charge: realised revaluation reserve and revaluation loss	29	(14)	-	-	-	-	-	-	(14)	-	(14)
Changes in gross carrying value resulting from revaluation		209	-	-	-	-	-	-	209	-	209
Changes in accumulated depreciation resulting from revaluation		(17)	-	-	-	-	-	-	(17)	-	(17)
Reclassification to assets of the disposal groups held for sale	40	(96)	-	(4)	-	(1 526)	(396)	(100)	(2 122)	(2)	(2 124)
Carrying amount at 31 December 2010		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**
Cost at 31 December 2010		8 500	1 562	5 969	350	11 883	1 819	61	30 144	2 359	32 503
Accumulated depreciation		(489)	(462)	(2 168)	-	(840)	(200)	-	(4 159)	(796)	(4 955)
Carrying amount at 31 December 2010		**8 011**	**1 100**	**3 801**	**350**	**11 043**	**1 619**	**61**	**25 985**	**1 563**	**27 548**

16 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises are mainly represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2010 was RR 2 859 million (2009: RR 3 468 million).

Carrying amount of office premises without revaluation at 31 December 2010 is RR 7 442 million (2009: RR 6 487 million), including cost in amount of RR 7 820 million (2009: RR 6 735 million) and accumulated depreciation of RR 378 million (2009: RR 248 million). Premises were independently valued as at 31 December 2010. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, which hold a relevant professional qualification and which have recent experience in valuation of assets of similar location and category.

17 Other Assets

In millions of Russian Roubles	**2010**	**2009**
Non-financial assets		
Repossessed collateral	5 395	5 610
Inventory	847	1 000
Prepayment for services	421	756
Prepayment for goods	305	181
Prepaid taxes	102	33
Other	9	9
Financial assets		
Settlements on credit and debit cards	1 937	804
Trade receivables	1 215	2 893
Settlements on funds transfer operations	75	33
Other	913	608
Provision for impairment of other financial assets	(167)	(170)
Total other assets	**11 052**	**11 757**

Repossessed collateral mainly represents the land and production premises measured in accordance with IAS 40 «Investment Property». The Group is not going to use repossessed collateral in its own operations.

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries.

The movements in the provision for impairment of other financial assets are as follows:

In millions of Russian Roubles	**2010**	**2009**
Provision for impairment of other financial assets at 1 January	**170**	**51**
Provision for impairment of other financial assets during the year	8	119
Reclassification to assets of the disposal groups held for sale	(6)	-
Other financial assets written off during the year as uncollectible	(5)	-
Provision for impairment of other financial assets at 31 December	**167**	**170**

17 Other Assets (Continued)

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	Note	2010	2009
Repossessed collateral at 1 January		**5 610**	**1 010**
Additions for the year		1 088	4 901
Disposal for the year		(1 279)	(256)
Depreciation charge	29	(24)	(45)
Repossessed collateral at 31 December		**5 395**	**5 610**

As at 31 December 2010 the fair value of repossessed collateral was RR 5 544 million (2009: RR 5 703 million).

Refer to the Note 37 for the disclosure of fair value of other financial assets. Geographical analysis of other assets is disclosed in Note 33.

18 Due to Other Banks

In millions of Russian Roubles	2010	2009
Borrowings from other banks with term to maturity		
- sale and repurchase agreements less than 30 days	12 911	-
- less than 30 days	7 378	29 050
- from 31 to 180 days	4 793	3 779
- from 181 days to 1 year	4 652	23 388
- from 1 year to 3 years	53 558	11 670
- more than 3 years	18 192	53 913
Borrowings from the CBRF with term to maturity		
- less than 30 days	1 058	190
- from 31 to 180 days	2 795	64 019
- from 181 days to 1 year	-	2 917
- sale and repurchase agreements less than 30 days	-	3 000
Correspondent accounts and overnight placements of other banks	241	84
Total due to other banks	**105 578**	**192 010**

As at 31 December 2010 the Group had balances due to one foreign bank with the aggregated amount of RR 29 254 million, or 28% of total due to other banks (2009: due to two foreign banks with aggregated amount of RR 45 836 million, or 24% of total due to other banks).

Refer to Note 37 for the disclosure of the fair value of due to other banks. Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 33.

19 Customer Accounts

In millions of Russian Roubles	**2010**	**2009**
State and public organisations		
- Current/settlement accounts	5 333	4 864
- Term deposits	74 300	52 954
Other legal entities		
- Current/settlement accounts	50 317	30 658
- Term deposits	128 443	60 480
- Sale and repurchase agreements with securities	195	-
Individuals		
- Current/demand accounts	16 835	10 760
- Term deposits	110 856	70 587
Total customer accounts	**386 279**	**230 303**

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

	2010		**2009**	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Individuals	127 691	33	81 347	35
State and public organisations	79 633	21	57 818	25
Manufacturing	35 371	9	9 096	4
Financial services and pension funds	33 260	9	22 673	10
Insurance	29 444	8	22 541	10
Agriculture	25 203	6	14 081	6
Trading	13 685	4	8 124	4
Construction	12 738	3	8 559	4
Leasing	8 920	2	972	-
Telecommunication	7 404	2	54	-
Other	12 930	3	5 038	2
Total customer accounts	**386 279**	**100**	**230 303**	**100**

As at 31 December 2010, the Group had three customers with balances above RR 11 500 million (2009: three customers with balances above RR 11 500 million). The aggregate balance of these customers was RR 60 639 million, or 16% of total customer accounts (2009: RR 53 674 million, or 23% of total customer accounts).

As at 31 December 2010, customer accounts include secured deposit of RR 5 928 million (2009: nil). The deposit secured by State Eurobonds with carring value of RR 6 682 million. Refer to Note 35.

Refer to Note 37 for the disclosure of the fair value of customer accounts. Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

20 Promissory Notes Issued

In millions of Russian Roubles	2010	2009
Promissory notes issued	9 874	12 567
Total promissory notes issued	**9 874**	**12 567**

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 11% p.a. and maturity dates from January 2011 to December 2016 (2009: promissory notes denominated Russian roubles and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 15% p.a. and maturity dates from January 2010 to August 2017).

As at 31 December 2010, promissory notes issued, which were initially purchased by one counterparty, amounted to RR 3 948 million or 40% of total promissory notes issued by the Group (2009: one counterparty amounted RR 9 373 million or 75% of total promissory notes issued by the Group).

Refer to Note 37 for the disclosure of the fair value of promissory notes issued. Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 33.

21 Other Borrowed Funds

In millions of Russian Roubles	2010	2009
Eurobonds issued	169 102	158 841
Bonds issued on domestic market	88 457	57 643
Total other borrowed funds	**257 559**	**216 484**

As at 31 December 2010, other borrowed funds consist of US Dollars, Russian Roubles and Swiss Francs denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	4.17%
US Dollars	1 127	14 May 2007	15 May 2017	-	6.299%	6 months	6.20%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	3.50%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	4.76%
- tranche B	898	29 May 2008	29 May 2018	-	7.750%	6 months	6.42%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.02%
Russian Roubles	29 700	25 March 2010	25 March 2013	-	7.500%	6 months	7.56%
Bonds issued on domestic market							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	7.64%
Russian Roubles	10 000	22 February 2007	9 February 2017	17 February 2014	9.250%	6 months	7.98%
Russian Roubles	10 000	10 October 2007	27 September 2017	7 October 2011	11.500%	6 months	5.43%
Russian Roubles	264	22 February 2008	9 February 2018	19 August 2014	7.800%	6 months	8.08%
Russian Roubles	5 000	17 June 2008	5 June 2018	16 June 2011	6.900%	6 months	4.93%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.93%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.84%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	6.79%
Russian Roubles	5 000	10 February 2010	29 January 2020	8 February 2013	9.000%	6 months	7.71%
Russian Roubles	5 000	11 February 2010	30 January 2020	11 February 2013	9.000%	6 months	7.62%
Russian Roubles	5 000	1September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	1September 2010	28 August 2013	31 August 2012	7.200%	6 months	7.35%
Russian Roubles	10 000	2 November 2010	29 October 2013	3 May 2012	6.600%	6 months	6.90%

21 Other Borrowed Funds (Continued)

As at 31 December 2009, the Group's other borrowed funds included Eurobonds denominated in US Dollars and Swiss Francs that are issued by the Group through its special purpose entity, RSHB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	350	29 November 2005	29 November 2010	-	6.875%	6 months	2.31%
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	5.34%
Swiss Francs	375	29 March 2007	29 March 2010	-	3.583%	1 year	4.05%
US Dollars	1 125	14 May 2007	15 May 2017	-	6.299%	6 months	6.24%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	5.86%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	5.54%
- tranche B	891	29 May 2008	29 May 2018	-	7.750%	6 months	6.37%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.61%
Bonds issued in domestic market							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	8.88%
Russian Roubles	10 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	6.98%
Russian Roubles	10 000	10 October 2007	27 September 2017	7 October 2011	11.50%	6 months	10.14%
Russian Roubles	5 000	22 February 2008	9 February 2018	24 August 2010	13.350%	6 months	8.70%
Russian Roubles	5 000	17 June 2008	5 June 2018	17 June 2010	13.950%	6 months	7.69%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.94%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	9.92%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	9.67%

Refer to Note 37 for the disclosure of the fair value for other borrowed funds. Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 33.

22 Syndicated Loans

As at 31 December 2010, syndicated loans attracted by the Group, were fully redeemed (2009: RR 7 570 million).

In April 2007 the Group attracted 2 tranches of syndicated loan in US Dollars with the total amount of USD 520 million, with maturities in October 2008 and April 2010, semi-annual coupon at the rate of LIBOR + 0.3% p.a. (for tranche A) and LIBOR + 0.4% p.a. (for tranche B). In October 2008 Group redeemed at a stated time the first tranche (tranche A) of syndicated loan in the total amount of USD 270 million. In April 2010, the Group redeemed the second tranche (tranche B) of the syndicated loan totalling USD 250 million within the maturity period.

Refer to Note 37 for the disclosure of the fair value for syndicated loans. Geographical, maturity and interest rate analyses of syndicated loans are disclosed in Note 33.

23 Other Liabilities

In millions of Russian Roubles	Note	2010	2009
Non-financial liabilities			
Accrued staff costs		922	784
Taxes payable other than on income		294	292
Insurance contribution		114	71
Unregistered share capital increase		-	825
Provision for litigation	35	-	200
Other		302	184
Financial liabilities			
Settlements on debit and credit cards		1 495	548
Trade payables		704	4 124
Other subsidiaries' payables		371	624
Financial liabilities associated with issuance of guarantees by subsidiaries		187	190
Total other liabilities		**4 389**	**7 842**

Trade payables are related to the business activities of subsidiaries.

Refer to Note 37 for the disclosure of the fair value of other financial liabilities. Geographical analysis of other liabilities is disclosed in Note 33.

24 Subordinated Debts

As at 31 December 2010, the Group's subordinated debts totalled RR 46 545 million (2009: RR 46 370 million).

In September 2006, the Group attracted a subordinated debt totalling USD 500 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in September 2016, have current interest rate of 6.97% p.a. (2009: 6.97% p.a.), and yield to the next repricing date, i.e. in September 2011 at 6.7% p.a. (2009: 7.7% p.a.). The Group has an option to terminate this subordinated debt in the last five years before its maturity date.

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017. The Group has an option to terminate this subordinated debt in the last five years before its maturity date.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law №173-FZ "About supplementary measures to support financial system of the Russian Federation". In July 2010, Federal Law No. 173-FZ was amended to reduce the interest rate on subordinated debt attracted by the Group from Vnesheconombank from 8.0% p.a. to 6.5% p.a.

Refer to Note 37 for the disclosure of the fair value of subordinated debts. Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 33. The information on related party balances is disclosed in Note 39.

25 Share Capital

The Group's share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2009	**61 223**	**61 223**	**61 973**
New shares issued	45 000	45 000	45 000
At 31 December 2009	**106 223**	**106 223**	**106 973**
New shares issued	1 825	1 825	1 825
At 31 December 2010	**108 048**	**108 048**	**108 798**

The Group's issued and fully paid authorised share capital comprises 108 048 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 million per share and rank equally. Each share carries one vote.

In 2010, the Bank increased its share capital by issuing 1 825 ordinary shares with the total nominal amount of RR 1 825 million. All shares were purchased by the Bank's only shareholder - the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

26 Interest Income and Expense

In millions of Russian Roubles	2010	2009
Interest income		
Loans and advances to customers	97 749	82 520
Due from other banks	3 246	4 863
Securities available for sale and appropriate repurchase receivables	1 346	955
Trading securities and appropriate repurchase receivables	978	2 850
Financial instruments designated at fair value through profit or loss	813	645
Securities held to maturity	665	739
Cash equivalents	210	574
Total interest income	**105 007**	**93 146**
Interest expense		
Other borrowed funds	(20 003)	(15 430)
Term deposits of legal entities	(10 849)	(15 338)
Term deposits of individuals	(8 268)	(5 511)
Term deposits of other banks	(7 557)	(10 320)
Subordinated debts	(3 090)	(3 352)
Promissory notes issued	(1 590)	(648)
Term deposits of the CBRF	(1 282)	(6 755)
Current/settlement accounts	(720)	(391)
Syndicated loans	(24)	(324)
Total interest expense	**(53 383)**	**(58 069)**
Net interest income	**51 624**	**35 077**

Interest income on loans and advances to customers includes interest income on loans individually assessed for impairment in the total amount of RR 15 911 million (2009: RR 5 732 million).

27 Fee and Commission Income and Expense

In millions of Russian Roubles	2010	2009
Fee and commission income		
Commission on cash transactions	2 668	2 159
Commission on settlement transactions	423	330
Agency fees for debt collection and currency control	77	57
Commission on guarantees issued	10	534
Other	233	164
Total fee and commission income	**3 411**	**3 244**
Fee and commission expense		
Commission on cash collection	(349)	(260)
Commission on restructuring of loans	(148)	-
Commission on settlement transactions	(59)	(28)
Commission on guarantees received	-	(140)
Other	(33)	(61)
Total fee and commission expense	**(589)**	**(489)**
Net fee and commission income	**2 822**	**2 755**

28 Losses net of Gains from Non-banking Activities

In millions of Russian Roubles	2010	2009
Sales of goods	3 799	2 772
Cost of goods sold	(4 205)	(2 605)
Financial result from netting receivables and payables	614	-
Other	(477)	(466)
Total losses net of gains from non-banking activities	**(269)**	**(299)**

Sales of goods mainly represent sales of grain, sugar, meat and milk products and animal feedstuff.

During 2010, the Group settled receivables for the total amount of RR 1 801 million on the net basis with payables in the total amount of RR 2 415 million. As a result the Group recognized a gain in the total amount of RR 614 million.

Included in cost of goods sold is depreciation of non-banking premises and equipment in the total amount of RR 810 million (2009: RR 308 million).

29 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2010	2009
Staff costs		15 102	12 122
Rental expenses		2 050	1 828
Depreciation of premises and equipment	16	1 177	901
Other costs of premises and equipment		1 011	907
Taxes other than on income		895	829
Security services		716	629
Communications		343	299
Impairment of goodwill	15	298	430
Amortization of intangible assets	16	287	216
Supplies and other materials		258	278
Advertising and marketing services		185	169
(Reversals of impairment)/impairment of premises		(51)	195
Depreciation of repossessed collateral	17	24	45
Other		1 289	1 151
Total administrative and other operating expenses		**23 584**	**19 999**

Included in staff costs are statutory social security and contributions to a state and non-state pension funds of RR 2 496 million (2009: RR 1 952 million).

30 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2010	2009
Current tax	1 995	1 666
Deferred tax	(1 631)	(1 077)
Income tax expense for the year	**364**	**589**

The income tax rate applicable to the majority of the Group’s income is 20% (2009: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2010	2009
IFRS profit before tax	**733**	**840**
Theoretical tax charge at statutory rate (2010: 20%; 2009: 20%)	147	168
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Impairment of goodwill	58	86
- Non deductible staff costs	53	48
- Non deductible charity costs	8	28
- Non deductible interest expenses	1	47
- Unrecognised tax loss carry forward of subsidiaries	-	75
- Non deductible write-off of subsidiaries’ assets	-	31
- Other non deductible operating expenses	116	124
- Income on government securities taxed at different rates	(19)	(18)
Income tax expense for the year	**364**	**589**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%), except for income on government securities that is taxed at 15% (2009: 15%).

30 Income Taxes (Continued)

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

In millions of Russian Roubles	31 December 2009	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Transfer to disposal groups classified as held for sale	31 December 2010
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	1 455	515	-	(2)	1 968
Provision for loan impairment	418	240	-	(10)	648
Accrued staff costs	153	25	-	-	178
Fair valuation of derivative financial instruments	(526)	201	-	-	(325)
Premises and equipment	(2 294)	127	(29)	301	(1 895)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(202)	(16)	-	-	(218)
Fair valuation of securities	(186)	47	29	-	(110)
Intangible assets	(49)	(8)	-	-	(57)
Accruals on due to other banks	(26)	100	-	-	74
Promissory notes issued	(3)	-	-	-	(3)
Other	(155)	400	-	20	265
Net deferred income tax asset/ (liability)	**(1 415)**	**1 631**	**-**	**309**	**525**
Recognized deferred income tax asset	400	1 530	-	-	1 930
Recognized deferred income tax liability	(1 815)	101	-	309	(1 405)
Net deferred income tax asset/ (liability)	**(1 415)**	**1 631**	**-**	**309**	**525**

30 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2008	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other compre-hensive income	Business combina-tions	31 December 2009
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	522	820	-	113	1 455
Provision for loan impairment	509	(184)	-	93	418
Accrued staff costs	118	35	-	-	153
Fair valuation of derivative financial instruments	(1 444)	918	-	-	(526)
Premises and equipment	(415)	(19)	22	(1 882)	(2 294)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(190)	(12)	-	-	(202)
Fair valuation of securities	264	(70)	(380)	-	(186)
Intangible assets	(41)	(8)	-	-	(49)
Accruals on due to other banks	(58)	32	-	-	(26)
Promissory notes issued	(2)	(1)	-	-	(3)
Carrying value of sureties issued	44	(44)	-	-	-
Other	138	(390)	-	97	(155)
Net deferred income tax liability	**(555)**	**1 077**	**(358)**	**(1 579)**	**(1 415)**
Recognized deferred income tax asset	14	379	(358)	365	400
Recognized deferred income tax liability	(569)	698	-	(1 944)	(1 815)
Net deferred income tax liability	**(555)**	**1 077**	**(358)**	**(1 579)**	**(1 415)**

31 Dividends

In millions of Russian Roubles	2010 Ordinary shares	2009 Ordinary shares
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	232	149
Dividends paid during the year	(232)	(149)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.0022**	**0.0014**

32 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

Based on IFRS 8 requirements Group also discloses those operational segments where revenue, profit or total assets are higher than 10% of related Group's indicators.

32 Segment Analysis (Continued)

As at 31 December 2010 the Group defines the following reportable segments:

- Head office,
- Central federal district,
- Far Eastern federal district,
- Volga federal district,
- North-West federal district,
- North-Caucasian federal district,
- Siberian federal district,
- Ural federal district,
- Krasnodar branch,
- Southern federal district (without Krasnodar branch).

As at 31 December 2009 the Group defines the following reportable segments:

- Head office,
- Central federal district,
- Far Eastern federal district,
- Volga federal district,
- North-West federal district,
- Siberian federal district,
- Ural federal district,
- Krasnodar branch,
- Southern federal district (without Krasnodar branch).

For analysis of revenue by products refer to Notes 26, 27.

In January 2010 the North-Caucasian federal district has been segregated from Southern federal district in accordance with the Order of the President of Russian Federation. This resulted in the changes in the management accounts reflected also in the segment reporting for 2010 and 2009 respectively.

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements.

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 31 December 2010 and 31 December 2009 and segment reporting of the Group's assets at 31 December 2010 and 31 December 2009 is as follows:

32 Segment Analysis (Continued)

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the year ended 31 December 2010											
Revenue from external customers:	**17 132**	**24 352**	**3 660**	**19 397**	**7 253**	**7 759**	**10 850**	**2 421**	**12 273**	**4 072**	**109 169**
- Income from loans and advances to customers, due from other banks and other placed funds	15 769	22 997	3 386	18 494	6 886	7 407	10 246	2 298	11 676	3 879	103 038
- Fee and commission income from credit related operations	1 363	1 355	274	903	367	352	604	123	597	193	6 131
Gains less losses / (losses net of gains) arising from securities	(4 283)	(37)	-	(60)	3	-	9	-	2	(14)	(4 380)
Net interest and commissions from current/correspondent/settlement accounts	(389)	623	122	467	148	452	278	65	151	127	2 044
Expenses from due to other banks, term deposits and other borrowed funds	(40 307)	(4 257)	(697)	(2 372)	(1 345)	(467)	(1 386)	(331)	(1 041)	(569)	(52 772)
Provision charge for impairment	(552)	(4 947)	(492)	(5 071)	(1 748)	(101)	(3 797)	(882)	(9 667)	(536)	(27 793)
Administrative and Maintenance expense	(4 152)	(4 292)	(1 468)	(3 926)	(1 684)	(1 759)	(3 068)	(650)	(843)	(1 244)	(23 086)
Intersegment income and expense*	**49 724**	**(11 876)**	**(1 665)**	**(10 653)**	**(3 700)**	**(4 614)**	**(5 781)**	**(1 282)**	**(7 818)**	**(2 335)**	**-**
Profit/(loss) of reportable segments	**(35 315)**	**11 640**	**1 148**	**8 452**	**2 788**	**6 089**	**2 805**	**633**	**909**	**1 865**	**1 014**
For the year ended 31 December 2009											
Revenue from external customers:	**17 996**	**21 382**	**2 820**	**17 482**	**5 642**	**5 416**	**9 315**	**2 066**	**10 843**	**3 204**	**96 166**
- Income from loans and advances to customers, due from other banks and other placed funds	17 613	20 149	2 609	16 521	5 284	5 151	8 812	1 949	10 161	3 042	91 291
- Fee and commission income from credit related operations	383	1 233	211	961	358	265	503	117	682	162	4 875
Gains less losses / (losses net of gains) arising from securities	2 202	(17)	(2)	(14)	3	(1)	10	(1)	1	-	2 181
Net interest and commissions from current/correspondent/settlement accounts	(49)	474	95	350	127	497	231	45	158	99	2 027
Expenses from due to other banks, term deposits and other borrowed funds	(55 754)	(2 502)	(410)	(1 396)	(758)	(345)	(752)	(155)	(500)	(340)	(62 912)
Provision charge for impairment	(176)	(3 543)	(787)	(6 065)	(655)	(1 722)	(2 000)	(594)	(1 628)	(600)	(17 770)
Administrative and Maintenance expense	(3 594)	(3 527)	(1 029)	(3 096)	(1 146)	(1 319)	(2 408)	(534)	(797)	(761)	(18 211)
Intersegment income and expense*	**45 829**	**(11 846)**	**(1 512)**	**(10 468)**	**(3 319)**	**(3 221)**	**(5 300)**	**(1 281)**	**(6 876)**	**(2 006)**	**-**
Profit/(loss) of reportable segments	**(40 233)**	**12 331**	**694**	**7 302**	**3 259**	**2 561**	**4 445**	**832**	**8 144**	**1 593**	**928**
Total assets											
31 December 2010	1 183 530	311 373	44 238	237 058	99 122	94 890	131 428	26 113	150 337	47 362	2 325 451
31 December 2009	1 054 144	232 220	34 169	184 657	81 029	67 392	98 221	20 402	108 797	36 094	1 917 125

***** Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

32 Segment Analysis (Continued)

The amount of additions/(disposals) in premises and equipment and land for the reporting period ended 31 December 2010 and 31 December 2009 is as follows:

In millions of Russian Roubles	2010	2009
Additions/(disposals)*		
Head office	126	(24)
Central federal district	4 156	528
Far Eastern federal district	86	136
Volga federal district	1 316	343
North-West federal district	145	1 282
North-Caucasian federal district	110	899
Siberian federal district	494	371
Ural federal district	43	165
Krasnodar branch	35	113
Southern federal district (without Krasnodar branch)	34	57
Total additions/(disposals)	**6 545**	**3 870**

* including revaluation as at 31 December 2010 and 31 December 2009

(d) Reconciliation of reportable segment revenues, profit or loss and assets

Reconciliation of profit and assets of the reporting segments for the reporting period ended 31 December 2010 and 31 December 2009 is as follows:

In millions of Russian Roubles	2010	2009
Total profit of reportable segments (after tax)	**1 014**	**928**
Adjustments of deferred tax	1 479	1 190
Adjustments of provisions for impairment	1 300	3 369
Accounting for derivative financial instruments at fair value	(960)	(4 386)
Losses less gains from revaluation of other financial assets at fair value through profit and loss	(734)	285
Other expenses from non-reportable segments, including the effect of consolidation*	(636)	(296)
Accounting for financial assets and liabilities carried at amortised cost	(482)	(1150)
Revenue of non-reportable segments, including the effect of consolidation*	(307)	(239)
Revaluation of premises	23	(39)
Carrying value of guaranties issued	-	182
Other	(328)	407
The Group's profit under IFRS (after tax)	**369**	**251**
Assets of reportable segments	**2 325 451**	**1 917 125**
Elimination of settlements between branches	(1 228 300)	(931 026)
Elimination of back-to-back deposits	(105 506)	(128 134)
Provision for loan impairment	(57 052)	(29 957)
Assets of non-reportable segments, including the effect of consolidation*	1 737	6 795
Other	(5 530)	(4 139)
The Group's assets under IFRS	**930 800**	**830 664**

* Non-reportable segments are represented by subsidiaries of the Group.

32 Segment Analysis (Continued)

Reconciliation of material items of income and expenses for the years ended 31 December 2010 and 31 December 2009 is as follows:

In millions of Russian Roubles	2010	2009
Total revenue of reportable segments from external customers	**109 169**	**96 166**
Reclassification of income related to back-to-back deposits to income from derivative financial instruments	(7 144)	(7 766)
Reclassification of income not included in segment revenue	7 682	9 442
Interest income related to effective interest rate implication	(966)	(1 391)
Revenue of non-reportable segments, including the effect of consolidation*	(307)	(239)
Other	(16)	178
The Group's revenue under IFRS	**108 418**	**96 390**
Total expenses from due to other banks, term deposits and other borrowed funds of reportable segments	**(52 772)**	**(62 912)**
Reclassification of expense related to back-to-back deposits to expense from derivative financial instruments	9 512	10 859
Interest expense related to the securities issued by the Bank	(9 526)	(6 194)
Effective interest rate adjustments	(628)	114
Results of non-reportable segments, including the effect of consolidation*	82	84
Other	(51)	(20)
The Group's interest expense under IFRS	**(53 383)**	**(58 069)**
Provision charge for impairment	**(27 793)**	**(17 770)**
Accounting for provision under IFRS	1 300	3 566
Accounting for provision for litigation	200	(200)
Provision related to consolidated companies, including the effect of consolidation*	(2 022)	664
The Group's provision for impairment	**(28 315)**	**(13 740)**
Administrative and Maintenance expenses of reportable segments	**(23 086)**	**(18 211)**
Reclassification of results from loan restructuring	1 121	-
Taxes other than income tax and charity expense	(980)	(1 012)
Expense of non-reportable segments, including the effect of consolidation*	(341)	(524)
Accrued staff costs	(132)	(174)
Other	(166)	(78)
The Group's administrative and other operating expenses under IFRS	**(23 584)**	**(19 999)**

* Non-reportable segments are represented by subsidiaries of the Group.

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

32 Segment Analysis (Continued)

- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 36. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

- Adjustments to fair value of securities resulted from application of different valuation techniques and input data.

- Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method.

- There is no concept of deferred tax accounting in RAR for credit organizations.

- Reclassification of income non included in segment revenue mainly related to interest income from securities.

- Interest income and interest expense under IFRS are accounted using the effective interest rate method.

- Balances of intercompany settlements related to regional branches of the Bank are presented in assets and liabilities, while in IFRS such balances are shown on a net basis.

All other differences also resulted from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major Customers

The Group does not have any customer, from which it earns revenue representing 10% of more of the total revenues.

33 Financial Risk Management

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, and also by separate structural divisions and executives on the basis of their competence.

The Department for Risks Evaluation and Monitoring (hereinafter, the DREM) is responsible for risk control and evaluation and performs its functions independently from business units. The DREM is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

The Bank's authorized bodies on a regular basis consider the Bank's performance, approve and adjust actions in order to reveal and minimize negative consequences on early stages.

33 Financial Risk Management (Continued)

In order to ensure stable operation of the Bank in a post-recession period and drought after summer 2010, the Bank took the following priority steps.

For its lending activities the Bank developed "Priority Areas of the Credit Policy of OAO Rosselkhozbank for 2010" documents, which are an addition to the existing Credit Policy of the Bank for 2008-2012. The Bank's lending regulations were amended in order to improve the credit portfolio quality and mitigate credit risks. These amendments provide, in particular, for inclusion of cooperation with a credit history bureau into the lending business process, also specific actions were taken to ensure appropriate quality of monitoring of loans issued. A vertically-arranged unit for risk assessment and control in the Bank's regional branches was established in order to carry out independent control of the level of risks taken by the branches and additional offices. The role of risk managers in taking lending decisions was enhanced.

The Bank took a set of measures aimed at intensification of actions with regard to non-performing loans and certain steps were taken to establish an infrastructure providing for various actions resolving issues in the area of non-performing loans.

The Bank's Supervisory Board approved Funding program for 2011 specifying sources, volume and timing of funding for Bank. The Head Office tightened its control over target use of the allocated resources in priority areas and over compliance with established limits. The Bank approved and applied additional control measures for liquidity control, which include estimated liquidity indicators. These indicators allowed to timely identify imbalances between the volume of claims and liabilities of the Bank in different time intervals and to promptly identify the necessity of management actions.

To exclude the possibility of losses from transactions in the interbank market the Bank ensured control over the credit risk level of counterparty banks and significantly optimised the limits for transactions with the counterparties. The Bank performs stress-testing of exposed credit and market risks of quarterly basis.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 35.

The credit risk approval competencies in 2010 and 2009 are determined as follows:

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 4 000 million (2009: RR 2 000 million till August 2009, RR 4 000 million after August 2009).

- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 4 000 million (2009: RR 2 000 million till August 2009, RR 4 000 million after August 2009) .

- The Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 500 million till February 2010, RR 1 000 million since February 2010 till April 2010, RR 2 000 million since April 2010 (2009: RR 500 million).

33 Financial Risk Management (Continued)

- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.

- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration per one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

In selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);

- lending to borrowers with different specialisation in different regions;

- a combination of several types of production in one entity typical for agricultural producers;

- diversification of investments in effective and reliable projects of other economic sectors;

- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products. The market risk of the subsidiary bank is estimated to be non material due to proportion and structure of its assets and liabilities.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes) and developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

33 Financial Risk Management (Continued)

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and the DREM within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board or the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, for providing information for assigning credit ratings by international rating agencies and for regulators rests with the DREM.

The DREM's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Department of Accounting and Monitoring of Banking Operations are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The DREM jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

Limits are regularly reviewed by the Bank's authorised bodies, and the DREM monitors limits and reports information on compliance with the set limits to the Bank's management. The DREM also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The DREM is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures); and
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

33 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on RAR with the assumption of stability of the structure of the Bank's assets and liabilities.

The table below summarises the Group's exposure to interest rate risk at 31 December 2010 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	83 313	83 673	105 389	171 807	245 424	252 650	942 256
Total interest bearing financial liabilities*	100 699	111 641	132 739	163 084	151 178	183 152	842 493
Sensitivity gap	**(17 386)**	**(27 968)**	**(27 350)**	**8 723**	**94 246**	**69 498**	**99 763**
Cummulative sensitivity gap	**(17 386)**	**(45 354)**	**(72 704)**	**(63 981)**	**30 265**	**99 763**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

33 Financial Risk Management (Continued)

For the year ended 31 December 2010, if interest rates at that date had been 100 basis points lower with all other variables held constant, net interest income for the year would have been RR 592 million higher (2009: RR 412 million higher); other components of equity (pre-tax) would have been RR 303 million higher (2009: RR 78 million higher), as a result of an increase in the fair value of fixed interest rate debt investments classified as available for sale.

For the year ended 31 December 2010, if interest rates at that date had been 100 basis points higher with all other variables held constant, net interest income for the year would have been RR 592 million lower (2009: RR 412 million lower); other components of equity (pre-tax) would have been RR 303 million lower (2009: RR 78 million lower), as a result of a decrease in the fair value of fixed interest rate debt investments classified as available for sale.

The table below summarises the Group's exposure to interest rate risk at 31 December 2009 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	107 776	80 160	130 588	136 170	216 472	214 735	885 901
Total interest bearing financial liabilities*	125 590	160 428	94 717	89 655	105 491	207 247	783 128
Sensitivity gap	**(17 814)**	**(80 268)**	**35 871**	**46 515**	**110 981**	**7 488**	**102 773**
Cummulative sensitivity gap	**(17 814)**	**(98 082)**	**(62 211)**	**(15 696)**	**95 285**	**102 773**	

* Total interest-bearing financial assets and total interest-bearing financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

33 Financial Risk Management (Continued)

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

	2010				2009			
In % p.a.	**RR**	**US Dollars**	**Euros**	**Other**	**RR**	**US Dollars**	**Euros**	**Other**
Assets								
Cash and cash equivalents*	3	1	-	-	10	-	-	-
Mandatory cash balances with the CBRF	0	-	-	-	0	-	-	-
Debt trading securities and appropriate repurchase receivables	12	-	-	-	12	-	-	-
Financial instruments designated at fair value through profit or loss	12	10	-	-	12	12	-	-
Due from other banks*	-	8	-	-	10	8	-	-
Loans and advances to customers	14	9	10	7	16	11	10	7
Debt investment securities available for sale and appropriate repurchase receivables	8	6	-	-	16	8	-	-
Debt investment securities held to maturity	8	6	-	-	7	7	-	-
Liabilities								
Due to other banks*	7	8	3	5	8	8	3	5
Customer accounts*	7	7	6	-	11	7	7	-
Promissory notes issued	6	1	5	-	11	-	5	-
Other borrowed funds	9	8	-	6	11	8	-	5
Syndicated loans	-	-	-	-	-	1	-	-
Subordinated debts	7	6	-	-	8	6	-	-

* disclosed rates on term deposits

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the DREM to the Bank’s management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VaR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VaR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VaR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VaR shows the maximum possible loss as per RR 1 of investments, and absolute VaR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

33 Financial Risk Management (Continued)

VaR is calculated by two different parametric methods and one historical method and, subsequently, the most adequate evaluation is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a monthly basis.

Although VaR is a valuable tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VaR; and
- VaR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VaR and Expected ShortFall methods.

In millions of Russian Roubles		**2010**	**2009**
At period end	Short position	(1 068)	(1 249)
	VAR	9	16
	Expected ShortFall	11	26

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions.

Possible changes in financial results and equity during one day as a result of possible fluctuations in stock quotations, evaluated on the basis of VaR and Expected ShortFall methods are negligible as at 31 December 2010 and 31 December 2009.

33 Financial Risk Management (Continued)

Geographical risk concentration.

The geographical concentration of the Group's assets and liabilities at 31 December 2010 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	80 504	496	10	81 010
Mandatory cash balances with the CBRF	3 468	-	-	3 468
Trading securities	3 563	-	-	3 563
Repurchase receivables	15 240	-	-	15 240
Financial instruments designated at fair value through profit or loss	-	9 686	-	9 686
Derivative financial instruments	42	20 579	-	20 621
Due from other banks	5 777	24 566	4 134	34 477
Loans and advances to customers	688 556	-	-	688 556
Investment securities available for sale	15 687	-	-	15 687
Investment securities held to maturity	14 922	-	-	14 922
Deferred income tax asset	1 930	-	-	1 930
Intangible assets	1 563	-	-	1 563
Premises and equipment	25 985	-	-	25 985
Current income tax prepayment	191	-	-	191
Other assets	11 050	1	1	11 052
Assets of the disposal groups held for sale	2 847	2	-	2 849
Total assets	**871 325**	**55 330**	**4 145**	**930 800**
Liabilities				
Derivative financial instruments	31	510	-	541
Due to other banks	31 825	73 498	255	105 578
Customer accounts	375 817	7 473	2 989	386 279
Promissory notes issued	9 874	-	-	9 874
Other borrowed funds	88 457	169 102	-	257 559
Deferred income tax liability	1 405	-	-	1 405
Current income tax liability	17	-	-	17
Other liabilities	4 389	-	-	4 389
Subordinated debts	25 000	21 545	-	46 545
Liabilities directly associated with disposal groups held for sale	1 014	1	-	1 015
Total liabilities	**537 829**	**272 129**	**3 244**	**813 202**
Net position in on-balance sheet positon	**333 496**	**(216 799)**	**901**	**117 598**
Credit related commitments	**1 155**	**-**	**-**	**1 155**

* OECD – Organisation for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located.Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

33 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2009 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	47 422	47 534	2	94 958
Mandatory cash balances with the CBRF	2 974	-	-	2 974
Trading securities	18 022	-	-	18 022
Repurchase receivables	3 467	-	-	3 467
Financial instruments designated at fair value through profit or loss	-	4 070	-	4 070
Derivative financial instruments	-	28 289	-	28 289
Due from other banks	6 069	24 380	7 343	37 792
Loans and advances to customers	584 407	-	-	584 407
Investment securities available for sale	7 800	-	-	7 800
Investment securities held to maturity	7 732	-	-	7 732
Deferred income tax asset	400	-	-	400
Goodwill	298	-	-	298
Intangible assets	1 023	-	-	1 023
Premises and equipment	27 446	-	-	27 446
Current income tax prepayment	229	-	-	229
Other assets	11 269	1	487	11 757
Total assets	**718 558**	**104 274**	**7 832**	**830 664**
Liabilities				
Derivative financial instruments	37	130	-	167
Due to other banks	104 371	87 320	319	192 010
Customer accounts	230 303	-	-	230 303
Promissory notes issued	12 567	-	-	12 567
Other borrowed funds	57 643	158 841	-	216 484
Syndicated loans	-	7 570	-	7 570
Deferred income tax liability	1 815	-	-	1 815
Other liabilities	7 841	1	-	7 842
Subordinated debts	25 000	21 370	-	46 370
Total liabilities	**439 577**	**275 232**	**319**	**715 128**
Net position in on-balance sheet positon	**278 981**	**(170 958)**	**7 513**	**115 536**
Credit related commitments	**36 927**	**-**	**-**	**36 927**

* OECD – Organisation for Economic Cooperation and Development.

***Liquidity risk*.** Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Group manages liquidity risk on the basis of the following principles:

- segregation of duties between the Groups's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Group's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system; and
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

33 Financial Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each end of reporting period.

The Group manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- setting limits on asset-side transactions by types of investments;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Group's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Group maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in russian roubles and other currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

The Group develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Group's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board and Resource Committee.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Group's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2010 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

33 Financial Risk Management (Continued)

The maturity analysis of undiscounted financial liabilities at 31 December 2010 is as follows:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 180 days**	**Due between 181 days and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Total**
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(308)	(8 877)	(36 045)	(23 664)	(81 748)	(150 642)
- outflow	377	9 362	34 439	23 540	75 238	142 956
Net settled derivative financial instruments (liabilities)	31	-	-	-	-	31
Due to other banks	21 753	9 458	7 285	61 787	27 659	127 942
Customer accounts	119 173	161 625	91 715	18 920	7 604	399 037
Promissory notes issued	855	2 046	5 785	1 167	700	10 553
Other borrowed funds	762	21 504	29 652	127 663	144 492	324 073
Subordinated debts	-	1 003	17 075	9 409	34 714	62 201
Other financial liabilities	1 498	-	797	27	435	2 757
Off-balance sheet financial liabilities						
Guarantees issued	89	143	36	27	25	320
Letters of credit	42	691	102	-	-	835
Other credit related commitments*	24 497	-	-	-	-	24 497
Total potential future payments for financial obligations	**168 769**	**196 955**	**150 841**	**218 876**	**209 119**	**944 560**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

33 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(1 114)	(87 967)	(3 797)	(47 515)	(110 071)	(250 464)
- outflow	1 391	85 313	4 955	46 457	102 743	240 859
Net settled derivative financial instruments (liabilities)	37	-	-	-	-	37
Due to other banks	33 076	70 762	29 975	21 200	60 689	215 702
Customer accounts	94 714	80 392	49 260	13 339	614	238 319
Promissory notes issued	214	995	11 146	1 183	472	14 010
Other borrowed funds	756	34 221	23 257	66 366	161 007	285 607
Syndicated loans	-	7 597	-	-	-	7 597
Subordinated debts	-	1 090	2 104	26 437	38 956	68 587
Other financial liabilities	728	1 889	2 432	258	190	5 497
Off-balance sheet financial liabilities						
Sureties issued	35 059	-	-	-	-	35 059
Guarantees issued	68	133	-	21	25	247
Letters of credit	19	40	166	509	-	734
Other credit related commitments*	23 313	-	-	-	-	23 313
Total potential future payments for financial obligations	**188 261**	**194 465**	**119 498**	**128 255**	**254 625**	**885 104**

* Other credit related commitments include cancellable commitments, which are dependent on borrowers' compliance with certain creditworthiness criteria.

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 35.

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

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

33 Financial Risk Management (Continued)

The table below summarizes analysis of liquidity risk at 31 December 2010:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	138 516	77 425	106 128	175 921	255 616	258 207	42 489	1 054 302
Total financial liabilities*	143 975	99 962	89 495	164 073	188 906	229 389	-	915 800
Net liquidity gap	**(5 459)**	**(22 537)**	**16 633**	**11 848**	**66 710**	**28 818**	**42 489**	**138 502**
Cumulative liquidity gap	**(5 459)**	**(27 996)**	**(11 363)**	**485**	**67 195**	**96 013**	**138 502**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2009:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	142 639	72 699	136 582	136 989	226 337	222 204	20 882	958 332
Total financial liabilities*	132 041	143 681	90 059	95 385	114 886	260 471	-	836 523
Net liquidity gap	**10 598**	**(70 982)**	**46 523**	**41 604**	**111 451**	**(38 267)**	**20 882**	**121 809**
Cumulative liquidity gap	**10 598**	**(60 384)**	**(13 861)**	**27 743**	**139 194**	**100 927**	**121 809**	

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

33 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the liquidity risks of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

34 Management of Capital

The Group's objectives when managing capital are

i. to comply with the capital requirements set by the Central Bank of the Russian Federation;

ii. to ensure the Group's ability to continue as a going concern; and

iii. to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% 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 2005), commonly known as Basel II.

Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

Under the current capital requirements set by the Central Bank of the Russian Federation banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Bank's report prepared under Russian accounting standards and comprises:

In millions of Russian Roubles	**2010**	**2009**
Net assets under Russian legislation	112 726	111 126
Revaluation reserve	1 763	1 543
Subordinated debts	46 334	46 171
Investments in subsidiaries	(10 854)	(1 888)
Other	(136)	(130)
Total regulatory capital	**149 833**	**156 822**

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel Accord.

The composition of the Group's capital calculated based on IFRS in accordance with Basel Accord is as follows:

In millions of Russian Roubles	**2010**	**2009**
Share capital	108 798	106 973
Retained earnings	6 851	6 572
Goodwill	-	(298)
Total tier 1 capital	115 649	113 247
Revaluation reserves	832	848
Subordinated debts	46 545	46 370
Total tier 2 capital	47 377	47 218
Total capital	**163 026**	**160 465**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Central Bank of the Russian Federation and loan covenants.

35 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received by court in justice. As at 31 December 2010, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these consolidated financial statements (2009: Group was engaged in the litigation in relation to restitution of an assignment agreement with a borrower. A provision of RR 200 million was created by the management for this litigation. This provision was released in 2010).

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

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

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with related parties (according to the definition given in the Russian Tax Code), all international transactions (irrespective whether performed between related or unrelated parties), transactions where the price per taxpayer differs by more than 20% from the similar transaction's price of the same taxpayer within a short period of time, and barter transactions. There is no formal guidance how to apply these rules in practice. The past years' arbitration court practice with this respect has been contradictory.

The Management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as at 31 December 2010 the Management has not created any provision for potential tax liabilities (2009: nil).

Capital expenditure commitments. At 31 December 2010, the Group had contractual capital expenditure commitments of RR 307 million (2009: RR 175 million).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In millions of Russian Roubles	**2010**	**2009**
Not later than 1 year	1 676	1 531
Later than 1 year and not later than 5 years	3 679	3 591
Later than 5 years	2 391	2 713
Total operating lease commitments	**7 746**	**7 835**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

35 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, sureties 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 authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2010**	**2009**
Letters of credit	835	734
Guarantees issued	320	247
Sureties issued	-	35 059
Undrawn credit lines	-	887
Total credit related commitments	**1 155**	**36 927**

As at 31 December 2009, sureties issued represented financial guaranties for loans from the Central Bank of the Russian Federation, received by two large Russian banks. There were no such sureties issued as at 31 December 2010.

The total outstanding contractual amount of sureties issued, undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

In 2010 no provision for losses on credit related commitments was created (2009: nil).

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**2010**	**2009**
US Dollars	508	60
Russian Roubles	356	36 189
Euros	291	605
Other currencies	-	73
Total	**1 155**	**36 927**

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

35 Contingencies and Commitments (Continued)

The fiduciary assets fall into the following categories:

In millions of Russian Roubles	2010	2009
Corporate bonds held with the National Settlement Depository	3 564	2 677
Promissory notes issued by the Bank	803	599
Shares and bonds of companies held with other depositories	184	41
Promissory notes and securities of Russian companies held with the Bank	-	220
Subfederal bonds held with the National Settlement Depository	-	132
Corporate shares held with the National Settlement Depository	-	1

Assets pledged and restricted. The Group had assets pledged as follows:

In millions of Russian Roubles	Note	2010	2009
Under secured loans from the CBRF			
- loans to customers		7 101	48 125
- trading securities		-	5 760
- securities available for sale		-	1 628
- securities held to maturity		-	5 016
Under term deposits from clients:			
- State Eurobonds	19	6 682	-
Under repo agreements			
- Corporate bonds	9	12 547	3 410
- State Eurobonds	9	2 658	-
- Municipal and subfederal bonds	9	35	57

As at 31 December 2010, mandatory cash balances with the CBRF of RR 3 468 million (2009: RR 2 974 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2010, the Bank's subsidiaries pledged production premises and equipment under loan agreements with other banks at the total amount of RR 1 863 million (2009: RR 1 790 million).

36 Derivative Financial Instruments

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

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

Foreign exchange swaps with settlement dates of more than 30 days are structured as loans issued in US Dollars, Swiss Francs and Japanese yen to four OECD banks with maturities from February 2011 to May 2023 and deposits in Russian Roubles received from the same four banks with the same maturities ("back to back loans"). These transactions were aimed at economically hedging the currency exposure of the Group.

International credit rankings of these banks were not less than BB- as at 31 December 2010 (2009: not less than BB-).

36 Derivative Financial Instruments (Continued)

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (including bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring of any Bank's obligation on its debts, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. No further mutual payment obligation between the parties is due, if a credit event or default event happens and the Group receives a formal Event Notice from its counterparty. Other of these swap agreements, in the case of a default event, will be terminated with a mark-to-market payment.

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2010 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	95 172	21 373	116 545
RR payable on settlement (-)	(76 548)	(21 883)	(98 431)
CHF receivable on settlement (+)	5 313	-	5 313
RR payable on settlement (-)	(3 824)	-	(3 824)
JPY receivable on settlement (+)	4 364	-	4 364
RR payable on settlement (-)	(3 898)	-	(3 898)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	31	3 954	3 985
USD payable on settlement (-)	(31)	(3 966)	(3 997)
USD receivable on settlement (+)	13 340	8 848	22 188
RR payable on settlement (-)	(13 300)	(8 865)	(22 165)
Foreign exchange forwards with settlement dates of more than 30 days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	917	4 582	5 499
RR payable on settlement (-)	(915)	(4 584)	(5 499)
Total net fair value	**20 621**	**(541)**	**20 080**

36 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2009 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	163 198	-	163 198
USD payable on settlement (-)	(30 011)	-	(30 011)
RR receivable on settlement (+)	25 130	-	25 130
RR payable on settlement (-)	(133 987)	-	(133 987)
Euros receivable on settlement (+)	-	3 317	3 317
RR payable on settlement (-)	-	(3 429)	(3 429)
CHF receivable on settlement (+)	16 098	-	16 098
RR payable on settlement (-)	(12 209)	-	(12 209)
JPY receivable on settlement (+)	1 761	1 806	3 567
RR payable on settlement (-)	(1 694)	(1 824)	(3 518)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	2 780	3 586	6 366
USD payable on settlement (-)	(2 777)	(3 622)	(6 399)
USD receivable on settlement (+)	-	272	272
RR payable on settlement (-)	-	(273)	(273)
Term contracts on sale of securities: fair value at the end of the reporting period			
RR receivable on settlement (+)	-	187	187
Short position (-)	-	(187)	(187)
Total net fair value	**28 289**	**(167)**	**28 122**

As at 31 December 2010 receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 52 878 million and RR 43 137 million, respectively, or 42% of total receivables or 41% of total payables on settlement of foreign exchange swaps (2009: RR 84 345 million and RR 68 156 million, respectively, or 40% of total receivables or 37% of total payables on settlement of foreign exchange swaps).

37 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is the quotation of the financial instrument in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

37 Fair Value of Financial Instruments (Continued)

Financial instruments carried at fair value. Trading securities, securities available for sale, securities categorised as “repurchase receivables” are carried on the consolidated statement of financial position at their fair value based on quoted market prices.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities is based on market prices/dealer price quotations.

Liabilities carried at amortised cost. The fair value of other borrowed funds is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2010	**2009**
Due from other banks		
Short-term placements with other banks with original maturity more than one month	3% - 12%	7% - 15%
Loans and advances to customers		
Corporate loans	6% - 16%	9% - 21%
Loans to individuals	9% - 22%	8% - 25%
Securities held to maturity	3% - 9%	3% - 13%
Due to other banks	1% - 9%	1% - 11%
Customer accounts		
Term deposits of legal entities	1% - 13%	2% - 15%
Term deposits of individuals	1% - 7%	2% - 13%
Promissory notes issued	2% - 11%	2% - 15%
Syndicated loans	-	1%
Subordinated debts	2% - 7%	2% - 8%

37 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments carried at amortised cost and at fair value

	2010		2009	
In millions of Russian Roubles	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents	81 010	81 010	94 958	94 958
Mandatory cash balances with the CBRF	3 468	3 468	2 974	2 974
Due from other banks	34 477	36 835	37 792	37 792
Loans and advances to customers				
- Loans to corporates	560 616	569 632	475 129	466 428
- Lending for food interventions	44 514	44 514	42 666	42 666
- Reverse repo agreements	-	-	894	894
- Investments in agricultural cooperatives	632	632	694	694
- Loans to individuals	82 794	83 945	65 024	64 271
Investment securities held to maturity	14 922	14 753	7 732	7 283
Other financial assets	3 973	3 973	4 168	4 168
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**826 406**	**838 762**	**732 031**	**722 128**
FINANCIAL ASSETS CARRIED AT FAIR VALUE	**64 797**	**64 797**	**61 648**	**61 648**
TOTAL FINANCIAL ASSETS	**891 203**	**903 559**	**793 679**	**783 776**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Term borrowings from other banks	101 484	110 102	121 800	121 800
- Term borrowings from the CBRF	3 853	3 853	70 126	70 126
- Correspondent accounts and overnight placements of other banks	241	241	84	84
Customer accounts				
- State and public organisations	79 633	79 633	57 818	57 818
- Other legal entities	178 955	178 955	91 138	91 138
- Individuals	127 691	128 673	81 347	81 676
Promissory notes issued	9 874	9 874	12 567	12 567
Other borrowed funds				
- Eurobonds issued	169 102	179 233	158 841	169 636
- Bonds issued on domestic market	88 457	90 899	57 643	58 769
Syndicated loans	-	-	7 570	7 570
Other financial liabilities	2 757	2 757	5 486	5 486
Subordinated debts	46 545	46 665	46 370	46 310
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**808 592**	**830 885**	**710 790**	**722 980**
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**541**	**541**	**167**	**167**
TOTAL FINANCIAL LIABILITIES	**809 133**	**831 426**	**710 957**	**723 147**

37 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value

Analysis of financial instruments at fair value at 31 December 2010 is as follows:

In million of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading securities	3 563	-	3 563
Repurchase receivables	15 240	-	15 240
Financial instruments designated at fair value through profit or loss	-	9 686	9 686
Investment securities available for sale	15 687	-	15 687
Derivative financial instruments assets	-	20 621	20 621
Financial liabilities			
Derivative financial instruments liabilities	-	(541)	(541)

Analysis of financial instruments at fair value at 31 December 2009 is as follows:

In million of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading securities	18 022	-	18 022
Repurchase receivables	3 467	-	3 467
Financial instruments designated at fair value through profit or loss	-	4 070	4 070
Investment securities available for sale	7 800	-	7 800
Derivative financial instruments assets	-	28 289	28 289
Financial liabilities			
Derivative financial instruments liabilities	-	(167)	(167)

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) at 31 December 2010 (2009: nil).

38 Presentation of Financial Instruments by Measurement Category

According to the IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Held-to-maturity assets**	**Total**
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	16 101	-	-	-	-	16 101
- cash balances with the CBRF (other than mandatory reserve deposits)	37 361	-	-	-	-	37 361
- correspondent accounts and placements with other banks with original maturities of less than one month	27 548	-	-	-	-	27 548
Mandatory cash balances with the CBRF	3 468	-	-	-	-	3 468
Trading securities						
- Debt securities	-	-	3 563	-	-	3 563
Repurchase receivables	-	14 622	618	-	-	15 240
Financial instruments designated at fair value through profit or loss	-	-	-	9 686	-	9 686
Derivative financial instruments	-	-	20 621	-	-	20 621
Due from other banks	34 477	-	-	-	-	34 477
Loans and advances to customers						
- Loans to corporates	560 616	-	-	-	-	560 616
- Lending for food interventions	44 514	-	-	-	-	44 514
- Investments in agricultural cooperatives	632	-	-	-	-	632
- Loans to individuals	82 794	-	-	-	-	82 794
Investment securities available for sale	-	15 687	-	-	-	15 687
Investment securities held to maturity	-	-	-	-	14 922	14 922
Other financial assets	3 973	-	-	-	-	3 973
TOTAL FINANCIAL ASSETS	**811 484**	**30 309**	**24 802**	**9 686**	**14 922**	**891 203**
Non-financial assets						**39 597**
TOTAL ASSETS	**811 484**	**30 309**	**24 802**	**9 686**	**14 922**	**930 800**

38 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2009.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial assets designated at fair value through profit or loss	Held-to-maturity assets	Total
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	12 373	-	-	-	-	12 373
- cash balances with the CBRF (other than mandatory reserve deposits)	17 691	-	-	-	-	17 691
- correspondent accounts and placements with other banks with original maturities of less than one month	64 894	-	-	-	-	64 894
Mandatory cash balances with the CBRF	2 974	-	-	-	-	2 974
Trading securities						
- Debt securities	-	-	18 022	-	-	18 022
Repurchase receivables	-	-	3 467	-	-	3 467
Financial instruments designated at fair value through profit or loss	-	-	-	4 070	-	4 070
Derivative financial instruments	-	-	28 289	-	-	28 289
Due from other banks	37 792	-	-	-	-	37 792
Loans and advances to customers						
- Loans to corporates	475 129	-	-	-	-	475 129
- Lending for food interventions	42 666	-	-	-	-	42 666
- Reverse repo agreements	894	-	-	-		894
- Investments in agricultural cooperatives	694	-	-	-	-	694
- Loans to individuals	65 024	-	-	-	-	65 024
Investment securities available for sale	-	7 800	-	-	-	7 800
Investment securities held to maturity	-	-	-	-	7 732	7 732
Other financial assets	4 168	-	-	-	-	4 168
TOTAL FINANCIAL ASSETS	**724 299**	**7 800**	**49 778**	**4 070**	**7 732**	**793 679**
Non-financial assets						**36 985**
TOTAL ASSETS	**724 299**	**7 800**	**49 778**	**4 070**	**7 732**	**830 664**

All of the Group's financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

39 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note 1).

The Group has early adopted and used the exemption allowed by amendment to IAS 24 from the disclosures required in relation to related parties transactions and outstanding balance with government controlled entities (Issued in November 2009; effective for annual periods beginning on or after 1 January 2011).

In these consolidated financial statements the most significant balances (in the aggregate amount of more then RR 1 000 million) with related parties controlled by the Russian State are disclosed.

In millions of Russian Roubles	**2010**	**2009**
Loans and advances to customers		
State-controlled companies (contractual interest rate: 7%-12% p.a. (2009: 7%-12% p.a.))	45 937	44 794
Key management and their family members (contractual interest rate: 5% p.a. (2009: 5%-22% p.a.))	21	32
Provision for loan impairment at the year end		
State-controlled companies	(8)	(9)
Customer accounts		
State-controlled companies (contractual interest rate for term deposits 1%-9% p.a. (2009: 7%-16% p.a.))	89 763	64 438
Key management and their family members (contractual interest rate for term deposits: 1%-7% p.a. (2009: 2%-13% p.a.))	235	532
Subordinated debts (contractual interest rate 6.5% p.a. (2009: 8.0% p.a.))	25 000	25 000
Off-balance sheet		
Sureties with state-controlled banks	-	35 059

The income and expense items with related parties were as follows:

In millions of Russian Roubles	**2010**	**2009**
Interest income on loans and advances to customers		
State-controlled companies	3 458	3 907
Key management and their family members	1	2
Interest expense on customer accounts		
State-controlled companies	(5 169)	(11 814)
Key management and their family members	(36)	(47)
Interest expense on subordinated debts		
State-controlled companies	(1 867)	(2 000)

39 Related Party Transactions (Continued)

The Group has the following collectively insignificant transactions with related parties:

- interest income on cash equivalents, trading securities, investment securities available for sale, investment securities held to maturity, due from other banks;
- interest expense on due to other banks;
- results from operation with trading securities and available for sale;
- other.

In 2010 and 2009, the only transactions with the shareholder were dividends and taxes paid. Refer to Note 30 and 31.

Key management of the Group represents members of the Management Board of the Bank and Chief Accountant. In 2010, the total remuneration of the key management was RR 139 million (2009: RR 155 million).

	2010		2009	
In millions of Russian Roubles	**Remuneration paid**	**Accrued liability**	**Remuneration paid**	**Accrued liability**
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	118	6	132	13
Post-employment benefits:				
- Defined contribution retirement scheme	14	-	9	-
- State pension and social costs	1	-	1	-
Total	**133**	**6**	**142**	**13**

Short-term bonuses fall due wholly within twelve months after the end of the period, in which management rendered the related services.

40 Disposal Groups Classified as Held for Sale

Major classes of assets of the disposal groups held for sale are as follows:

In millions of Russian Roubles	**2010**
Premises and equipment	2 122
Trade receivables	364
Inventory	125
Loans and advances to customers	93
Cash and cash equivalents	12
Other	133
Total assets of the disposal groups held for sale	**2 849**

40 Disposal Groups Classified as Held for Sale (Continued)

Major classes of liabilities directly associated with disposal groups held for sale are as follows:

In millions of Russian Roubles	**2010**
Trade payables	498
Deferred income tax liability	309
Due to other banks	158
Customer accounts	16
Other	34
Total liabilities directly associated with disposal groups held for sale	**1 015**

Cumulative income or expenses recognised in statement of comprehensive income relating to disposal groups classified as held for sale:

In millions of Russian Roubles	**2010**	**2009**
Sales of goods	1 363	839
Cost of goods sold	(1 240)	(729)
Administrative and other operating expenses	(199)	(203)
Interest income	93	141
Other	(14)	180
Total income directly associated with disposal groups held for sale	**3**	**228**

The Group actively markets these assets and expects the sale to complete by the end of 2011.

41 Events after the End of the Reporting Period

In March 2011 the Group issued Eurobonds denominated in Russian Roubles in the amount of RR 20 000 million with maturity in March 2016 with semi-annual payment of coupon income at 8.7% p.a. In April 2011 the Group placed additional issue of Eurobonds denominated in Russian Roubles in the amount of RR 12 000 million with semi-annual payment of coupon income at 8.7% p.a., increasing the total issue size to RR 32 000 million.

RUSSIAN AGRICULTURAL BANK GROUP

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2009

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position....1
Consolidated Statement of Comprehensive income....2
Consolidated Statement of Changes in Equity....3
Consolidated Statement of Cash Flows....4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Introduction....6
2 Operating Environment of the Group....6
3 Summary of Significant Accounting Policies....7
4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies....18
5 Adoption of New or Revised Standards and Interpretations....19
6 New Accounting Pronouncements....21
7 Cash and Cash Equivalents....24
8 Trading Securities and Repurchase Receivable....25
9 Other Financial Instruments at Fair Value Through Profit or Loss....29
10 Due from Other Banks....29
11 Loans and Advances to Customers....31
12 Investment Securities Available for Sale....37
13 Investment Securities Held to Maturity....40
14 Goodwill....41
15 Premises, Equipment and Intangible Assets....42
16 Other Assets....44
17 Due to Other Banks....45
18 Customer Accounts....46
19 Promissory Notes Issued....47
20 Other Borrowed Funds....47
21 Syndicated Loans....48
22 Other Liabilities....49
23 Subordinated Debts....49
24 Share Capital....50
25 Interest Income and Expense....50
26 Fee and Commission Income and Expense....51
27 Losses net of Gains from Non-banking Activities....51
28 Administrative and Other Operating Expenses....51
29 Income Taxes....52
30 Dividends....54
31 Segment Analysis....54
32 Financial Risk Management....58
33 Management of Capital....72
34 Contingencies and Commitments....73
35 Derivative Financial Instruments....75
36 Fair Value of Financial Instruments....78
37 Presentation of Financial Instruments by Measurement Category....82
38 Related Party Transactions....83
39 Principal Consolidated Subsidiaries and a Special Purpose Entity....86
40 Business Combinations....87
41 Events after the End of the Reporting Period....90

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Supervisory Board of Russian Agricultural Bank:

1 We have audited the accompanying consolidated financial statements of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
30 April 2010

In millions of Russian Roubles	Note	31 December 2009	31 December 2008
ASSETS			
Cash and cash equivalents	7	94 958	83 177
Mandatory cash balances with the Central Bank of the Russian Federation		2 974	963
Trading securities	8	18 022	17 668
Repurchase receivable	8	3 467	-
Other financial instruments at fair value through profit or loss	9	4 070	4 439
Derivative financial instruments	35	28 289	30 777
Due from other banks	10	37 792	96 880
Loans and advances to customers	11	584 407	452 301
Investment securities available for sale	12	7 800	4 793
Investment securities held to maturity	13	7 732	10 207
Deferred income tax asset	29	400	14
Goodwill	14	298	-
Intangible assets	15	1 023	741
Premises and equipment	15	27 446	8 932
Current income tax prepayment	29	229	177
Other assets	16	11 757	2 045
TOTAL ASSETS		**830 664**	**713 114**
LIABILITIES			
Derivative financial instruments	35	167	4 253
Due to other banks	17	192 010	243 102
Customer accounts	18	230 303	154 495
Promissory notes issued	19	12 567	9 845
Other borrowed funds	20	216 484	175 914
Syndicated loans	21	7 570	10 532
Deferred income tax liability	29	1 815	569
Other liabilities	22	7 842	1 106
Subordinated debts	23	46 370	45 540
TOTAL LIABILITIES		**715 128**	**645 356**
EQUITY			
Share capital	24	106 973	61 973
Revaluation reserve for premises		842	952
Revaluation reserve for investment securities available for sale		14	(1 504)
Retained earnings		6 572	6 337
Net assets attributable to the Bank's owners		**114 401**	**67 758**
Non-controlling interests		**1 135**	**-**
TOTAL EQUITY		**115 536**	**67 758**
TOTAL LIABILITES AND EQUITY		**830 664**	**713 114**

Approved for issue and signed on behalf of the Management Board on 30 April 2010.

Y.V. Trushin
Chairman of the Management Board

O.V. Nikonov
Chief Accountant

In millions of Russian Roubles	Note	2009	2008
Interest income	25	93 146	56 082
Interest expense	25	(58 069)	(29 520)
Net interest income		**35 077**	**26 562**
Provision for loan impairment	10, 11	(13 421)	(9 495)
Net interest income after provision for loan impairment		**21 656**	**17 067**
Fee and commission income	26	3 244	2 233
Fee and commission expense	26	(489)	(213)
Gains less losses arising from trading securities		106	174
Gains less losses/(losses net of gains) arising from other financial instruments at fair value through profit or loss		285	(1 079)
Foreign exchange translation losses net of gains		(2 515)	(32 106)
(Losses net of gains)/gains less losses from foreign exchange swaps with settlement dates of more than 30 days		(3 089)	33 009
Losses net of gains arising from other derivative financial instruments		(553)	(943)
Gains less losses arising from dealings in foreign currencies		472	259
Gains less losses arising from disposal of investment securities available for sale	12	528	4
Impairment of investment securities available for sale		(475)	-
Provision for other assets and litigation	16, 22	(319)	(36)
Gains from early redemption of other borrowed funds and buy-back of subordinated debts	20, 23	2 075	1 122
Losses net of gains from non-banking activities	27	(299)	-
Other operating income		212	103
Administrative and other operating expenses	28	(19 999)	(16 259)
Profit before tax		**840**	**3 335**
Income tax expense	29	(589)	(1 282)
Profit for the year		**251**	**2 053**
Other comprehensive income			
Securities available for sale:			
-Revaluation of securities at fair value	12	2 292	(1 881)
-Disposal of securities	12	(528)	3
-Impairment losses recycled to profit or loss		134	-
Revaluation of premises		(106)	24
Income tax recorded directly in other comprehensive income		(358)	419
Other comprehensive income for the year, net of tax		**1 434**	**(1 435)**
Total comprehensive income for the year		**1 685**	**618**
Profit is attributable to:			
Owners of the Bank		358	2 054
Non-controlling interests		(107)	(1)
Profit for the year		**251**	**2 053**
Total comprehensive income is attributable to:			
Owners of the Bank		1 792	619
Non-controlling interests		(107)	(1)
Total comprehensive income for the year		**1 685**	**618**

In millions of Russian Roubles	Note	Attributable to owners of the Bank: Share capital	Revaluation reserve for premises	Revaluation reserve for securities available for sale	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 31 December 2007		**28 478**	**911**	**(2)**	**4 435**	**33 822**	**1**	**33 823**
Total comprehensive income for the year, net of tax		-	67	(1 502)	2 054	619	(1)	618
Share issue	24	33 495	-	-	-	33 495	-	33 495
Realised revaluation reserve for premises, net of tax		-	(26)	-	26	-	-	-
Dividends declared	30	-	-	-	(178)	(178)	-	(178)
Balance at 31 December 2008		**61 973**	**952**	**(1 504)**	**6 337**	**67 758**	**-**	**67 758**
Total comprehensive income, net of tax		-	(84)	1 518	358	1 792	(107)	1 685
Share issue	24	45 000	-	-	-	45 000	-	45 000
Business combinations	40	-	-	-	-	-	1 242	1 242
Realised revaluation reserve for premises, net of tax		-	(26)	-	26	-	-	-
Dividends declared	30	-	-	-	(149)	(149)	-	(149)
Balance at 31 December 2009		**106 973**	**842**	**14**	**6 572**	**114 401**	**1 135**	**115 536**

In millions of Russian Roubles	Note	2009	2008
Cash flows from operating activities			
Interest received		92 450	55 217
Interest paid		(56 614)	(27 377)
Losses incurred from trading in securities and other financial instruments through profit or loss		(419)	(186)
(Losses incurred)/income received from foreign exchange swaps with settlement dates of more than 30 days		(4 478)	2 975
Losses incurred from other derivative financial instruments		(762)	(717)
Income received from dealings in foreign currencies		472	259
Fees and commissions received		3 031	2 451
Fees and commissions paid		(452)	(233)
Other operating income received		207	102
Staff costs paid		(11 847)	(10 090)
Administrative and other operating expenses paid		(6 401)	(4 691)
Income tax paid		(1 718)	(1 120)
Cash flows from operating activities before changes in operating assets and liabilities		**13 469**	**16 590**
Changes in operating assets and liabilities			
Net (increase)/decrease in mandatory cash balances with the Central Bank of the Russian Federation		(2 011)	1 479
Net increase in trading securities and repurchase receivable		(3 677)	(16 882)
Net decrease/(increase) in other financial instruments at fair value through profit or loss		2 357	(4 431)
Net decrease/(increase) in due from other banks		66 501	(89 643)
Net increase in loans and advances to customers		(158 326)	(167 706)
Net increase in other assets		(1 573)	(479)
Net (decrease)/increase in due to other banks		(58 083)	161 760
Net increase in customer accounts		73 240	55 535
Net increase/(decrease) in promissory notes issued		3 072	(21 316)
Net increase/(decrease) in other liabilities		1 511	(25)
Net cash used in operating activities		**(63 520)**	**(65 118)**
Cash flows from investing activities			
Acquisition of premises and equipment		(4 486)	(3 064)
Proceeds from disposal of premises and equipment		108	11
Dividend income received		-	1
Acquisition of intangible assets	15	(498)	(514)
Acquisition of investment securities available for sale	12	(14 391)	(1 549)
Proceeds from disposal of investment securities available for sale		11 984	1 270
Acquisition of investment securities held to maturity		(2 251)	(12 778)
Proceeds from redemption of investment securities held to maturity		4 609	15 778
Acquisition of subsidiaries net of cash disposed of	40	(1 531)	-
Net cash used in investing activities		**(6 456)**	**(845)**
Cash flows from financing activities			
Proceeds from other borrowed funds	20	49 509	66 950
Repayment of other borrowed funds	20	(11 161)	(10 795)
Repayment of syndicated loans	21	(3 281)	(6 972)
Proceeds from subordinated debt	23	-	25 000
Buy-back of subordinated debt	23	-	(117)
Proceeds from placement of bought-back subordinated debt	23	163	-
Issue of ordinary shares	24	45 000	33 495
Dividends paid	30	(149)	(178)
Net cash from financing activities		**80 081**	**107 383**
Effect of exchange rate changes on cash and cash equivalents		**1 676**	**7 767**
Net increase in cash and cash equivalents		**11 781**	**49 187**
Cash and cash equivalents at the beginning of the year	*7*	83 177	33 990
Cash and cash equivalents at the end of the year	*7*	**94 958**	**83 177**

Significant non-cash movements for the reporting period.

As a result of acquisition of subsidiaries and their consolidation by the Group as at 31 December 2009 (refer to Note 40) the following significant non-cash changes of the Group's consolidated statement of financial position occurred:

- Increase of premises and equipment for the amount of RR 16 398 million.
- Increase of other assets for the amount of RR 3 758 million.
- Increase of other liabilities for the amount of RR 4 989 million.
- Decrease of loans and advances to customers for the amount of RR 7 731 million.

Other non-cash transactions relate to elimination of accruals, forex translation effect, provisions, depreciation, non-cash restructuring, etc.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (the "IASB") for the year ended 31 December 2009 for Open Joint-Stock Company Russian Agricultural Bank (the "Bank") and its subsidiaries (together referred to as the "Group"). Refer to Note 39 for information about the subsidiaries.

Principal activity. The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. The Bank's principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking licence issued by the Central Bank of the Russian Federation ("CBRF") since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by the Federal Law #177-FZ "Deposits of individuals insurance in Russian Federation" dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual deposits up to RR 700 thousand (prior to 1 October 2008: 100% up to RR 100 thousand and 90% in excess of RR 100 thousand up to a limit of RR 400 thousand) per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

The Bank has 78 (2008: 78) branches within the Russian Federation. The Bank's registered address is 119034 Russia, Moscow, Gagarinsky lane 3.

The number of the Group's employees at 31 December 2009 was 33 134 (2008: 24 511).

Activities of the Group include deposit taking and commercial lending, foreign exchange dealing, cash operations and securities trading. Some of the Bank's subsidiaries perform grain storage and sugar trading. Refer to Note 39. These activities are conducted principally in Russia.

Presentation currency. These consolidated financial statements are presented in the currency of the Russian Federation, millions of Russian Roubles ("RR millions").

2 Operating Environment of the Group

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. Despite strong economic growth in recent years, the financial situation in the Russian financial and corporate sectors significantly deteriorated since mid-2008. The global financial crisis has had a severe effect on the Russian economy:

- Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009.
- The rise in Russian and emerging market risk premium resulted in a steep increase in foreign financing costs.
- The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years.
- As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

2 Operating environment of the Group (Continued)

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

Borrowers of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers were reflected in revised estimates of expected future cash flows in impairment assessments.

The market in Russia for many types of collateral, especially real estate, has been severely affected by the volatile global financial markets, resulting in a low level of liquidity for certain types of assets. In some cases the Group has also experienced unforeseeable delays in recovering collateral. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period. Under IFRS, impairment losses on financial assets expected as a result of future events, no matter how likely, cannot be recognised until such events arise.

The volume of wholesale financing available, in particular from overseas, has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by initial recognition of financial instruments at fair value, the revaluation of premises, investment securities available for sale, and financial instruments categorised as at fair value through profit or loss (trading securities, repurchase receivable and derivative financial instruments). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognized immediately in profit or loss.

3 Summary of Significant Accounting Policies (Continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interests are that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with non-controlling shareholders. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded directly in equity. The Group recognizes the difference between sales consideration and carrying amount of non-controlling interest sold in the consolidated statement of changes in equity.

Financial instruments-key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (please see accounting policy for income and expenses).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and cash equivalents include interbank loans, deposits and reverse sale and repurchase agreements with other banks with original maturity of less than one month. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Mandatory cash balances with the CBRF. Mandatory cash balances with the CBRF are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flow.

Trading securities. Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Group classifies securities into trading securities if it has an intention to sell them within a short period after purchase. The Group may choose to reclassify a non-derivative trading financial asset out of the fair value through profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Trading securities are carried at fair value. Interest earned on trading securities calculated using the effective interest method is presented in the consolidated statement of comprehensive income as interest income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading securities in the period in which they arise.

3 Summary of Significant Accounting Policies (Continued)

Sale and repurchase agreements and lending of securities. Sale and repurchase agreements ("repo agreements") which effectively provide a lender's return to the counterparty are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognized. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to other banks or customer accounts.

Securities purchased under agreements to resell ("reverse repo agreements") which effectively provide a lender's return to the Group are recorded as cash and cash equivalents, due from other banks or loans and advances to customers, as appropriate. The difference between the sale and repurchase price is treated as interest income and accrued over the life of repo agreements using the effective interest method.

Other financial instruments at fair value through profit or loss. Other financial instruments at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and performance of these investments is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities available for sale. This classification includes investment securities which the Group 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 Group classifies investments as available for sale at the time of purchase or as a result of reclassification.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale 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 through profit or loss for the year.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each end of the reporting period. The Group may reclassify financial assets into this category from fair value through profit or loss or available for sale categories in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Investment securities held to maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. Refer to Note 11 for the detailed principal criteria to determine whether there is objective evidence that an impairment loss has occurred.

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

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

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

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in the statement of comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

***Repossessed collateral*.** Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognized at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each end of the reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of the reporting period.

Promissory notes purchased. Promissory notes purchased are included in trading securities, or in due from other banks or in loans and advances to customers, depending on their substance and are recorded, subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required.

Premises owned by the Group and used in a banking activity were for the first time revalued at fair value as at 31 December 2007 and are subject to regular subsequent revaluation. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation is recognized by proportionally restating the gross carrying amount and accumulated depreciation of the revalued premises. These restatements are shown separately in the reconciliation of movements in premises in Note 15. The revaluation reserve for premises and equipment included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Construction in progress is carried at historical cost, less provision for impairment where required. Construction in progress is not depreciated until the asset is available for use.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

At each end of reporting period management assesses whether there is any indication of impairment of equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate cost or revalued amounts of premises and equipment to their residual values over the estimated remaining useful lives. The following useful lives in years are applied for the main categories of premises and equipment:

	Useful lives in years
Premises	40
Equipment	5 - 20
Leasehold improvements	10

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the reporting period.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 5 years.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through profit or loss. An impairment loss recognized in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Earned rental income is recorded in profit or loss within other operating income. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Inventory. Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

3 Summary of Significant Accounting Policies (Continued)

Finance lease liabilities. Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in other liabilities. The interest cost is charged to profit or loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Promissory notes issued. Promissory notes issued by the Group are carried at amortised cost. If the Group purchases its own promissory notes issued, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Other borrowed funds. Other borrowed funds represent amounts attracted from Eurobonds issue and bonds denominated in Russian roubles. Issued Eurobonds and bonds denominated in Russian roubles carry a coupon and are redeemable on a specific date. Other borrowed funds are carried at amortised cost. If the Group repurchases its borrowed funds, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains/(losses) arising from early retirement of debt.

Syndicated loans. Syndicated loans include the amounts attracted in US Dollars and Euro by organisation of syndications, are redeemable on a specific date and carried at amortised cost.

Subordinated debts. Subordinated debts are carried at amortised cost. Creditors' claims on subordinated debts will be considered only after all claims of other creditors of the Group are satisfied.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts (forwards and swaps) and futures on shares are carried at their fair value. Non-derivative transactions are aggregated and treated as a derivative when the transaction result, in substance, is a derivative.

An embedded derivative shall be separated from the host contract and accounted for as a derivative if, and only if:

a. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

b. a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

c. the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 Financial Instruments: Recognition and Measurement, and in accordance with other appropriate Standards if it is not a financial instrument. If a contract contains one or more embedded derivatives, the Group may designate the entire hybrid (combined) contract as a financial asset or financial liability at fair value through profit or loss.

All derivative financial instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative financial instruments are included in gains less losses from derivative financial instruments. The Group does not apply hedge accounting.

3 Summary of Significant Accounting Policies (Continued)

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit.

Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

3 Summary of Significant Accounting Policies (Continued)

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents.

Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

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

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

Commission on agency services are recognized based on the applicable service contracts.

Revenue recognition – sale of goods. During 2009 the Group acquired several non-banking entities and supplemented its accounting policy for recognition of the respective revenue.

Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognized when the goods are passed to the customer at the destination point. Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Foreign currency translation. The functional currency of the Group's consolidated entities is the currency of the primary economic environment in which each entity operates. The consolidated companies' functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

At 31 December 2009 the principal rate of exchange used for translating foreign currency balances was USD 1 = RR 30.2442 (2008: USD 1 = RR 29.3804), EUR 1 = RR 43.3883 (2008: EUR 1 = RR 41.4411).

Fiduciary assets. Assets and liabilities held by the Group in its own name, but on the account of third parties, are not reported on the consolidated statement of financial position. The extent of such balances and transactions is indicated in Note 34. For the purposes of disclosure, fiduciary activities do not encompass safe custody functions. Commissions received from fiduciary activities are shown in fee and commission income.

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). IAS 29 requires that the consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the end of the reporting period. It states that reporting operating results and financial position in the local currency without restatement is not useful because money loses purchasing power at such a rate that the comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading.

3 Summary of Significant Accounting Policies (Continued)

The characteristics of the economic environment of the Russian Federation indicated that hyperinflation had ceased effective from 1 January 2003. Restatement procedures of IAS 29 are therefore only applied to share capital. For these balances, the amounts expressed in the measuring unit current at as 31 December 2002 are the basis for the carrying amounts in these consolidated financial statements. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian Statistics Agency, and from indices obtained from other sources for years prior to 1992.

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group makes payments to a non-state pension fund in respect of certain groups of employees (a defined contribution plan). These payments are included in staff expenses in consolidated profit or loss.

Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The CODM has been identified as the Management Board.

In these consolidated financial statements the Group defined operating segments on the basis of organizational structure and geographical areas. The standard had an impact on the presentation of the Group's information about its operating segments but had no impact on the recognition or measurement of specific transactions and balances.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Opening statement of financial position at the beginning of the earliest comparative period presented and related information in the notes. The revised IAS 1 which became effective from 1 January 2009 requires an entity to present a statement of financial position as at the beginning of the earliest comparative period ('opening statement of financial position'), when the entity applies an accounting policy retrospectively or makes a retrospective restatement or when it reclassifies items in its financial statements. Therefore, an entity that makes such a prior period adjustment or reclassification normally presents, as a minimum, three statements of financial position, two of each of the other statements, and related notes.

In 2009, the Group made restatements required by the amended IAS 1 that do not impact on the statement of financial position, for example the Group now presents gains and losses on available for sale financial instruments in the statement of comprehensive income rather than in the statement of changes in equity. IAS 1 suggests that the opening statement of financial position should be presented even if the restatements have an impact only on the other primary statements. In these circumstances, management considered whether omitting the opening statement of financial position at 1 January 2008 would represent a material omission of information. In management's opinion, the omission of the opening statement of financial position, where the restatement or reclassification does not affect any statement of financial position (and that fact is disclosed), is not material and is therefore permitted. Management considered that materiality of an omission is measured against its ability to influence the economic decisions of the users of the financial statements.

Presentation of each item of other comprehensive income in the statement of changes in equity. The revised IAS 1 which became effective from 1 January 2009 requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change. This could include presenting profit or loss and each item of other comprehensive income in the statement of changes in equity. Management considered materiality and concluded that it is sufficient for an entity to present such information only in the statement of comprehensive income and that repeating the same information in the statement of changes in equity, is not a material omission of information. In reaching this conclusion, Management considered the examples provided in the guidance on implementing, which accompanies the revised IAS 1, but is not a mandatory part of that standard.

3 Summary of Significant Accounting Policies (Continued)

Voluntary changes in presentation. The Group made voluntary changes in presentation as it believes that it will result in the consolidated financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the Group's financial position and financial performance.

The effect of changes in presentation on the consolidated statement of comprehensive income was as follows:

In millions of Russian Roubles	**At 31 December 2008**
Increase in	
(Losses net of gains)/gains less losses from foreign exchange swaps with settlement dates of more than 30 days	33 009
Gains less losses arising from dealings in foreign currencies	259
Losses net of gains arising from other derivative financial instruments	(943)
Decrease in	
Gains less losses/(losses net of gains) from derivative financial instruments	(33 500)
Losses net of gains from trading in foreign currencies	1 175

The effect of changes in presentation on the consolidated statement of cash flow was as follows:

In millions of Russian Roubles	**At 31 December 2008**
Increase in	
Repayment of other borrowed funds	1 053
Buy-back of subordinated debts	69
(Losses incurred)/income received from foreign exchange swaps with settlement dates of more than 30 days	2 975
Income received from dealings in foreign currencies	259
Losses incurred from other derivative financial instruments	(717)
Decrease in	
Gains from early redemption of other borrowed debt and buy-back of subordinated debts	(1 122)
Income received/(losses incurred) from derivative financial instruments	(3 692)
(Losses incurred)/income received from trading in foreign currencies	1 175

Renaming of the lines. The Group renamed the line "Other securities at fair value through profit or loss" to "Other financial instruments at fair value through profit or loss", since the Group classified certain amounts due from other banks into this category starting from 1 January 2009. Refer to Note 9.

Amendments of the financial statements after issue. Any further changes to these financial statements require approval of the Group's Management who authorised these financial statements for issue.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognized in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

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

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately RR 354 million (2008: RR 247 million) higher or RR 352 million (2008: RR 267 million) lower.

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. Refer to Note 36.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 29.

Fair value of financial instruments carries at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques with observable data. Changes in assumptions about these factors could affect reported fair values. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2009.

IFRS 8, Operating Segments**.** The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. Adoption of IFRS 8 resulted in the compositional change in the operating segments. The Group first time defined operating segments on the basis of internal reporting. Federal districts of the Russian Federation have been designated as reporting segments.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognizing as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognized as an expense using the effective interest method.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS.

The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41.

Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting.

Puttable Financial Instruments and Obligations Arising on Liquidation - IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these financial statements.

Vesting Conditions and Cancellations - Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognize revenue on such transactions. The amendment did not have any material impact on these financial statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate - IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognized in profit or loss for the year rather than as a recovery of the investment. The amendment did not have an impact on these financial statements.

Improving Disclosures about Financial Instruments-Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Embedded Derivatives-Amendments to IFRIC 9 and IAS 39, issued in March 2009 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the ‘at fair value through profit or loss’ category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these financial statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognizing and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group is not eligible to apply the IFRS for SMEs due to the public accountability of its banking business.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group had early adopted amendments to IAS 24. Refer to Note 38.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group’s consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

6 New Accounting Pronouncements (Continued)

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. The Group does not expect the amendment to affect its future consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group does not expect the amendment to affect its future consolidated financial statements.

Classification of Rights Issues-Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss. Acquisition-related costs will be accounted for separately from the business combination and therefore recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group does not expect the amendment to have any effect on its consolidated financial statements.

Eligible Hedged Items - Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

Group Cash-settled Share-based Payment Transactions-Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters-Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognized asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, effective for annual periods beginning on or after 1 January 2013). IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

6 New Accounting Pronouncements (Continued)

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

7 Cash and Cash Equivalents

In millions of Russian Roubles	**2009**	**2008**
Cash on hand	12 373	5 504
Cash balances with the CBRF (other than mandatory reserve deposits)	17 691	27 841
Correspondent accounts and deposits with other banks with original maturities less than one month	63 006	46 577
Settlement accounts with MICEX, RTS and NCC	1 749	3 212
Deals with securities purchased under "reverse-repo agreements" with original maturities of less than one month	139	43
Total cash and cash equivalents	**94 958**	**83 177**

As at 31 December 2009 cash equivalents of RR 139 million (2008: RR 43 million) are effectively collateralized by securities purchased under reverse sale and repurchase agreements at a fair value of RR 252 million (2008: RR 59 million). The Group has a right to sell or repledge these securities.

As at 31 December 2009 correspondent accounts and deposits with other banks with original maturities less than one month included the balance with one foreign bank with rating AA- (S&P) in the amount of RR 46 914 million or 49% of total cash and cash equivalents (2008: the same foreign bank with rating AA- (S&P) in the amount of RR 41 104 million or 49% of total cash and cash equivalents).

7 Cash and Cash Equivalents (Continued)

Analysis by credit quality of cash and cash equivalents is as follows:

In millions of Russian Roubles	2009	2008
Current and not impaired		
Cash on hand	12 373	5 504
Cash balances with the CBRF (other than mandatory reserve deposits)	17 691	27 841
Correspondent accounts and deposits with other banks with original maturities less than one month:		
- OECD banks and their subsidiary banks	47 536	41 176
- top 30 Russian banks (by net assets) and their subsidiary banks	15 165	4 880
- other Russian banks	303	521
- other non-resident banks	2	-
Settlement accounts with MICEX, RTS and NCC	1 749	3 212
Deals with securities purchased under “reverse-repo agreements” with original maturities of less than one month:		
- top 30 Russian banks (by net assets) and their subsidiary banks	100	43
- other Russian banks	39	-
Total cash and cash equivalents	**94 958**	**83 177**

For the estimated fair value of cash and cash equivalents refer to Note 36. Geography analysis and interest rate analysis of cash and cash equivalents are disclosed in Note 32.

8 Trading Securities and Repurchase Receivable

In millions of Russian Roubles	2009	2008
Trading securities		
Corporate bonds	16 481	17 313
Securities in trust	1 220	-
Municipal bonds	321	355
Total trading securities	**18 022**	**17 668**
Repurchase receivable		
Corporate bonds	3 410	-
Municipal bonds	57	-
Total repurchase receivable	**3 467**	**-**

As at 31 December 2009 the securities in trust are corporate bonds managed by the trust company in accordance with the investment declaration (2008: nil).

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data, the Group does not analyse or monitor impairment indicators.

8 Trading Securities and Repurchase Receivable (Continued)

Analysis by credit quality of debt securities outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Trading securities				
Corporate bonds	15 881	236	364	16 481
Securities in trust	750	285	185	1 220
Municipal bonds	321	-	-	321
Total debt trading securities	**16 952**	**521**	**549**	**18 022**
Repurchase receivable				
Corporate bonds	3 410	-	-	3 410
Municipal bonds	57	-	-	57
Total repurchase receivable	**3 467**	**-**	**-**	**3 467**

*or ratings of other analogous rating agencies.

Analysis by credit quality of debt securities outstanding at 31 December 2008 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	16 490	-	823	17 313
Municipal bonds	355	-	-	355
Total debt trading securities	**16 845**	**-**	**823**	**17 668**

*or ratings of other analogous rating agencies.

If a security's rating is unavailable the issuer's rating is used.

Corporate bonds are securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. These bonds have maturity dates from May 2011 to February 2014 (2008: from June 2009 to December 2013), coupon rates from 11.5% to 20.0% p.a. (2008: from 9.8% to 13.5% p.a.) and yield to maturity or to next repricing date from 9.6% to 21.5% p.a. (2008: from 1.8% to 13.5% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal bonds are represented by bonds issued by Russian municipal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2009 these bonds have maturity dates from September 2010 to June 2017 (2008: from September 2010 to June 2017), coupon rates from 6.8% to 8.0% p.a. (2008: from 6.8% to 8.0% p.a.) and yield to maturity from 9.1% to 9.9% p.a. (2008: from 2.0% to 7.3% p.a.) depending on the type of the bond issue, the issuer and the market conditions.

The Bank is licensed by the Federal Commission on Securities Markets for trading in securities.

For the estimated fair value of trading securities and repurchase receivable refer to Note 36. Geographical and interest rate analyses of trading securities and repurchase receivable are disclosed in Note 32.

8 Trading Securities and Repurchase Receivable (Continued)

The Group reclassified the following financial assets from held for trading category during 2008:

In million of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity			
Federal loan bonds (OFZ)	4 141	7 825	5.7 – 7.3
Municipal bonds	1 201	1 698	7.1 – 9.2
Corporate bonds	980	1 411	6.7 – 10.1
Corporate Eurobonds	793	1 300	7.0 – 8.8
Reclassified into available for sale			
Municipal bonds	53	56	7.0
Corporate bonds	2 792	3 868	7.3 – 15.4
Corporate Eurobonds	1 959	2 918	6.2 – 11.6
Corporate shares	12	12	-
Total	**11 931**	**19 088**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices that occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from trading securities and which were not yet sold or otherwise derecognized, were as follows:

In millions of Russian Roubles	**2009**		**2008**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Reclassified into held to maturity				
Federal loan bonds (OFZ)	3 917	3 573	4 126	3 590
Municipal bonds	1 148	1 040	1 201	914
Corporate bonds	695	628	982	806
Corporate Eurobonds	1 033	1 078	995	688
Reclassified into available for sale				
Municipal bonds	-	-	51	51
Corporate bonds	422	422	2 181	2 181
Corporate Eurobonds	2 097	2 097	1 352	1 352
Corporate shares	10	10	5	5
Total	**9 322**	**8 848**	**10 893**	**9 587**

8 Trading Securities and Repurchase Receivable (Continued)

Income or loss recognised for 2009 and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

In millions of Russian Roubles	**Income recognised in profit or loss after reclassification**			**Gain that would have been recognised in profit or loss if the assets had not been reclassified**
	(Losses net of gains)/gains less losses from sale	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity				
Federal loan bonds (OFZ)	-	264	-	169
Municipal bonds	-	105	-	184
Corporate bonds	-	56	-	115
Corporate Eurobonds	-	88	27	365
Reclassified into available for sale				
Municipal bonds	(2)	2	-	-
Corporate bonds	(2)	207	-	98
Corporate Eurobonds	3	220	64	964
Corporate shares	-	-	-	5
Total	**(1)**	**942**	**91**	**1 900**

Income or loss recognised for six months 2008 after reclassification, and fair value gain or loss that would have been recognised if financial assets had not been reclassified were as follows:

In millions of Russian Roubles	**Income recognised in profit or loss after reclassification**		**Loss that would have been recognised in profit or loss if the assets had not been reclassified**
	Interest income	**Foreign exchange gains less losses**	
Reclassified into held to maturity			
Federal loan bonds (OFZ)	150	-	(536)
Municipal bonds	51	-	(287)
Corporate bonds	38	-	(177)
Corporate Eurobonds	35	208	(307)
Reclassified into available for sale			
Municipal bonds	3	-	(2)
Corporate bonds	142	-	(484)
Corporate Eurobonds	92	506	(1 119)
Corporate shares	-	-	(7)
Total	**511**	**714**	**(2 919)**

For the fair value analysis of trading securities and repurchase receivable refer to Note 36.

9 Other Financial Instruments at Fair Value Through Profit or Loss

In millions of Russian Roubles	2009	2008
Credit Linked Notes	700	4 439
Due from other banks	3 370	-
Total other financial instruments at fair value through profit or loss	**4 070**	**4 439**

International credit rankings of issuers of the above notes and of counterparty banks were not less than BB- as at 31 December 2009 (2008: not less than BB-).

The Group irrevocably designated the above financial instruments, which are not part of its trading book, as at fair value through profit or loss. The financial instruments meet the criteria for classification as at fair value through profit or loss because key management personnel assess performance of the investments based on their fair values in accordance with a documented strategy.

The management classified financial instruments with embedded derivatives as other financial instruments at fair value through profit or loss, while there was an option to separate the embedded derivative and value the host contract at amortized cost.

In May 2008, the Group purchased a Credit Linked Note from another OECD bank in the nominal amount of RR 2 500 million at the net price of 19.5% of nominal amount with maturity in May 2023 and zero coupon. The Note has an embedded Credit Default Swap linked to the Bank's own credit risk.

In February 2009, the Group placed a deposit in another OECD bank in the nominal amount of USD 100 million with maturity in February 2010 and interest rate of 11.5% p.a. The contract has an embedded Credit Default Swap linked to the Bank's own credit risk. The deposit was closed at maturity.

For the fair value analysis of other financial instruments at fair value through profit or loss refer to Note 36. Geography analysis and interest rate analysis of other financial instruments at fair value through profit or loss are disclosed in Note 32.

10 Due from Other Banks

In millions of Russian Roubles	2009	2008
Current term placements with other banks	37 643	96 880
Overdue deposits in other banks	156	-
Less: Provision for impairment	(7)	-
Total due from other banks	**37 792**	**96 880**

Analysis of the movements in the provision for impairment of due from other banks is as follows:

In millions of Russian Roubles	2009	2008
Provision for impairment at 1 January	**-**	**-**
Provision for impairment during the year	7	-
Provision for impairment at 31 December	**7**	**-**

The overdue loans were repaid subsequently to the end of the reporting period.

10 Due from Other Banks (Continued)

Analysis by credit quality of amounts due from other banks is as follows:

In millions of Russian Roubles	**2009**	**2008**
Current and not impaired		
- OECD banks and their subsidiary banks	24 380	74 407
- Other non-resident banks	7 194	3 060
- Top 30 Russian banks (by net assets) and their subsidiary banks	-	14 844
- Other Russian banks	6 069	4 569
Total current and not impaired	**37 643**	**96 880**
Individually assessed for impairment		
- 6 to 30 days overdue	**156**	**-**
Total individually assessed for impairment	**156**	**-**
Total due from other banks (before impairment)	**37 799**	**96 880**
Provision for impairment	**(7)**	**-**
Total due from other banks	**37 792**	**96 880**

Overdue loans represent not only past due payments but the whole outstanding balance of such loans.

Analysis of amounts due from other banks by collateral is as follows:

In millions of Russian Roubles	**2009**	**2008**
Unsecured interbank loans	9 481	71 275
Interbank loans collateralised by:		
- guarantee deposits	24 374	23 687
- other assets	3 937	1 918
Total due from other banks	**37 792**	**96 880**

As at 31 December 2009 the Group has placements with one foreign bank with aggregated balances of RR 24 374 million, or 64% of total due from other banks (2008: three foreign and one Russian banks with aggregated balances of RR 77 623 million, or 80% of total due from other banks).

Refer to Note 36 for the disclosure of fair value of due from other banks. Geographical and interest rate analyses of due from other banks are disclosed in Note 32.

11 Loans and Advances to Customers

In millions of Russian Roubles	2009	2008
Loans to legal entities		
- Loans to corporates	503 568	398 547
- Lending for food interventions	42 666	10 442
- Deals with securities purchased under “reverse-repo agreements”	894	622
- Investments in agricultural cooperatives	702	702
Loans to individuals	66 527	58 545
Total loans and advances to customers (before impairment)	**614 357**	**468 858**
Less: Provision for loan impairment	(29 950)	(16 557)
Total loans and advances to customers	**584 407**	**452 301**

As at 31 December 2009 included in gross amount of loans are loans in the amount of RR 362 335 million (2008: RR 292 910 million), where borrowers are eligible for interest subsidies from federal and regional budgets. Subsidies are paid directly to the borrowers.

Lending for food interventions is represented by loans to a company, which is 100% owned by the Federal Government of the Russian Federation.

Investments in agricultural cooperatives represent contributions made by the Group as part of its participation in the National Project "Development of the Agro-Industrial Sector". According to the contracts with cooperatives the Group receives fixed annual dividends at the rate 1/2 of the rate of refinancing of the Bank of Russia of the contributions made. The Group’s management has a right to withdraw to make cooperative member contributions for the period of 5 years and at the end to withdraw its contributions.

As at 31 December 2009, loans and advances to customers of RR 894 million (2008: RR 622 million) are effectively collateralised by securities purchased under reverse repo agreements with a fair value of RR 985 million (2008: RR 816 million). The Group has the right to sell or repledge securities.

Analysis of the movements in the provision for loan impairment is as follows:

	2009				2008			
In millions of Russian Roubles	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**	**Loans to corporates**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
Provision for loan impairment at 1 January	**15 249**	**20**	**1 288**	**16 557**	**6 526**	**-**	**576**	**7 102**
Provision for loan impairment during the year	13 211	(12)	215	13 414	8 763	20	712	9 495
Loans and advances to customers written off during the year as uncollectible	(21)	-	-	(21)	(40)	-	-	(40)
Provision for loan impairment at 31 December	**28 439**	**8**	**1 503**	**29 950**	**15 249**	**20**	**1 288**	**16 557**

In 2009 no provision for “Lending for food interventions” and “Reverse repo agreements” was created (2008: nil).

11 Loans and Advances to Customers (Continued)

The economic sector structure of the credit portfolio is as follows:

	2009		2008	
In millions of Russian Roubles	**Amount**	**%**	**Amount**	**%**
Agriculture	392 916	64	281 419	60
Manufacturing	82 608	13	72 124	15
Individuals	66 526	11	58 545	13
Trading	40 039	6	32 159	7
Construction	22 034	4	14 819	3
Other	10 234	2	9 792	2
Total loans and advances to customers (before impairment)	**614 357**	**100**	**468 858**	**100**

As at 31 December 2009, the aggregate amount of loans to individuals included loans in the amount of RR 49 026 million issued to individuals-sole farmers (2008: RR 43 812 million).

Loan portfolio analysis by credit quality. The Group estimates credit risk on the basis of professional judgement pronounced upon completing a comprehensive review of a borrower's activities taking into account their financial situation, debt service quality as well as all other information available to the Group related to any other risks of the borrower.

In reviewing the borrower's financial position the Group applies a system of coefficients according to which the borrower's financial situation is assessed as follows:

- *good* if the total score in evaluation of financial situation using the coefficient approach is 53 or more;
- *average* if the total score in evaluation of financial situation using the coefficient approach ranges from 52 to 25 (inclusive);
- *poor* if the total score in evaluation of financial situation using the coefficient approach is less than 25.

In accordance with the methodology of financial assets impairment evaluation, the Group includes loans, for which there is no identified loss event or a borrower/debtor default into the category "*collectively assessed for impairment".*

As a *loss event* the Group recognizes objective evidence of asset impairment that emerged subsequent to initial recognition, namely:

- *for loans issued to legal entities (including individual entrepreneurs – sole farmers):*
  - significant financial difficulty of the borrower – changes in financial position from the moment when the loan is issued from good or average to poor (score of 24 and below in accordance with the methodology of evaluation and analysis of the Group's borrower financial position taking into consideration their industry, organisational and legal specifics);
  - violation of contract – principal or interest overdue by more than 5 days;
- *for loans issued to individuals:*
  - significant financial difficulty of the borrower – changes in the scoring of the borrower's financial position from the moment when the loan was issued from good to poor. i.e., loss or significant decrease in income or cost of property, out of which the individual intended to repay the debt (e.g., termination of labour relations between the employer and the individual if the latter has no significant savings, existence of court decisions on bringing the individual to criminal responsibility in the form of imprisonment that came into effect, existence of documentarily supported information of revocation of the license from the credit institution with which the individual's deposit is placed, if failure to receive this deposit impacts the ability of the individual borrower to fulfil his/her obligations on the loan);
  - violation of contract – principal or interest overdue by more than 30 days.

11 Loans and Advances to Customers (Continued)

As a *default* of a borrower/debtor the Group recognizes objective evidence that it is impossible for the creditor to claim future cash flows due under the contract, unless the collateral is used (default of the borrower/debtor), namely:

- *for legal entities (including individual entrepreneurs – sole farmers):*
  - the debtors excluded from the Single State Register of Legal Entities without legal succession (based upon the results of completed bankruptcy proceedings or on the basis of court decision on liquidation of the borrower at the presentation of the authorised body);
  - the debtors, with respect to whom bankruptcy proceedings are completed but they are not excluded from the Single State Register of Legal Entities;
  - the debtors, with respect to whom bankruptcy proceedings are conducted however the court has rejected the claim to include the amounts payable to the Bank into the register of creditors and/or there is no actual property used as a collateral that belongs to these debtors;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a write-off execution is impossible due to expiry of the term, during which it can be presented for execution;
  - the debtors, who actually discontinued their operation and with respect to whom there exists a documentary confirmation of their actual absence;
  - principal or interest overdue by over 365 days;
- *for individuals:*
  - death of the debtor in the absence of heirs and inheritance;
  - the debtors, with respect to whom court decision has entered into force but the court has rejected the claim to collect the debt in the Bank's favour or collection under a writ of execution is impossible due to expiry of the term, during which it can be presented for execution;
  - principal or interest overdue by over 365 days;
  - the debtors, who do not reside at the place of residence indicated in the loan agreement and with respect to whom it is impossible to identify the new place of residence.

11 Loans and Advances to Customers (Continued)

Lending for food interventions and reverse repo agreements are assessed for impairment by the Group on the individual basis as the nature of the borrowers/products is unique and exposures could not be grouped with others.

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	**Loans to corporates**	**Lending for food interven-tions**	**Reverse repo agreements**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
1. Current and not impaired						
- good financial position	-	42 666	894	-	-	43 560
Total current and not impaired	**-**	**42 666**	**894**	**-**	**-**	**43 560**
2. Collectively assessed for impairment						
Current						
- good financial position	256 669	-	-	702	-	257 371
- average financial position	139 482	-	-	-	-	139 482
- included in portfolios of similar risk loans	618	-	-	-	62 582	63 200
- loans whose terms were renegotiated	43 454	-	-	-	1 346	44 800
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	5 096	-	-	-	380	5 476
Total collectively assessed for impairment	**445 319**	**-**	**-**	**702**	**64 308**	**510 329**
3. Individually assessed for impairment						
- watch list	23 828	-	-	-	-	23 828
- poor financial position	2 841	-	-	-	-	2 841
- 6 to 30 days overdue	1 925	-	-	-	-	1 925
- 31 to 90 days overdue	5 193	-	-	-	314	5 507
- 91 to 180 days overdue	4 905	-	-	-	321	5 226
- 181 to 365 days overdue	7 815	-	-	-	681	8 496
- over 365 days overdue	11 742	-	-	-	903	12 645
Total individually assessed for impairment	**58 249**	**-**	**-**	**-**	**2 219**	**60 468**
Total loans and advances to customers (before impairment)	**503 568**	**42 666**	**894**	**702**	**66 527**	**614 357**
Provision for loan impairment	**(28 439)**	**-**	**-**	**(8)**	**(1 503)**	**(29 950)**
Total loans and advances to customers	**475 129**	**42 666**	**894**	**694**	**65 024**	**584 407**

11 Loans and Advances to Customers (Continued)

Analysis of loans by credit quality at 31 December 2008 is as follows:

In millions of Russian Roubles	**Loans to corporates**	**Lending for food interven-tions**	**Reverse repo agreements**	**Investments in agricultural cooperatives**	**Loans to individuals**	**Total**
1. Current and not impaired						
- good financial position	-	10 442	622	-	-	11 064
Total current and not impaired	-	**10 442**	**622**	**-**	**-**	**11 064**
2. Collectively assessed for impairment						
Current						
- good financial position	183 773	-	-	702	-	184 475
- average financial position	132 823	-	-	-	-	132 823
- included in portfolios of similar risk loans	40 559	-	-	-	56 667	97 226
- loans whose terms were renegotiated	5 520	-	-	-	738	6 258
Overdue						
- overdue by: less than 6 days for legal entities, less than 31 days for individuals	1 148	-	-	-	434	1 582
Total collectively assessed for impairment	**363 823**	**-**	-	**702**	**57 839**	**422 364**
3. Individually assessed for impairment						
- watch list	16 484					16 484
- poor financial position	1 961	-	-	-	-	1 961
- 6 to 30 days overdue	1 413	-	-	-	-	1 413
- 31 to 90 days overdue	4 543	-	-	-	194	4 737
- 91 to 180 days overdue	3 640	-	-	-	159	3 799
- 181 to 365 days overdue	3 799	-	-	-	241	4 040
- over 365 days overdue	2 884	-	-	-	112	2 996
Total individually assessed for impairment	**34 724**	**-**	**-**	**-**	**706**	**35 430**
Total loans and advances to customers (before impairment)	**398 547**	**10 442**	**622**	**702**	**58 545**	**468 858**
Provision for loan impairment	**(15 249)**	**-**	**-**	**(20)**	**(1 288)**	**(16 557)**
Total loans and advances to customers	**383 298**	**10 442**	**622**	**682**	**57 257**	**452 301**

11 Loans and Advances to Customers (Continued)

Loans included in the watch list are in the process of restructuring and/or renegotiation. Watch list includes loans and advances to customers overdue from 6 to 90 days of RR 554 million (2008: RR 311 million) and loans and advances to customers overdue more than 90 days of RR 2 259 million (2008: nil).

Loans included in portfolio with similar risk loans consist of immaterial loans with homogeneous credit characteristics without any signs of impairment, which are not analysed by the Group on individual basis.

The table below summarizes the results of quality analysis of the loan portfolio:

In millions of Russian Roubles	**2009**	**2008**
Current loans	527 469	443 722
Loans whose terms were renegotiated	44 800	6 258
Overdue loans	42 088	18 878
Provision for loan impairment	(29 950)	(16 557)
Total loans and advances to customers	**584 407**	**452 301**

Overdue loans represent not only past due payments but also outstanding balance of such loans.

Loan collateral

The Group accepts different types of collateral, such as: inventories (finished products, raw materials, goods in turnover), equipment, including agricultural machinery, motor vehicles, real estate, land plots, construction in progress, sea and other vessels, farm animals, future crop, property acquired in the future, property rights, warranties, banking guarantees, government guarantees of Russian Federation and municipal guarantees.

Among other measures aimed at credit enhancement is the Group's requirement to insure the subject of collateral. Property is insured by insurance companies that have accreditation and a cooperation agreement with the Bank.

The Group monitors the condition and reviews the structure of the collateral. The primary purpose of the review of the structure of collateral as well as monitoring of the collateral rights by the Group include:

- obtaining complete and objective information on the available collateral property and its structure;
- development of optimal schemes of realisation of collateral rights with account for the specifics of regional distribution;
- improving the effectiveness and timeliness of collateral foreclosure process;
- preparation of statistical and analytical information for the Group management;
- control over the Group's regional branches with respect to issued loans.

The majority of collateral (over 70%) (2008: over 70%) relates to the following types: real estate – 41% (2008: 37%), equipment - 19% (2008: 21%) and goods in turnover – 16% (2008: 17%).

According to the Group's internal policy documents it is allowed to issue unsecured loans in the following cases:

- for legal entities – overdrafts;
- for individuals – overdrafts and loans issued within the scope of Selskoe Podvorje (Rural Farm) program – loans up to RR 50 thousand (or equivalent in currency) under the programs "Consumer loans"; "Loans to the sole farmers", "Reliable Customer".

11 Loans and Advances to Customers (Continued)

The Group has developed an internal methodology, on the basis of which fair value of collateral is determined. The fair value of collateral is defined at the loan granting date and is not reassessed subsequently on a timely basis as such timely reassessment is impracticable. Actual realisable value of collateral in respect of loans to corporate customers and individuals may significantly differ from the value disclosed below.

The value of collateral presented below was calculated based on this methodology:

	2009		2008	
In millions of Russian Roubles	**Past due but not impaired***	**Individually assessed for impairment**	**Past due but not impaired***	**Individually assessed for impairment**
Collateral in respect of loans to corporate customers				
- real estate	4 450	33 496	429	16 956
- equipment	1 957	17 820	343	12 639
- goods in turnover	839	5 527	388	10 521
- motor vehicles	757	5 319	254	3 211
- farm animals, poultry	445	2 672	497	2 440
- future crop	619	1 459	22	1 958
- other assets	305	3 288	-	214
Total value of collateral in respect of corporate customers	**9 372**	**69 581**	**1 933**	**47 939**

* Past due but not impaired loans are loans overdue less than 6 days for legal entities and overdue less than 31 days for individuals included in collectively assessed for impairment.

Past due but not impaired loans* to individuals are secured with various types of collateral with value determined based on the Group's internal methodology of RR 164 million (2008: RR 301 million) as well as by warranties of third parties with nominal value of RR 1 098 million (2008: RR 1 282 million).

Loans to individuals individually assessed for impairment are secured with various types of collateral with value determined based on the Group's internal methodology of RR 807 million (2008: RR 354 million) as well as by warranties of third parties with nominal value of RR 5 449 million (2008: RR 2 400 million).

Refer to Note 36 for the disclosure of fair value of loans and advances to customers. Geographical and interest rate analyses of loans and advances to customers are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

12 Investment Securities Available for Sale

In millions of Russian Roubles	**2009**	**2008**
Corporate bonds	3 449	3 043
Corporate Eurobonds	2 355	1 548
State Eurobonds	1 531	51
Federal loan bonds (OFZ)	363	-
Municipal bonds	92	146
Corporate shares	10	5
Total investment securities available for sale	**7 800**	**4 793**

The primary factor that the Group considers in determining whether a debt security is impaired is its overdue status.

12 Investment Securities Available for Sale (Continued)

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2009 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	825	-	2 624	3 449
Corporate Eurobonds	1 835	520	-	2 355
State Eurobonds	1 531	-	-	1 531
Federal loan bonds (OFZ)	363	-	-	363
Municipal bonds	92	-	-	92
Total debt investment securities available for sale	**4 646**	**520**	**2 624**	**7 790**

* or ratings of other analogous rating agencies.

Analysis by credit quality of debt investment securities available for sale outstanding at 31 December 2008 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Corporate bonds	1 543	366	1 134	3 043
Corporate Eurobonds	1 173	375	-	1 548
Municipal bonds	95	51	-	146
State Eurobonds	51	-	-	51
Total debt investment securities available for sale	**2 862**	**792**	**1 134**	**4 788**

* or ratings of other analogous rating agencies.

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2009 these bonds have maturity dates from November 2010 to November 2014 (2008: from February 2009 to March 2017), annual coupon rates from 7.8% to 20.0% p.a. (2008: from 7.2% to 15.0% p.a.) and yield to maturity or next repricing date from 7.6% to 21.5% p.a. (2008: from 7.6% to 32.9% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are bonds denominated in USD, issued by major Russian companies. As at 31 December 2009 these bonds have maturity dates from January 2010 to February 2017 (2008: from August 2009 to February 2017), annual coupon rates from 7.5% to 12.0% p.a. (2008: from 7.5% to 10.9% p.a.), payable semi-annually, and yield to maturity or next repricing date from 3.9% to 16.3% p.a. (2008: from 15.0% to 39.4% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

State Eurobonds are represented by Russian Federation bonds denominated in USD. As at 31 December 2009 these bonds have maturity date in March 2030 (2008: March 2030), annual coupon rate 7.5% p.a. (2008: 7.5% p.a.), payable semi-annually, and yield to maturity 5.5% p.a. (2008: 10.1% p.a).

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. These OFZ have maturity dates in September 2012, annual coupon rate 10.8% p.a., payable quarterly or semi-annually, and yield to maturity 8.0%p.a.

12 Investment Securities Available for Sale (Continued)

Municipal bonds are represented by Russian Roubles bonds issued by Russian municipal authorities. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2009 these bonds have maturity dates in June 2012 (2008: from April 2009 to June 2012), annual coupon rate 9.6% p.a. (2008: from 9.8% to 11.0% p.a.) and yield to maturity 16.3% p.a. (2008: from 8.8% to 17.9% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

The movements in investment securities available for sale are as follows:

In millions of Russian Roubles	**Note**	**2009**	**2008**
Carrying amount at 1 January		**4 793**	**1 157**
Purchases		14 390	1 549
Additions as the result of reclassification		-	4 817
Disposal as the result of reclassification		-	(222)
Fair value gains less losses		2 292	(1 881)
Realised revaluation reserve		(528)	3
Interest income accrued	25	955	357
Interest income received		(923)	(281)
Proceeds from disposal		(12 587)	(1 270)
Foreign exchange differences gains less losses		(251)	564
Impairment recognised directly in profit or loss		(341)	-
Carrying amount at 31 December		**7 800**	**4 793**

The Group reclassified the following financial assets from the available-for-sale category during 2008:

In million of Russian Roubles	**Amount reclassified**	**Undiscounted cash flows expected to be recovered**	**Effective interest rate (%)**
Reclassified into held to maturity			
Corporate Eurobonds	222	739	8.2
Total	**222**	**739**	

The reclassification was made effective from 1 July 2008 when, in management's opinion, the third quarter 2008 collapse in financial markets liquidity and stability commenced, which has also led to the International Accounting Standards Board issuing the amendment allowing reclassifications from that date.

Management believes that the declines in market prices, which occurred in the third quarter of 2008 represent a rare event as they are significantly out of line with historical volatilities observed in financial markets.

The carrying amounts and fair values of all financial assets that have been reclassified from available for sale securities and which were not yet sold or otherwise derecognized, were as follows:

	2009		**2008**	
In millions of Russian Roubles	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Reclassified into held to maturity				
Corporate Eurobonds	287	288	278	184
Total	**287**	**288**	**278**	**184**

12 Investment Securities Available for Sale (Continued)

Income or loss recognised for 2009, and fair value gain or loss that would have been recognised if the assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		**Gains that would have been recognised in other comprehensive income if the assets had not been reclassified**
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity			
Corporate Eurobonds	23	9	97
Total	**23**	**9**	**97**

As at 31 December 2008, income or loss recognised after reclassification, and fair value gain or loss that would have been recognised if the assets had not been reclassified were as follows:

	Income recognised in profit or loss after reclassification		**Losses that would have been recognised in other comprehensive income if the assets had not been reclassified**
In millions of Russian Roubles	**Interest income**	**Foreign exchange gains less losses**	
Reclassified into held to maturity			
Corporate Eurobonds	10	59	(94)
Total	**10**	**59**	**(94)**

For the fair value analysis of investment securities available for sale refer to Note 36. Geographical and interest rate analysis of investment securities available for sale are disclosed in Note 32.

13 Investment Securities Held to Maturity

In millions of Russian Roubles	**2009**	**2008**
Federal Loan bonds (OFZ)	3 917	4 126
Corporate Eurobonds	1 586	1 538
Corporate bonds	1 073	1 351
Municipal bonds	1 156	1 262
Promissory notes	-	1 930
Total investment securities held to maturity	**7 732**	**10 207**

Analysis by credit quality of investment securities held to maturity at 31 December 2009 is as follows:

In millions of Russian Roubles	**Securities internationally rated not lower than BB- (S&P)***	**Securities internationally rated lower than BB- (S&P)***	**Internationally unrated securities**	**Total**
Federal Loan bonds (OFZ)	3 917	-	-	3 917
Corporate Eurobonds	1 586	-	-	1 586
Corporate bonds	1 073	-	-	1 073
Municipal bonds	763	393	-	1 156
Total investment securities held to maturity	**7 339**	**393**	**-**	**7 732**

* or ratings of other analogous rating agencies.

13 Investment Securities Held to Maturity (Continued)

Analysis by credit quality of investment securities held to maturity at 31 December 2008 is as follows:

In millions of Russian Roubles	Securities internationally rated not lower than BB- (S&P)*	Securities internationally rated lower than BB- (S&P)*	Internationally unrated securities	Total
Federal Loan bonds (OFZ)	4 126	-	-	4 126
Promissory notes	125	1 764	41	1 930
Corporate Eurobonds	1 538	-	-	1 538
Corporate bonds	1 351	-	-	1 351
Municipal bonds	1 262	-	-	1 262
Total investment securities held to maturity	**8 402**	**1 764**	**41**	**10 207**

* or ratings of other analogous rating agencies.

If a security's rating is unavailable the issuer's rating is used.

The primary factor that the Group considers when deciding whether a debt security is impaired is its overdue status. Since the Group did not have impaired securities held to maturity, no provisions for impairment of these securities were recognised.

Federal Loan bonds (OFZ) are represented by the state securities denominated in Russian Roubles issued by the Ministry of Finance of Russian Federation. These OFZ have maturity dates from May 2010 to February 2036 (2008: from May 2010 to February 2036), annual coupon rates from 5.8% to 10.0% p.a. (2008: from 5.8% to 10.0%, p.a.) payable quarterly or semi-annually, and yield to maturity from 6.2% to 9.7% p.a. (2008: from 6.9% to 11.4% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate Eurobonds are interest bearing securities denominated in USD, issued by major Russian companies. As at 31 December 2009 these bonds have maturity dates from May 2010 to August 2037 (2008: from May 2010 to August 2037), annual coupon rates from 6.7% to 9.6% p.a. (2008: from 6.7% to 9.6% p.a.) payable semi-annually, and yield to maturity or next repricing date from 3.6% to 8.1% p.a. (2008: from 12.3% to 20.8% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Corporate bonds in the Group's portfolio are represented by securities denominated in Russian Roubles, issued by major Russian companies. Corporate bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. These bonds have maturity dates from July 2011 to September 2020 (2008: from January 2009 to September 2020), annual coupon rates from 7.2% to 8.5% p.a. (2008: from 6.7% to 8.5% p.a.) payable and yield to maturity or next repricing date from 8.5% to 14.3% p.a. (2008: from 5.8% to 20.8% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Municipal bonds are represented by bonds issued by Russian municipal authorities denominated in Russian Roubles. These bonds are traded at a discount or premium to face value and carry a coupon payable quarterly or semi-annually, depending on the type of the bond issue and the issuer. As at 31 December 2009 these bonds have maturity dates from December 2010 to December 2015 (2008: from December 2010 to December 2015), annual coupon rates from 7.0% to 9.0% p.a. (2008: from 7.0% to 9.0% p.a.) and yield to maturity from 8.1% to 14.0% p.a. (2008: from 8.8% to 26.7% p.a.), depending on the type of the bond issue, the issuer and the market conditions.

Refer to Note 36 for the disclosure of the fair value of investment securities held to maturity. Geographical and interest rate analyses of securities held to maturity are disclosed in Note 32.

14 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In millions of Russian Roubles	Note	2009	2008
Carrying amount at 1 January		**-**	**-**
Acquisition of subsidiaries	40	728	-
Impairment loss	28	(430)	-
Carrying amount at 31 December		**298**	**-**

15 Premises, Equipment and Intangible Assets

In millions of Russian Roubles	Note	Office premises	Leasehold (premises) improvements	Office and computer equipment	Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2008		4 152	1 156	2 017	200	7 525	526	8 051
Accumulated depreciation		(127)	(30)	(444)	-	(601)	(179)	(780)
Carrying amount at 1 January 2008		**4 025**	**1 126**	**1 573**	**200**	**6 924**	**347**	**7 271**
Additions		1 513	287	1 227	37	3 064	514	3 578
Disposals		-	(17)	(10)	-	(27)	-	(27)
Depreciation charge: before revaluation	27, 28	(73)	(132)	(357)	-	(562)	(120)	(682)
Depreciation charge: realised revaluation reserve	28	(32)	-	-	-	(32)	-	(32)
Changes in gross carrying value resulting from revaluation		(455)	-	-	-	(455)	-	(455)
Changes in accumulated depreciation resulting from revaluation		20	-	-	-	20	-	20
Carrying amount at 31 December 2008		**4 998**	**1 264**	**2 433**	**237**	**8 932**	**741**	**9 673**
Cost at 31 December 2008		5 210	1 423	3 213	237	10 083	1 040	11 123
Accumulated depreciation		(212)	(159)	(780)	-	(1 151)	(299)	(1 450)
Carrying amount at 31 December 2008		**4 998**	**1 264**	**2 433**	**237**	**8 932**	**741**	**9 673**

15 Premises, Equipment and Intangible Assets (Continued)

In millions of Russian Roubles	Note	Used in banking activities: Office premises	Used in banking activities: Leasehold (premises) improve-ments	Used in banking activities: Office and computer equipment	Used in banking activities: Land	Used in non-banking activities: Production premises	Used in non-banking activities: Equipment	Used in non-banking activities: Land	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2009		5 210	1 423	3 213	237	-	-	-	10 083	1 040	11 123
Accumulated depreciation		(212)	(159)	(780)	-	-	-	-	(1 151)	(299)	(1 450)
Carrying amount at 1 January 2009		**4 998**	**1 264**	**2 433**	**237**	**-**	**-**	**-**	**8 932**	**741**	**9 673**
Acquisitions through business combinations		-	-	-	-	13 367	1 709	1 322	16 398	-	16 398
Additions		2 394	120	1 816	50	444	80	-	4 904	498	5 402
Disposals		(39)	(27)	(19)	(6)	(18)	(8)	-	(117)	-	(117)
Transfer to other assets		-	-	-	-	-	-	(1 161)	(1 161)	-	(1 161)
Depreciation charge: before revaluation	27	(121)	(152)	(608)	-	(243)	(65)	-	(1 189)	(216)	(1 405)
Depreciation charge: realised revaluation reserve and revaluation loss	27	(20)	-	-	-	-	-	-	(20)	-	(20)
Changes in gross carrying value resulting from revaluation		(316)	-	-	-	-	-	-	(316)	-	(316)
Changes in accumulated depreciation resulting from revaluation		15	-	-	-	-	-	-	15	-	15
Carrying amount at 31 December 2009		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**
Cost at 31 December 2009		7 249	1 507	4 966	281	13 823	1 804	161	29 791	1 538	31 329
Accumulated depreciation		(338)	(302)	(1 344)	-	(273)	(88)	-	(2 345)	(515)	(2 860)
Carrying amount at 31 December 2009		**6 911**	**1 205**	**3 622**	**281**	**13 550**	**1 716**	**161**	**27 446**	**1 023**	**28 469**

15 Premises, Equipment and Intangible Assets (Continued)

Non-banking premises mainly are represented by grain storages and production premises related to subsidiaries activities.

Intangible assets mainly include capitalised computer software.

Construction in progress in respect of banking and non-banking premises at 31 December 2009 was RR 3 468 million (2008: RR 676 million).

Carrying amount of office premises without revaluation at 31 December 2009 is RR 6 487 million (2008: RR 4 266 million), including cost in amount of RR 6 735 million (2008: RR 4 395 million) and accumulated depreciation of RR 248 million (2008: RR 129 million). Premises were independently valued as at 31 December 2009. The valuation was carried out by an independent appraisers firm, Institute of Valuation of Property and Financial Activity Ltd, who hold a relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

16 Other Assets

In millions of Russian Roubles	**2009**	**2008**
Non-financial assets		
Repossessed collateral	5 610	1 010
Inventory	1 000	348
Prepayment for services	756	455
Prepayment for goods	181	-
Prepaid taxes	33	33
Other	9	54
Financial assets		
Trade receivables	2 893	-
Settlements on plastic cards	804	3
Settlements on funds transfer operations	33	34
Other	608	159
Provision for impairment of other financial assets	(170)	(51)
Total other assets	**11 757**	**2 045**

Repossessed collateral mainly represents the land and production premises measured in accordance with IAS 40 «Investment Property». The Group is not going to use repossessed collateral in its own operations and plans to dispose to the interested investors in the future.

Trade receivables, inventory and prepayment for goods are related to trade activities of subsidiaries. Refer to Note 40.

The movements in the provision for impairment of other financial assets are as follows:

	2009	**2008**
In millions of Russian Roubles	**Other**	**Other**
Provision for impairment of other financial assets at 1 January	**51**	**16**
Provision for impairment of other financial assets during the year	119	36
Other financial assets written off during the year as uncollectible	-	(1)
Provision for impairment of other financial assets at 31 December	**170**	**51**

16 Other Assets (Continued)

The movements in repossessed collateral are as follows:

In millions of Russian Rouble	Note	2009	2008
Repossessed collateral at 1 January		1 010	-
Additions for the year		4 901	1 070
Disposal for the year		(256)	(60)
Depreciation charge	28	(45)	-
Repossessed collateral at 31 December		**5 610**	**1 010**

As at 31 December 2009 the fair value of repossessed collateral was RR 5 703 million (2008: RR 1 010 million).

For the estimated fair value of other financial assets refer to the Note 36. Geographical analysis of other assets is disclosed in Note 32.

17 Due to Other Banks

In millions of Russian Roubles	2009	2008
Borrowings from other banks with term to maturity		
- less than 30 days	29 050	3 701
- from 31 to 180 days	3 779	34 503
- from 181 days to 1 year	23 388	12 405
- from 1 year to 3 years	11 670	11 364
- more than 3 years	53 913	75 283
Borrowings from the CBRF with term to maturity		
- sale and repurchase agreements less than 30 days	3 000	-
- less than 30 days	190	-
- from 31 to 180 days	64 019	105 827
- from 181 days to 1 year	2 917	-
Correspondent accounts and overnight placements of other banks	84	19
Total due to other banks	**192 010**	**243 102**

As at 31 December 2009 the Group had balances due to two foreign banks with the aggregated amount of RR 45 836 million, or 24% of total due to other banks (2008: due to the same two foreign banks with aggregated amount of RR 48 877 million, or 20% of total due to other banks).

Refer to Note 36 for the disclosure of the fair value of due to other banks. Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 32.

18 Customer Accounts

In millions of Russian Roubles	2009	2008
State and public organisations		
- Current/settlement accounts	4 864	5 069
- Term deposits	52 954	29 877
Other legal entities		
- Current/settlement accounts	30 658	32 568
- Term deposits	60 480	36 562
- Sale and repurchase agreements with securities	-	23
Individuals		
- Current/demand accounts	10 760	7 361
- Term deposits	70 587	43 035
Total customer accounts	**230 303**	**154 495**

State and public organisations exclude state-controlled joint-stock companies.

Economic sector concentrations within customer accounts are as follows:

	2009		2008	
In millions of Russian Roubles	Amount	%	Amount	%
Individuals	81 347	35	50 395	33
State and public organisations	57 818	25	34 946	23
Financial services and pension security	22 673	10	19 430	12
Insurance	22 541	10	12 133	8
Agriculture	14 081	6	11 291	7
Manufacturing	9 096	4	3 965	3
Construction	8 559	4	12 583	8
Trading	8 124	3	5 625	4
Other	6 064	3	4 127	2
Total customer accounts	**230 303**	**100**	**154 495**	**100**

As at 31 December 2009, the Group had three customers with balances above RR 11 500 million (2008: two customer with balances above RR 6 800 million). The aggregate balance of these customers was RR 53 674 million, or 23% of total customer accounts (2008: RR 36 095 million, or 23% of total customer accounts).

Refer to Note 36 for the disclosure of the fair value of customer accounts. Geographical, interest rate and maturity analyses of customer accounts are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

19 Promissory Notes Issued

In millions of Russian Roubles	2009	2008
Promissory notes issued	12 567	9 845
Total promissory notes issued	**12 567**	**9 845**

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 15% p.a. and maturity dates from January 2010 to August 2017 (2008: promissory notes denominated Russian roubles, and Euros with effective interest rate from 0% p.a. (for promissory notes on demand) up to 12% p.a. and maturity dates from January 2009 to November 2018).

As at 31 December 2009, promissory notes issued, which were initially purchased by one counterparty, amounted to RR 9 373 million or 75% of total promissory notes issued by the Group (2008: four counterparties amounted RR 9 318 million or 95% of total promissory notes issued by the Group).

Refer to Note 36 for the disclosure of the fair value of promissory notes issued. Geographical, maturity and interest rate analyses of promissory notes issued are disclosed in Note 32.

20 Other Borrowed Funds

In millions of Russian Roubles	2009	2008
Eurobonds issued	158 841	132 239
Bonds issued on domestic market	57 643	43 675
Total other borrowed funds	**216 484**	**175 914**

As at 31 December 2009, the Group's other borrowed funds included Eurobonds denominated in US dollars and Swiss francs that are issued by the Group through its special purpose entity, RSHB Capital S.A. as well as bonds denominated in Russian Roubles and issued on domestic market.

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issues							
US Dollars	350	29 November 2005	29 November 2010	-	6.875%	6 months	2.31%
US Dollars	630	16 May 2006	16 May 2013	-	7.175%	6 months	5.34%
Swiss Francs	375	29 March 2007	29 March 2010	-	3.583%	1 year	4.05%
US Dollars	1 125	14 May 2007	15 May 2017	-	6.299%	6 months	6.24%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	5.86%
US Dollars							
- tranche A	702	29 May 2008	14 January 2014	-	7.125%	6 months	5.54%
- tranche B	891	29 May 2008	29 May 2018	-	7.750%	6 months	6.37%
US Dollars	1 000	11 June 2009	11 June 2014	-	9.000%	6 months	5.61%
Bonds issued in domestic market							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	8.88%
Russian Roubles	10 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	6.98%
Russian Roubles	10 000	10 October 2007	27September 2017	7 October 2011	11.50%	6 months	10.14%
Russian Roubles	5 000	22 February 2008	9 February 2018	24 August 2010	13.350%	6 months	8.70%
Russian Roubles	5 000	17 June 2008	5 June 2018	17 June 2010	13.950%	6 months	7.69%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.94%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	9.92%
Russian Roubles	5 000	26 November 2009	14 November 2019	26 November 2012	10.100%	6 months	9.67%

20 Other Borrowed Funds (Continued)

As at 31 December 2008 other borrowed funds comprise the following issues:

Currency of denomination	Nominal value, in million of currency	Issue date	Maturity date	Put option date	Coupon rate	Coupon payment	Yield to maturity/ next repricing date
Eurobonds issued							
US Dollars	350	29 November 2005	29 November 2010	-	6.875%	6 months	13.69%
US Dollars	695	16 May 2006	16 May 2013	-	7.175%	6 months	16.83%
Swiss Francs	375	29 March 2007	29 March 2010	-	3.583%	1 year	23.33%
US Dollars	1 225	14 May 2007	15 May 2017	-	6.299%	6 months	15.25%
Swiss Francs	150	30 April 2008	30 April 2012	-	6.263%	1 year	19.76%
US Dollars							
- tranche A	747	29 May 2008	14 January 2014	-	7.125%	6 months	18.11%
- tranche B	933	29 May 2008	29 May 2018	-	7.750%	6 months	15.72%
Bonds issued on domestic markets							
Russian Roubles	7 000	22 February 2006	16 February 2011	-	7.850%	3 months	8.39%
Russian Roubles	10 000	22 February 2007	9 February 2017	22 February 2010	7.340%	6 months	14.70%
Russian Roubles	6 201	10 October 2007	27 September 2017	9 October 2009	9.750%	6 months	7.78%
Russian Roubles	5 000	22 February 2008	9 February 2018	24 February 2009	8.750%	6 months	9.92%
Russian Roubles	5 000	17 June 2008	5 June 2018	18 June 2009	8.300%	6 months	12.07%
Russian Roubles	10 000	9 December 2008	27 November 2018	8 December 2011	13.500%	6 months	13.94%

Refer to Note 36 for the disclosure of fair value for other borrowed funds. Geographical, maturity and interest rate analyses of other borrowed funds are disclosed in Note 32.

21 Syndicated Loans

As at 31 December 2009, syndicated loans attracted by the Group totalled RR 7 570 million (2008: RR 10 532 million).

In October 2006 the Group attracted a syndicated loan in Euro from ten OECD banks with the total amount of Euro 75 million with maturity in October 2009 and current effective interest rate 3MEURIBOR + 1.15% p.a. This syndicated loan was repaid by the Group at maturity in October 2009.

In April 2007 the Group attracted 2 tranches of syndicated loan in US Dollars with the total amount of USD 520 million, with maturities in October 2008 and April 2010, semi-annual coupon at the rate of LIBOR + 0.3% p.a. (for tranche A) and LIBOR + 0.4% p.a. (for tranche B). In October 2008 Group redeemed at a stated time the first tranche (tranche A) of syndicated loan in the total amount of USD 270 million.

Refer to Note 36 for the disclosure of fair value for syndicated loans. Geographical, maturity and interest rate analyses of syndicated loans are disclosed in Note 32.

22 Other Liabilities

In millions of Russian Roubles	Note	2009	2008
Non-financial liabilities			
Unregistered share capital increase		825	-
Accrued staff costs		784	572
Taxes payable other than on income		292	116
Provision for litigation	34	200	-
Other		255	197
Financial liabilities			
Trade payables		4 124	-
Settlements on conversion operations		624	-
Settlements on plastic card operations		548	2
Financial liabilities associated with issuance of guarantees by subsidiaries		190	-
Carrying value of sureties issued		-	219
Total other liabilities		**7 842**	**1 106**

Trade payables are related to the business activities of subsidiaries. Refer to Note 40.

In February 2010 the Central Bank of the Russian Federation approved the share capital increase in the amount of RR 825 million.

Refer to Note 36 for the disclosure of fair value of other financial liabilities. Geographical analysis of other liabilities is disclosed in Note 32.

23 Subordinated Debts

As at 31 December 2009, the Group's subordinated debts totalled RR 46 370 million (2008: RR 45 540 million).

In September 2006, the Group attracted a subordinated debt totalling USD 500 million in Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. The Eurobonds mature in September 2016, have current interest rate of 6.97% p.a. (2008: 6.97% p.a.), and yield to the next repricing date, i.e. in September 2011 at 7.72% p.a. (2008: 33.64% p.a.). The Group has an option to terminate this subordinated debt in the last five years before its maturity date.

In June 2007, the Group attracted a subordinated debt totalling USD 200 million maturing in June 2017. The Group has an option to terminate this subordinated debt in the last five years before its maturity date.

In October 2008, the Group attracted from Vnesheconombank a subordinated debt totalling RR 25 000 million with maturity in December 2019 and interest rate of 8.0% p.a. This subordinated debt was attracted in accordance with the Federal Law №173-FZ "About supplementary measures to support financial system of the Russian Federation".

Refer to note 36 for the disclosure of fair value of subordinated debts. Geographical, maturity and interest rate analyses of subordinated debts are disclosed in Note 32. The information on related party balances is disclosed in Note 38.

24 Share Capital

The Group's share capital issued and fully paid comprises:

In millions of Russian Roubles (except for number of shares)	Number of outstanding shares	Nominal amount	Inflation adjusted amount
At 1 January 2008	**27 728**	**27 728**	**28 478**
New shares issued	33 495	33 495	33 495
At 31 December 2008	**61 223**	**61 223**	**61 973**
New shares issued	45 000	45 000	45 000
At 31 December 2009	**106 223**	**106 223**	**106 973**

The Group's issued and fully paid authorised share capital comprises 106 223 issued and registered ordinary shares. All ordinary shares have a nominal value of RR 1 million per share and rank equally. Each share carries one vote.

In 2009, the Bank increased its share capital by issuing 45 000 ordinary shares with the total nominal amount of RR 45 000 million. All shares were purchased by the Bank's only shareholder-the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

25 Interest Income and Expense

In millions of Russian Roubles	2009	2008
Interest income		
Loans and advances to customers	82 520	51 674
Due from other banks	4 863	1 314
Trading securities	2 850	909
Securities available for sale	955	357
Securities held to maturity	739	716
Other financial instruments at fair value through profit or loss	645	378
Cash equivalents	574	734
Total interest income	**93 146**	**56 082**
Interest expense		
Other borrowed funds	(15 430)	(9 320)
Term deposits of legal entities	(15 338)	(3 577)
Term deposits of other banks	(10 320)	(8 312)
Term deposits of the CBRF	(6 755)	(1 158)
Term deposits of individuals	(5 511)	(3 159)
Subordinated debts	(3 352)	(1 544)
Promissory notes issued	(648)	(1 738)
Current/settlement accounts	(391)	(46)
Syndicated loans	(324)	(666)
Total interest expense	**(58 069)**	**(29 520)**
Net interest income	**35 077**	**26 562**

Interest income on loans and advances to customers includes interest income on loans individually assessed for impairment in the total amount of RR 5 732 million (2008: RR 3 093 million).

26 Fee and Commission Income and Expense

In millions of Russian Roubles	2009	2008
Fee and commission income		
Commission on cash transactions	2 159	1 724
Commission on guarantees issued	534	34
Commission on settlement transactions	330	278
Agency fees for debt collection and currency control	57	79
Other	164	118
Total fee and commission income	**3 244**	**2 233**
Fee and commission expense		
Commission on cash collection	(260)	(138)
Commission on guarantees received	(140)	(12)
Commission on settlement transactions	(28)	(36)
Other	(61)	(27)
Total fee and commission expense	**(489)**	**(213)**
Net fee and commission income	**2 755**	**2 020**

27 Losses net of Gains from Non-banking Activities

In millions of Russian Roubles	2009	2008
Sales of goods	2 772	-
Cost of goods sold	(2 605)	-
Other	(466)	-
Total gains less losses from non-banking activities	**(299)**	**-**

Sales of goods mainly represent sales of sugar, meat products and animal feedstuff.

Included in cost of goods sold is depreciation of non-banking premises and equipment in the total amount of RR 308 million (2008: nil).

28 Administrative and Other Operating Expenses

In millions of Russian Roubles	Note	2009	2008
Staff costs		12 122	10 382
Rental expenses		1 828	1 351
Other costs of premises and equipment		907	738
Depreciation of premises and equipment	15	901	594
Taxes other than on income		829	620
Security services		629	474
Impairment of goodwill	14	430	-
Communications		299	235
Supplies and other materials		278	275
Amortization of intangible assets	15	216	120
Loss on revaluation of fixed assets (premises)		195	458
Advertising and marketing services		169	223
Depreciation of repossessed collateral	16	45	-
Other		1 151	789
Total administrative and other operating expenses		**19 999**	**16 259**

Included in staff costs are statutory social security and contributions to a state and non-state pension funds of RR 1 952 million (2008: RR 1 668 million).

29 Income Taxes

Income tax expense comprises the following:

In millions of Russian Roubles	2009	2008
Current tax	1 666	995
Deferred tax	(1 077)	287
Income tax expense for the year	**589**	**1 282**

The income tax rate applicable to the majority of the Group's income is 20% (2008: 24%). A reconciliation between the expected and the actual taxation charge is provided below.

In millions of Russian Roubles	2009	2008
IFRS profit before tax	**840**	**3 335**
Theoretical tax charge at statutory rate (2009:20%; 2008: 24%)	168	800
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Impairment of goodwill	86	-
- Non deductible staff costs	48	115
- Unrecognised tax loss carry forward of subsidiaries	75	-
- Non deductible interest expenses	47	373
- Non deductible write-off of subsidiaries' assets	31	-
- Non deductible charity costs	28	5
- Other non deductible operating expenses	124	163
- Income on government securities taxed at different rates	(18)	(35)
Impact of change in tax rate to 20% effective from 1 January 2009	-	(139)
Income tax expense for the year	**589**	**1 282**

The Group has not recorded a deferred tax liability in respect of temporary differences of RR 18 million (2008: RR 5 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect from 1 January 2009. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and for calculation of profit tax The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2008: 20%), except for income on government securities that is taxed at 15% (2008: 15%).

In the context of the Group's current structure and Russian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may be accrued even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

29 Income Taxes (Continued)

In millions of Russian Roubles	31 December 2008	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other comprehen-sive income	Business combina-tions	31 December 2009
Tax effect of deductible/(taxable) temporary differences					
Accruals on loans	522	820	-	113	1 455
Provision for loan impairment	509	(184)	-	93	418
Accrued staff costs	118	35	-	-	153
Fair valuation of derivative financial instruments	(1 444)	918	-	-	(526)
Premises and equipment	(415)	(19)	22	(1 882)	(2 294)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(190)	(12)	-	-	(202)
Fair valuation of securities	264	(70)	(380)	-	(186)
Intangible assets	(41)	(8)	-	-	(49)
Accruals on due to other banks	(58)	32	-	-	(26)
Promissory notes issued	(2)	(1)	-	-	(3)
Carrying value of sureties issued	44	(44)	-	-	-
Other	138	(390)	-	97	(155)
Net deferred income tax liability	**(555)**	**1 077**	**(358)**	**(1 579)**	**(1 415)**
Recognized deferred income tax asset	14	379	(358)	365	400
Recognized deferred income tax liability	(569)	698	-	(1 944)	(1 815)
Net deferred income tax liability	**(555)**	**1 077**	**(358)**	**(1 579)**	**(1 415)**

In millions of Russian Roubles	31 December 2007	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other comprehend-sive income	31 December 2008
Tax effect of deductible/(taxable) temporary differences				
Fair valuation of derivative financial instruments	(731)	(713)	-	(1 444)
Premises and equipment	(457)	(1)	43	(415)
Accruals on other borrowed funds, syndicated loans and subordinated debts	(165)	(25)	-	(190)
Accruals on due to other banks	(30)	(28)	-	(58)
Intangible assets	(34)	(7)	-	(41)
Promissory notes issued	(5)	3	-	(2)
Accruals on loans	168	354	-	522
Provision for loan impairment	347	162	-	509
Fair valuation of securities	88	(200)	376	264
Accrued staff costs	94	24	-	118
Carrying value of sureties issued	-	44	-	44
Other	38	100	-	138
Net deferred income tax liability	**(687)**	**(287)**	**419**	**(555)**
Recognized deferred income tax asset	6	8	-	14
Recognized deferred income tax liability	(693)	(295)	419	(569)
Net deferred income tax liability	**(687)**	**(287)**	**419**	**(555)**

30 Dividends

In millions of Russian Roubles	2009 Ordinary shares	2008 Ordinary shares
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	149	178
Dividends paid during the year	(149)	(178)
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year	**0.0014**	**0.0060**

31 Segment Analysis

(a) Description of geographic areas from which each reportable segment derives its revenue and factors that management used to identify the reportable segments

Operational decision making is the responsibility of the Management Board of the Bank. The Management Board of the Bank reviews internal management reporting in order to assess efficiency and allocate resources.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reporting segments.

Based on IFRS 8 requirements Group also discloses those operational segment where revenue, profit or total assets are higher than 10% of related Group's indicators. Head office of the Group presented as separate reporting segment.

As at 31 December 2009 and 31 December 2008 Group defines the following operational segments:

- Head office,
- Central federal district,
- Far Eastern federal district,
- Volga federal district,
- North-west federal district,
- Siberian federal district,
- Ural federal district,
- Krasnodar branch,
- Southern federal district (without Krasnodar branch).

For analysis of revenue by products refer to Notes 25,26.

(b) Measurement of operating segment profit or loss and assets

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data and not adjusted for an intersegment income and expenses. Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus materially differs from policies described in the summary of significant accounting policies in these consolidated financial statements and in the last annual IFRS financial statements of the Group.

31 Segment Analysis (Continued)

(c) Information about reportable segment profit or loss and assets

Segment reporting of the Group's revenue and profit/(loss) for the reporting period ended 2009 and 2008 and segment reporting of the Group's assets at 31 December 2009 and 31 December 2008 is as follows:

In millions of Russian Roubles	Head office	Central federal district	Far Eastern federal district	Volga federal district	North-west federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the year ended 31 December 2009										
Revenue from external customers:	**17 996**	**21 382**	**2 820**	**17 482**	**5 642**	**9 315**	**2 066**	**10 843**	**8 620**	**96 166**
- Income from loans and advances to customers, due from other banks and other placed funds	17 613	20 149	2 609	16 521	5 284	8 812	1 949	10 161	8 193	91 291
- Fee and commission income from credit related operations	383	1 233	211	961	358	503	117	682	427	4 875
Gains less losses / (losses net of gains) arising from securities	2 202	(17)	(2)	(14)	3	10	(1)	1	(1)	2 181
Net interest and commissions from current/correspondent/settlement accounts	(49)	474	95	350	127	231	45	158	596	2 027
Expenses from due to other banks, term deposits and other borrowed funds	(55 754)	(2 502)	(410)	(1 396)	(758)	(752)	(155)	(500)	(685)	(62 912)
Provision charge for impairment	(176)	(3 543)	(787)	(6 065)	(655)	(2 000)	(594)	(1 628)	(2 322)	(17 770)
Administrative and Maintenance expense	(3 594)	(3 527)	(1 029)	(3 096)	(1 146)	(2 408)	(534)	(797)	(2 080)	(18 211)
Intersegment income and expense*	**45 829**	**(11 846)**	**(1 512)**	**(10 468)**	**(3 319)**	**(5 300)**	**(1 281)**	**(6 876)**	**(5 227)**	**-**
Profit/(loss) of reportable segments	**(40 233)**	**12 331**	**694**	**7 302**	**3 259**	**4 445**	**832**	**8 144**	**4 154**	**928**
For the year ended 31 December 2008										
Revenue from external customers:	**13 837**	**12 609**	**1 983**	**12 004**	**3 606**	**6 874**	**872**	**6 906**	**6 046**	**64 737**
- Income from loans and advances to customers, due from other banks and other placed funds	12 623	12 146	1 892	11 560	3 461	6 649	822	6 636	5 868	61 657
- Fee and commission income from credit related operations	1 214	463	91	444	145	225	50	270	178	3 080
Gains less losses / (losses net of gains) arising from securities	(1 452)	8	(1)	-	1	13	-	13	-	(1 418)
Net interest and commissions from current/correspondent/settlement accounts	95	327	69	238	91	174	15	111	604	1 724
Expenses from due to other banks, term deposits and other borrowed funds	(36 357)	(1 351)	(191)	(663)	(375)	(340)	(35)	(225)	(365)	(39 902)
Provision charge for impairment	22	(893)	(495)	(1 048)	(2 286)	(1 295)	(224)	(290)	(2 012)	(8 521)
Administrative and Maintenance expense	(2 869)	(2 759)	(793)	(2 425)	(838)	(2 017)	(243)	(626)	(1 820)	(14 390)
Intersegment income and expense*	**28 375**	**(6 561)**	**(1 073)**	**(6 837)**	**(2 019)**	**(3 933)**	**(516)**	**(4 166)**	**(3 270)**	**-**
Profit/(loss) of reportable segments	**(27 600)**	**8 016**	**568**	**8 065**	**229**	**3 405**	**381**	**5 878**	**2 482**	**1 424**
Total assets										
31 December 2009	1 054 144	232 220	34 169	184 657	81 029	98 221	20 402	108 797	103 486	1 917 125
31 December 2008	861 476	147 156	22 388	134 041	45 166	77 191	13 023	76 225	84 236	1 460 902

***** Intersegment income and expenses are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

31 Segment Analysis (Continued)

The amount of addition/(disposals) in premises and equipment for the reporting period ended 31 December 2009 and 31 December 2008 is as follows:

In millions of Russian Roubles	2009	2008
Additions/(disposals) in office premises and equipment for the reporting period*		
Head office	(24)	(111)
Central federal district	528	781
Far Eastern federal district	136	135
Volga federal district	343	757
North-west federal district	1 282	191
Siberian federal district	371	403
Ural federal district	165	30
Krasnodar branch	113	115
Southern federal district (without Krasnodar branch)	956	360
Total additions/(disposals) in office premises and equipment for the reporting period	**3 870**	**2 661**

* including revaluation

(d) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

Reconciliation of profit for reporting segments to the Group's profit for the reporting period ended 31 December 2009 and 31 December 2008 is as follows:

In millions of Russian Roubles	2009	2008
Total profit of reportable segments (after tax)	**928**	**1 424**
Adjustments of provisions for impairment	3 369	(1 027)
Adjustments of deferred tax	1 190	(263)
Carrying value of guaranties issued	182	(182)
Staff cost, paid under RAR out of retained earnings unallocated to segments	-	(498)
Accounting for derivative financial instruments at fair value	(4 386)	3 951
Accounting for securities at fair value	771	(1 103)
Revaluation of premises	(39)	(329)
Accounting for financial assets and liabilities carried at amortised cost	(1 150)	17
Expenses from non-reportable segments*	(535)	62
Other	(79)	1
The Group's profit under IFRS (after tax)	**251**	**2 053**
Assets of reportable segments	**1 917 125**	**1 460 902**
Elimination of settlements between branches	(931 026)	(631 172)
Elimination of back-to-back deposits	(128 134)	(105 353)
Assets of non-reportable segments*	6 795	805
Other	(34 096)	(12 068)
The Group's assets under IFRS	**830 664**	**713 114**

31 Segment Analysis (Continued)

Reconciliation of material items of income or expenses for the years ended 31 December 2009 and 31 December 2008 is as follows:

In millions of Russian Roubles	2009	2008
Total revenue of reportable segments from external customers	**96 166**	**64 737**
Reclassification of income related to back-to-back deposits to income from derivative financial instruments	(7 766)	(10 775)
Reclassification of income non included in segment revenue	9 442	5 026
Interest income related to effective interest rate implication	(1 391)	(973)
Revenue of non-reportable segments*, including the effect of consolidation	(239)	276
Other	178	24
The Group's revenue under IFRS	**96 390**	**58 315**
Total expenses from due to other banks, term deposits and other borrowed funds of reportable segments	**(62 912)**	**(39 902)**
Reclassification of expense related to back-to-back deposits to expense from derivative financial instruments	10 859	15 635
Interest expense related to the securities issued by the Bank	(6 194)	(5 144)
Expense of non-reportable segments*, including the effect of consolidation	84	(44)
Other	94	(65)
The Group's interest expense under IFRS	**(58 069)**	**(29 520)**
Provision charge for impairment	**(17 770)**	**(8 521)**
Accounting for provision under IFRS	3 566	(1 014)
Accounting for provision for litigation	(200)	-
Elimination of provision related to consolidated companies	664	4
The Group's provision for impairment	**(13 740)**	**(9 531)**
Administrative and Maintenance expenses of reportable segments	**(18 211)**	**(14 390)**
Taxes other than income tax and charity expense	(1 012)	(960)
Accrued staff costs	(174)	(168)
Staff costs and charity expenses paid under RAR out of retained earnings unallocated to reportable segments	-	(519)
Expense of non-reportable segments*, including the effect of consolidation	(524)	(230)
Other	(78)	8
The Group's administrative and other operating expenses under IFRS	**(19 999)**	**(16 259)**

* Non-reportable segments are represented by subsidiaries of the Group consolidated.

The CODM reviews financial information prepared based on Russian accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

- Adjustments of provisions for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under the RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

31 Segment Analysis (Continued)

- Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR gross settled swap transactions are recognized as back-to-back deposits, whereas in IFRS financial statements such transactions are recognized at fair value. Refer to Note 35. Providing reconciliation, accounting for deals described above under RAS assumes also adjustments related to interest income/expense and total assets of reportable segments.
- Adjustments to fair value of securities resulted from application of different valuation techniques and input data.
- Adjustments to financial assets and liabilities carried at amortised cost resulted from accruals of interest income/expenses using effective interest rate method.
- There is no concept of deferred tax accounting in RAR for credit organizations.
- Reclassification of income non included in segment revenue mainly related to interest income from securities.
- Interest income and interest expense under IFRS are accounted using the effective interest rate method.
- Balances of intercompany settlements related to regional branches of the Bank are presented in assets and liabilities, while in IFRS such balances are shown on a net basis.

All other differences also resulted from the differences between RAR (used as the basis for management reporting) and IFRS.

(e) Major Customers

The Group does not have any customer, from which it earns revenue representing 10% of more of the total revenues.

32 Financial Risk Management

The purpose of the Group's risk management policy is to maintain acceptable levels of risks determined by the Group with consideration of its strategic goals. The Group's priority task is to ensure the maximum safety of assets and capital through minimising exposures that can lead to unforeseen losses.

The Bank's Supervisory Board approves the risk management policy and, consequently, is responsible for creating and monitoring the operation of the Bank's risk management system in general. Its competence also covers decisions relating to significant risks.

The Bank's Management Board monitors the functioning of the risk management system, approves documents and procedures for identification, evaluation, determination of acceptable risk level, selection of response actions (acceptance, limitation, reallocation, hedging, avoidance) and monitoring thereof.

Operational risk management is carried out by the Bank's Management Board, its Chairman, special working committees and groups, and also by separate structural divisions and executives on the basis of their competence.

The Department for Risks Evaluation and Monitoring (hereinafter, the DREM) is responsible for risk control and evaluation and performs its functions independently from business units. The DREM is responsible for implementing the principles and methods of identification, evaluation and monitoring of financial risks.

In the environment of the global economic downturn the Bank takes actions aimed at ensuring stable financial operations and meeting its objectives on provision of loans to agriculture producers and other enterprises and entities of the Agro-Industrial Sector.

The Bank's authorized bodies consider the Bank's performance, approve and adjust anti-crisis actions on a regular basis.

32 Financial Risk Management (Continued)

In 2009, the Anti-Crisis Committee continued its work, and the Action Plan for supporting OAO Rosselkhozbank operations was approved in April 2009 and updated in November 2009. Implemented actions, among other things, include: improving the quality and efficiency of use of assets; expanding operations in the stock market; managing financial result, providing resources necessary for the Bank's operations, organising work with non-performing loans, and improving the quality of the Bank's loan portfolio.

In order to ensure stable operation of the Bank in an environment of a developing recession in the finance market, the Bank took the following priority steps.

For its lending activities the Bank developed "Priority Areas of the Credit Policy of OAO Rosselkhozbank for 2009", "Priority Areas of the Credit Policy of OAO Rosselkhozbank for 2010" documents which are an addition to the existing Credit Policy of the Bank for 2008-2012. The Bank's lending regulations were amended in order to improve the credit portfolio quality and mitigate credit risks. These amendments provide, in particular, for inclusion of cooperation with a credit history bureau into the lending business process, also specific actions were taken to ensure appropriate quality of monitoring of loans issued. A vertically-arranged unit for risk assessment and control in the Bank's regional branches was established in order to carry out independent control of the level of risks taken by the branches and additional offices. The role of risk managers in taking lending decisions was enhanced.

The Bank took a set of measures aimed at intensification of actions with regard to non-performing loans. The Bank has an Assets Management Department, whose principal objective is to ensure existence of an efficient strategy of problem asset management and repayment of overdue loans. Certain steps were taken to establish an infrastructure providing for various actions resolving issues in the area of non-performing loans.

The Bank implemented a set of anti-crisis actions to ensure liquidity that included establishing a liquidity provision and maintaining it at a level sufficient not only for current liabilities to the customers and partner banks but also for potential liabilities that might arise in the financially unstable environment. The Head Office tightened its control over target use of the allocated resources in priority areas and over compliance with established limits. The Bank approved and applied additional control measures for liquidity control, which include estimated liquidity indicators. These indicators allowed to timely identify imbalances between the volume of claims and liabilities of the Bank in different time intervals and to promptly identife the necessity of management actions.

To exclude the possibility of losses from transactions in the interbank market the Bank ensured control over the credit risk level of counterparty banks and significantly optimised the limits for transactions with the counterparties. The requirements to the securities portfolio were tightened. In accordance with the resolution of the Anti-Crisis Committee the procedure of monthly stress-testing was established.

The Bank takes numerous actions aimed at increase and optimisation its resource base structure. In 2009 it was significantly diversified.

The actions enabled the Bank to ensure its financial stability in the financial crisis environment, to establish a strategic liquidity provision and to prevent termination of Government projects of Agro-Industrial Sector support.

The risks of ZAO Chelyabcomzembank, a subsidiary, are managed in a similar way.

Credit risk. The Group takes on exposure to credit risk, which is the risk that the Group incurs losses as a result of the default, overdue or partial default of the Group's borrowers.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets, sureties, guaranties issued, loan commitments and other credit related commitments.

32 Financial Risk Management (Continued)

The credit risk approval competencies in 2009 year are determined as follows:

- The Supervisory Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit in excess of RR 2 000 million till 10 August 2009, in excess of RR 4 000 million after 10 August 2009.
- The Bank's Management Board approves decisions on loans or determines credit limits per one borrower or a group of related borrowers with the aggregate credit risk limit per one borrower or a group of related borrowers totalling up to RR 2 000 million inclusive till 10 August 2009 and up to RR 4 000 million inclusive after 10 August 2009.
- The Credit Committee resolves on providing loans or establishing individual credit risk limits per one borrower or a group of related borrowers within the aggregate credit risk limit in the amount of RR 500 million inclusive.
- Credit committees of regional branches, Credit commissions of additional offices, certain executives of the Bank make credit decisions within the preset limits.
- The Resource Committee adopts decisions on limiting credit risks through setting structural and portfolio limits and also limits for counteragents and securities issuers. The Committee's competence also covers credit limits for the Bank's regional branches.

The Bank's authorised management bodies approve internal regulations that contain formalised descriptions of risk evaluation procedures and processes for provision and servicing of credit products.

The Bank selects credit projects with consideration of the purpose of lending, primary sources of repayment of the loan, borrower's financial position, credit history, state of the economic sector and region, all relationships between the Bank and related persons, availability of sufficient collateral, and loan pricing.

The Bank's authorised bodies set and promptly review credit limits for regional branches and additional offices that are monitored on an ongoing basis.

The Bank monitors portfolio concentration risk through setting credit limits by region, type of loan and certain borrowers. Currently, the maximum level of portfolio concentration in one of the Bank's regional branch is 15% of the Bank's aggregate loan portfolio.

When selecting lending and investment programmes, priority rests with the agricultural sector and related industries, which support and service agricultural producers. The loan portfolio industry concentration risk is mitigated by:

- lending to the entire cycle of agricultural product turnover (production, storage, processing and sales to ultimate consumers);
- lending to borrowers with different specialisation in different regions;
- a combination of several types of production in one entity typical for agricultural producers;
- diversification of investments in effective and reliable projects of other economic sectors;
- limiting one borrower's risk exposure.

The Bank uses different methods of securing execution by borrowers of their contractual obligations in the form of pledge of property or ownerhip rights (with approval of a list of pledged items subject to obligatory insurance by insurers accredited by the Bank), guarantees and warranties from third parties.

Credit risk is monitored at different levels on the basis of the Bank's regulatory documents: at the level of regional branch, additional office and the Head Office of the Bank.

32 Financial Risk Management (Continued)

Market risk. The Group takes on exposure to market risk arising from open positions in (a) currency, (b) interest and (c) equity products, all of which are exposed to general and specific market movements.

Market risks are managed by means of identifying, evaluating, forecasting market prices, currency rates and market interest rates, determining the acceptable level of risk on open positions, setting limits (creating a system of limits enabling to minimise losses in case of unfavourable market changes), developing risk insurance mechanisms.

The Bank's authorized bodies perform qualitative evaluation of market risk by means of expert analysis method.

The responsibility of managing the Bank's market risk rests with the Management Board and the Resource Committee within their competence.

The responsibility for operational managing of market risk, implementing market risk management policies and complying with set limits rests with the heads of structural units that carry out transactions exposed to market risk.

The Bank's exposure to market risks is analysed by the Treasury, the Capital Markets Department and the DREM within their competence.

The Bank has contingency plans in case of unfavourable market fluctuations in the value of trading financial instruments, derivative financial instruments, exchange rates and potential losses associated with changes in interest rates. These actions constitute an integral part of the Bank's risk management system and serve a preventive measure for ensuring the continuity of the Bank's operations and safety of the Bank's capital.

The responsibility for making decisions in case of dramatic market changes is laid on the Chairman of the Bank's Management Board or the Resource Committee depending on specific procedures established for particular types of limits.

Any additional expenses that need to be incurred for covering financial losses are approved by the Bank's Management Board.

The responsibility for reviewing and preparation of reports for the Bank's management, assigning credit ratings by international rating agencies and regulators rests with the Department for Evaluation and Monitoring of Liquidity and Market Risks (hereinafter, the DEMLMR). The DEMLMR is a divison of the DREM.

The DEMLMR's functional duties cover determining the acceptable market risk level, independent of the business unit evaluation, review and control of the actual level of the Bank's market risk exposure, agreeing and monitoring limits, monitoring transactions with financial instruments, evaluating the efficiency of these transactions and comparing with the market risk level.

The Bank's business units (the Capital Markets Department, the Treasury) and the Department of Accounting and Monitoring of Banking Operations are also in charge of current monitoring of positions exposed to market risks in the process of entering into, and accounting for transactions.

The DEMLMR, jointly with business units, creates the regulatory basis for risks evaluation and interaction of the Bank's units in the process of identification and management of market risks, and also summarizes and optimises the system of monitoring market risk.

Market risk is also mitigated by setting limits with consideration of the portfolio's (instrument's) risk and the Bank's business strategy. When setting limits, the Bank considers several factors, such as market environment, financial position, business trends and management experience.

32 Financial Risk Management (Continued)

Limits are regularly reviewed by the Bank's authorised bodies, and the DEMLMR monitors limits and reports information on compliance with the set limits to the Bank's management. The DEMLMR also considers and agrees all limits proposed by business units for carrying out new transactions.

The Bank has a hierarchy of limits: structural limits, positional limits, stop-loss limits, limits on transactions' parameters, etc. The DEMLMR is improving the system of limits on an ongoing basis.

The Bank sets limits on:

- the maximum volume of investments in certain types of assets or liabilities;
- the maximum level of losses and gains in case of changes in financial instruments' prices (stop-loss);
- personal limit (limitation of authorities) on the Bank's staff to adopt independent decisions concerning certain types of transactions;
- the maximum allowed relation between certain ratios on assets and liabilities, including off-balance sheet claims and liabilities (open position limit, limits on other comparative figures);
- various characteristics of financial instruments (discounts, etc.).

The Bank monitors currency position for each currency to comply with CBRF requirements.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease in the event if unexpected movements arise.

The sources of interest rate risk are:

- Mismatching of the level of interest rate changes for floating rate instruments with the same regularity of repricing (basis risk).
- Mismatching of the maturities of assets, liabilities and off-balance sheet claims and liabilities associated with fixed or floating rate instruments (repricing risk).
- Changes in the yield curve on long and short positions relating to financial instruments, which create the risk of loss as a result of excess of potential expenses over income at the close of these positions (risk of yield curve changes).

The main method of interest rate risk measurement is evaluating the gaps between the Group's assets and liabilities that are sensitive to changes in the interest rate level (GAP method).

The tables below are based on management reports on the Bank's interest rate risk at the stated dates, that were prepared in accordance with the Interest Rate Evaluation Methodology approved by the Bank. Interest rate reports are issued on a monthly basis using the information extracted from the accounting system, which is based on the Russian Accounting Rules ("RAR") with the assumption of stability of the structure of the Bank's assets and liabilities.

32 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risk at 31 December 2009 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	107 776	80 160	130 588	136 170	216 472	214 735	885 901
Total interest bearing financial liabilities*	125 590	160 428	94 717	89 655	105 491	207 247	783 128
Sensitivity gap	**(17 814)**	**(80 268)**	**35 871**	**46 515**	**110 981**	**7 488**	**102 773**
Cummulative sensitivity gap	**(17 814)**	**(98 082)**	**(62 211)**	**(15 696)**	**95 285**	**102 773**	**-**

* Total financial assets and total financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

Securities included in the table above are presented by maturity (repricing) dates, except for the most highly liquid securities categorised as "Demand and less than 30 days".

As at 31 December 2009, if interest rates at that date had been 100 basis points lower/higher with all other variables held constant, net interest income for the year would have been RR 412 million higher/lower.

As at 31 December 2008, if interest rates at that date had been 300 basis points lower/higher with all other variables held constant, net interest income for the year would have been RR 15 million lower/higher.

32 Financial Risk Management (Continued)

The table below summarises the Group's exposure to interest rate risk at 31 December 2008 by showing the Group's interest bearing financial assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 days and 1 year**	**Due Between 1 and 3 years**	**More than 3 years**	**Total**
Total interest bearing financial assets*	94 932	89 231	66 652	109 238	205 838	197 309	763 200
Total interest bearing financial liabilities*	17 582	143 343	109 939	98 774	140 555	181 944	692 137
Sensitivity gap	**77 350**	**(54 112)**	**(43 287)**	**10 464**	**65 283**	**15 365**	**71 063**
Cummulative sensitivity gap	**77 350**	**23 238**	**(20 049)**	**(9 585)**	**55 698**	**71 063**	**-**

* Total financial assets and total financial liabilities include positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel. The analysis has been prepared based on year-end interest rates.

	2009				**2008**			
In % p.a.	**RR**	**US Dollars**	**Euros**	**Other**	**RR**	**US Dollars**	**Euros**	**Other**
Assets								
Cash and cash equivalents								
- cash balances with the CBRF and settlement accounts with MICEX, RTS and NCC	0	0	-	-	0	0	-	-
- correspondent accounts and deposits with other banks with a maturity of less than one month	10	0	0	0	19	0	0	0
Mandatory cash balances with the CBRF	0	-	-	-	0	-	-	-
Trading securities	12	-	-	-	12	-	-	-
Other financial instruments at fair value through profit or loss	12	12	-	-	11	10	-	-
Due from other banks*	10	8	-	-	23	7	-	-

32 Financial Risk Management (Continued)

In % p.a.	2009 RR	2009 US Dollars	2009 Euros	2009 Other	2008 RR	2008 US Dollars	2008 Euros	2008 Other
Loans and advances to customers	16	11	10	7	15	10	10	8
Investment securities available for sale	16	8	-	-	12	8	-	-
Investment securities held to maturity	7	7	-	-	8	7	-	-
Liabilities								
Due to other banks	8	8	3	5	12	8	5	5
Customer accounts*	11	7	7	-	11	6	7	-
Promissory notes issued	11	-	5	-	10	-	5	-
Other borrowed funds	11	8	-	5	10	7	-	5
Syndicated loans	-	1	-	-	-	5	6	-
Subordinated debts	8	6	-	-	8	6	-	-

*-disclosed rates on term deposits

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

Currency and Equity Risk Management

Currency and equity risks are assessed on the basis of the VAR method (Value At Risk). This method represents a statistical evaluation of the ratio characterising the maximum amount of possible losses on a portfolio consisting of different financial instruments (or one instrument) with a specified probability and for a certain period of time. Reports on the level of market risk are issued on the basis of the approved Methodology for Currency and Equity Risk Evaluation and provided by the DEMLMR to the Bank's management and heads of interested units in compliance with the internal regulatory documents.

The Bank calculates VaR on the basis of a 95% confidence level and makes evaluations on the basis of retrospective information on closing prices (as the most dynamic and precise in terms of risk evaluation) for 250 days, evaluation period is one day. Therefore, VaR shows the maximum loss that can be received from the open position during one trading day with a 95% probability; however, in 5% of cases losses may exceed this level.

VaR calculation is based on the data extracted from RAR accounting system and is shown in management reports in two forms: relative (in percentage terms) and absolute (in Roubles). Relative VaR shows the maximum possible loss as per RR 1 of investments, and absolute VaR – losses on the current open position during the period of evaluation.

Together with VAR, the Bank calculates ES indicator (Expected Shortfall), which represents monetary value of expected losses in case of excess VAR.

VaR is calculated by two different parametric methods and one historical method and, subsequently, the most adequate evaluation is chosen on the basis of analysing the changes in a financial instrument (group of instruments).

The methods used by the Bank are back-tested on a monthly basis.

32 Financial Risk Management (Continued)

Although VaR is a valuable tool for measuring market risk exposures, it has a number of limitations, especially in less liquid markets:

- The use of historic data as a basis for determining future events may not encompass all possible scenarios, particularly those which are of an extreme nature;
- A one day holding period assumes that all positions can be liquidated or hedged within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situation in which there is a severe market illiquidity for a prolonged period;
- The use of 95% confidence level does not take into account losses that may occur beyond this level. There is a 5% probability that the loss could exceed the VaR;
- VaR is calculated only on the end-of-day basis and does not necessarily reflect exposures that may arise on positions during the trading day.

Currency risk.

In September 2008 the Group approved the new currency risk assessment methodology that now includes volatility estimation by Generalized Autoregressive Conditional Heteroscedasticity (GARCH) method, which is more relevant to the periods of high financial market volatility and ES indicator (Expected Shortfall).

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in exchange rates, evaluated on the basis of VaR and Expected ShortFall methods.

In millions of Russian Roubles		2009	2008
At period end	(Short)/long position	(1 249)	1 539
	VAR	16	12
	Expected ShortFall	26	17

Equity risk taken by the Group is assessed as insignificant due to limited volumes of transactions.

In September 2008 the Group approved the new equity risk assessment methodology that now includes volatility estimation by GARCH method, which is more relevant to the periods of high financial market volatility and ES indicator (Expected Shortfall).

The below table shows possible changes in financial results and equity during one day as a result of possible fluctuations in stock quotations, evaluated on the basis of VaR and Expected ShortFall methods.

The table below shows absolute risk value, whereby positions, balanced by cross obligations (no such obligations as at 31 December 2009), and also equity securities available for sale positions (as long-range investments) are not taken for the calculation of market risk.

In millions of Russian Roubles		2009	2008
At period end	Long position	-	5
	VAR	-	-
	Expected ShortFall	-	1

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32 Financial Risk Management (Continued)

Geographical risk concentration. The geographical concentration of the Group's assets and liabilities at 31 December 2009 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	47 422	47 534	2	94 958
Mandatory cash balances with the CBRF	2 974	-	-	2 974
Trading securities	18 022	-	-	18 022
Repurchase receivable	3 467	-	-	3 467
Other financial instruments at fair value through profit or loss	-	4 070	-	4 070
Derivative financial instruments	-	28 289	-	28 289
Due from other banks	6 069	24 380	7 343	37 792
Loans and advances to customers	584 407	-	-	584 407
Investment securities available for sale	7 800	-	-	7 800
Investment securities held to maturity	7 732	-	-	7 732
Deferred income tax asset	400	-	-	400
Goodwill	298	-	-	298
Intangible assets	1 023	-	-	1 023
Premises and equipment	27 446	-	-	27 446
Current income tax prepayment	229	-	-	229
Other assets	11 269	1	487	11 757
Total assets	**718 558**	**104 274**	**7 832**	**830 664**
Liabilities				
Derivative financial instruments	37	130	-	167
Due to other banks	104 371	87 320	319	192 010
Customer accounts	230 303	-	-	230 303
Promissory notes issued	12 567	-	-	12 567
Other borrowed funds	57 643	158 841	-	216 484
Syndicated loans	-	7 570	-	7 570
Deferred income tax liability	1 815	-	-	1 815
Other liabilities	7 841	1	-	7 842
Subordinated debts	25 000	21 370	-	46 370
Total liabilities	**439 577**	**275 232**	**319**	**715 128**
Net position in on-balance sheet positon	**278 981**	**(170 958)**	**7 513**	**115 536**
Credit related commitments	**36 927**	**-**	**-**	**36 927**

*OECD – Organisation for Economic Cooperation and Development.

Assets, liabilities and credit related commitments have been classified according to the country in which the counterparty is located.Cash on hand and premises and equipment have been classified according to the country in which they are physically held.

32 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2008 is set out below:

In millions of Russian Roubles	Russia	OECD*	Other countries	Total
Assets				
Cash and cash equivalents	42 005	41 172	-	83 177
Mandatory cash balances with the CBRF	963	-	-	963
Trading securities	17 668	-	-	17 668
Other financial instruments at fair value through profit or loss	-	4 439	-	4 439
Derivative financial instruments	-	30 777	-	30 777
Due from other banks	32 503	61 317	3 060	96 880
Loans and advances to customers	452 301	-	-	452 301
Investment securities available for sale	4 793	-	-	4 793
Investment securities held to maturity	10 207	-	-	10 207
Deferred income tax asset	14	-	-	14
Intangible assets	741	-	-	741
Premises and equipment	8 932	-	-	8 932
Current income tax prepayment	177	-	-	177
Other assets	2 045	-	-	2 045
Total assets	**572 349**	**137 705**	**3 060**	**713 114**
Liabilities				
Derivative financial instruments	242	4 011	-	4 253
Due to other banks	132 204	110 557	341	243 102
Customer accounts	152 615	1 880	-	154 495
Promissory notes issued	9 845	-	-	9 845
Other borrowed funds	43 675	132 239	-	175 914
Syndicated loans	-	10 532	-	10 532
Deferred income tax liability	569	-	-	569
Other liabilities	1 105	1	-	1 106
Subordinated debts	25 000	20 540	-	45 540
Total liabilities	**365 255**	**279 760**	**341**	**645 356**
Net position in on-balance sheet positon	**207 094**	**(142 055)**	**2 719**	**67 758**
Credit related commitments	**27 224**	**-**	**-**	**27 224**

*OECD – Organisation for Economic Cooperation and Development.

***Liquidity risk*.** Liquidity risk is defined as the risk of the Group's inability to meet its obligations on a timely and full basis. The Group is exposed to daily calls on its available cash resources from customer accounts, demand deposits, maturing interbank loans (deposits), term deposits and issued securities, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Bank manages liquidity risk on the basis of the following principles:

- segregation of duties between the Bank's management bodies, its collegial working bodies, structural units and executives;
- setting limits ensuring an optimal liquidity level and corresponding to the Bank's financial position;
- priority of maintaining liquidity over profit maximisation;
- excluding conflicts of interest in organising the liquidity management system;
- optimal matching of the volumes and maturities of funding sources with the volumes and maturities of placed assets.

32 Financial Risk Management (Continued)

The responsibility for liquidity management rests with the Bank's Management Board, Resource Committee and the Treasury. The responsibility for maintaining an optimal level of current (short-term) liquidity rests with the Treasury of the Bank's Head Office within the set limits of attraction/placement of funds in the money market. In case of necessity to attract/place funds in the volumes exceeding the set limits, such decisions are made by the Bank's Management Board (Resource Committee). Medium-term and long-term liquidity management is carried out with consideration of information and proposals provided by the Risk Evaluation and Management Department at each end of reporting period.

The Bank manages liquidity risk using the following basic methods:

- evaluating the daily payment position on the basis of cash flow analysis;
- reviewing the actual values and changes in mandatory liquidity ratios;
- evaluating structure and quality of assets and liabilities;
- setting limits on asset-side transactions by types of investments;
- analysing maturity gaps of the Group on the basis of the most likely claim/repayment dates by main currencies;
- analysing the Group's exposure to liquidity risk with consideration of stress factors's impact on various scenarios covering standard and more unfavourable market conditions.

Information on financial assets and liabilities (their structure and gaps within certain time intervals) is used in management decisions on the Bank's liquidity maintenance at an adequate level. Treasury is responsible to maintain short-term assets portfolio of liquid trading securities, deposits with banks and other interbank instruments.

The Bank maintains a stable financing base consisting mainly of funds that were attracted through placing of bonds in roubles and currencies, increasing the volume of deposits (including interbank deposits), issuing promissory notes and also current resources of the Group as a result of an increase in customer current accounts.

The Bank develops and promptly reviews a contingency plan for maintaining the necessary liquidity level with consideration of any changes in the Bank's financial position and volume and nature of its transactions. In case of a liquidity crisis and additional expenses to be incurred in this respect, as well as for coverage of incurred or potential financial losses all decision-making responsibilities are transferred to the Management Board and Resource Committee.

Compliance with liquidity requirements set by the Bank of Russia is forecasted on a daily basis for the Bank in general with consideration of the branch network. The Bank sets and daily monitors individual liquidity sublimits for its regional branches.

For the purpose of additional management of the Bank's term liquidity in general, the Group uses estimated liquidity ratios, the level of which is supervised by the Risk Evaluation and Monitoring Department as part of ongoing monitoring.

The table below shows distribution of financial liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows of the Group's financial liabilities and off-balance sheet credit related committments. Such undiscounted cash flows differ from the amount included in the statement of financial position, since the amount in statement of financial position is based on discounted cash flows. Net settled derivative financial instruments are included at the net amounts expected to be paid. In respect of gross settled derivative financial instruments, payments are presented for related cash inflows and outflows separately.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

Overdue liabilities, including term deposits undrawn by the Bank's customers are categorised as demand and less than 30 days.

32 Financial Risk Management (Continued)

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

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(1 114)	(87 967)	(3 797)	(47 515)	(110 071)	(250 464)
- outflow	1 391	85 313	4 955	46 457	102 743	240 859
Net settled derivative financial instruments (liabilities)	37	-	-	-	-	37
Due to other banks	33 076	70 762	29 975	21 200	60 689	215 702
Customer accounts	94 714	80 392	49 260	13 339	614	238 319
Promissory notes issued	214	995	11 146	1 183	472	14 010
Other borrowed funds	756	34 221	23 257	66 366	161 007	285 607
Syndicated loans	-	7 597	-	-	-	7 597
Subordinated debts	-	1 090	2 104	26 437	38 956	68 587
Other financial liabilities	728	1 889	2 432	258	190	5 497
Off-balance sheet financial liabilities						
Sureties issued	35 059	-	-	-	-	35 059
Guarantees issued	68	133	-	21	25	247
Letters of credit	19	40	166	509	-	734
Other credit related commitments	23 313	-	-	-	-	23 313
Total potential future payments for financial obligations	**188 261**	**194 465**	**119 498**	**128 255**	**254 625**	**885 104**

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

In millions of Russian Roubles	Demand and less than 30 days	Due between 31 and 180 days	Due between 181 days and 1 year	From 1 to 3 years	More than 3 years	Total
Financial liabilities						
Gross settled derivative financial instruments						
- inflow	(4 193)	(14 543)	(5 896)	(122 293)	(113 551)	(260 476)
- outflow	3 468	14 784	6 173	135 592	140 873	300 890
Net settled derivative financial instruments (liabilities)	241	-	-	-	-	241
Due to other banks	3 823	147 218	16 041	22 456	86 629	276 167
Customer accounts	50 546	45 604	56 568	8 984	431	162 133
Promissory notes issued	3 200	1 451	5 489	14	58	10 212
Other borrowed funds	978	16 147	12 063	67 906	142 569	239 663
Syndicated loans	49	202	3 339	7 506	-	11 096
Subordinated debts	-	1 114	3 154	20 152	47 461	71 881
Other financial liabilities	2	-	-	-	-	2
Off-balance sheet financial liabilities						
Sureties issued	21 042	-	-	-	-	21 042
Guarantees issued	-	20	13	-	21	54
Letters of credit	43	1 423	651	8	2	2 127
Other credit related commitments	19 812	-	-	-	-	19 812
Total potential future payments for financial obligations	**99 011**	**213 420**	**97 595**	**140 325**	**304 493**	**854 844**

32 Financial Risk Management (Continued)

The future minimum lease payments under non-cancellable operating lease commitments where the Group is a lessee is disclosed in Note 34.

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

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The tables presented below are based on the management reports on the Bank's liquidity risk at the stated dates that were issued in accordance with the Net liquidity Gap Methodology approved by the Bank. These reports are prepared using the information extracted from the accounting system, which is based on the Russian Accounting Rules (RAR).

The table below summarizes analysis of liquidity risk at 31 December 2009:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	142 639	72 699	136 582	136 989	226 337	222 204	20 882	958 332
Total financial liabilities*	132 041	143 681	90 059	95 385	114 886	260 471	-	836 523
Net liquidity gap	**10 598**	**(70 982)**	**46 523**	**41 604**	**111 451**	**(38 267)**	**20 882**	**121 809**
Cumulative liquidity gap	**10 598**	**(60 384)**	**(13 861)**	**27 743**	**139 194**	**100 927**	**121 809**	**-**

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

The table below summarize analysis of liquidity risk at 31 December 2008:

In millions of Russian Roubles	**Demand and less than 30 days**	**Due between 31 and 90 days**	**Due between 91 and 180 days**	**Due between 181 and 1 year**	**From 1 to 3 years**	**More than 3 years**	**Overdue**	**Total**
Total financial assets*	132 474	81 144	67 310	109 719	205 843	207 995	8 626	813 111
Total financial liabilities*	59 988	107 652	100 920	88 203	154 598	233 138	-	744 499
Net liquidity gap	**72 486**	**(26 508)**	**(33 610)**	**21 516**	**51 245**	**(25 143)**	**8 626**	**68 612**
Cumulative liquidity gap	**72 486**	**45 978**	**12 368**	**33 884**	**85 129**	**59 986**	**68 612**	**-**

* Total financial assets and total financial liabilities include gross positions in derivative financial instruments with gross settlements valued at spot foreign exchange rates as they are accounted in accordance with RAR.

32 Financial Risk Management (Continued)

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customers accounts being on demand diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

33 Management of Capital

The Group's objectives when managing capital are

i. to comply with the capital requirements set by the Central Bank of the Russian Federation,

ii. to ensure the Group's ability to continue as a going concern and

iii. to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 8% 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 2005), commonly known as Basel I.

Compliance with the capital adequacy ratio set by the Central Bank of the Russian Federation is monitored by the Group's management on a monthly basis.

Under the current capital requirements set by the Central Bank of the Russian Federation banks have to maintain a ratio of capital and assets weighted to risk ("statutory capital ratio") above a prescribed minimum level. Regulatory capital is based on the Group's report prepared under Russian accounting standards and comprises:

In millions of Russian Roubles	**2009**	**2008**
Net assets under Russian legislation	111 126	63 928
Revaluation reserve	1 543	1 841
Subordinated debts	46 171	45 566
Other	(2 018)	(223)
Total regulatory capital	**156 822**	**111 112**

The Group is also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with Basel I.

The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In millions of Russian Roubles	**2009**	**2008**
Share capital	106 973	61 973
Retained earnings	6 572	6 337
Goodwill	(298)	-
Total tier 1 capital	113 247	68 310
Revaluation reserves	848	(552)
Subordinated debts	46 370	34 155
Total tier 2 capital	47 218	33 603
Total capital	**160 465**	**101 913**

Management of the Group is of the opinion that the Group complied with all the external capital adequacy requirements imposed by the Bank of Russia and loan covenants.

34 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received by court in justice. At 31 December the Group was engaged in the litigation in relation to restitution of an assignment agreement with a borrower. A provision of RR 200 million (2008: nil) was created by the management for this litigation. The management expects that this provision will be used by the end of 2010 after finalisation of all required legal procedures.

Tax legislation. Russian tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

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

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with related parties (according to the definition given in the Russian Tax Code), all international transactions (irrespective whether performed between related or unrelated parties), transactions where the price per taxpayer differs by more than 20% from the similar transaction's price of the same taxpayer within a short period of time, and barter transactions. There is no formal guidance how to apply these rules in practice. The past years' arbitration court practice with this respect has been contradictory.

The Management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as at 31 December 2009 the Management has not created any provision for potential tax liabilities (2008: nil).

Capital expenditure commitments. At 31 December 2009, the Group had contractual capital expenditure commitments of RR 175 million (2008: RR 445 million).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In millions of Russian Roubles	**2009**	**2008**
Not later than 1 year	1 531	1 220
Later than 1 year and not later than 5 years	3 591	2 963
Later than 5 years	2 713	2 420
Total operating lease commitments	**7 835**	**6 603**

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

34 Contingencies and Commitments (Continued)

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, sureties 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 authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

In millions of Russian Roubles	**2009**	**2008**
Sureties issued	35 059	21 042
Undrawn credit lines	887	4 001
Letters of credit	734	2 127
Guarantees issued	247	54
Total credit related commitments	**36 927**	**27 224**

Sureties issued represent financial guaranties for loans from the Central Bank of the Russian Federation, received by two large Russian banks. The fair value of sureties issued was negligible at 31 December 2009 (2008: RR 220 million).

The total outstanding contractual amount of sureties issued, undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at 31 December 2009 undrawn credit lines shown in the table above do not include cancellable commitments of RR 22 426 million (2008: RR 15 812 million), which are dependent on borrowers' compliance with certain creditworthiness criteria.

In 2009 no provision for losses on credit related commitments was created (2008: nil).

Credit related commitments are denominated in currencies as follows:

In millions of Russian Roubles	**2009**	**2008**
Russian Roubles	36 189	25 081
Euros	605	1 650
US Dollars	60	463
Other currencies	73	30
Total	**36 927**	**27 224**

Fiduciary assets. These assets are not included in the consolidated statement of financial position as they are not assets of the Group. Nominal values disclosed below are normally different from the fair values of respective securities.

34 Contingencies and Commitments (Continued)

The fiduciary assets fall into the following categories:

In millions of Russian Roubles	2009	2008
Corporate bonds held with the National Depository Centre	2 677	-
Promissory notes issued by the Bank	599	531
Promissory notes and securities of Russian companies held with the Bank	220	145
Municipal bonds held with the National Depository Centre	132	62
Shares and bonds of companies held with other depositories	41	-
Corporate shares held with the National Depository Centre	1	1

Assets pledged and restricted. The Group had assets pledged as follows:

In millions of Russian Roubles	Note	2009	2008
Under secured loans from the CBRF			
- loans to customers		48 125	-
- trading securities		5 760	-
- securities available for sale		1 628	-
- securities held to maturity		5 016	-
Under repo agreements			
- corporate securities	8	3 410	-
- municipal bonds	8	57	-

As at 31 December 2009 mandatory cash balances with the CBRF of RR 2 974 million (2008: RR 963 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 31 December 2009 the Bank's subsidiaries had pledged under the loan agreements with other banks production premises and equipment for the total amount of RR 428 million (2008: nil).

35 Derivative Financial Instruments

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

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

Foreign exchange swaps with settlement dates of more than 30 days are structured as loans issued in US Dollars, Euros, Swiss Francs and Japanese yen to four OECD banks with maturities from March 2010 to May 2023 and deposits in Russian Roubles received from the same four banks with the same maturities ("back to back loans"). These transactions were aimed at economically hedging the currency exposure of the Group.

International credit rankings of these banks were not less than BB- as at 31 December 2009 (2008: not less than BB-).

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (including bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring of any Bank's obligation on its debts, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, in some instances, the counterparty of the agreement, and/or the Russian Federation. No further mutual payment obligation between the parties is due, if a credit event or default event happens and the Group receives a formal Event Notice from its counterparty. Other of these swap agreements, in the case of a default event, will be terminated with a mark-to-market payment.

35 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2009 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	163 198	-	163 198
USD payable on settlement (-)	(30 011)	-	(30 011)
RR receivable on settlement (+)	25 130	-	25 130
RR payable on settlement (-)	(133 987)	-	(133 987)
Euros receivable on settlement (+)	-	3 317	3 317
RR payable on settlement (-)	-	(3 429)	(3 429)
CHF receivable on settlement (+)	16 098	-	16 098
RR payable on settlement (-)	(12 209)	-	(12 209)
JPY receivable on settlement (+)	1 761	1 806	3 567
RR payable on settlement (-)	(1 694)	(1 824)	(3 518)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	2 780	3 586	6 366
USD payable on settlement (-)	(2 777)	(3 622)	(6 399)
USD receivable on settlement (+)	-	272	272
RR payable on settlement (-)	-	(273)	(273)
Term contracts on sale of securities: fair value at the end of the reporting period			
RR receivable on settlement (+)	-	187	187
Short position (-)	-	(187)	(187)
Total net fair value	**28 289**	**(167)**	**28 122**

35 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions at 31 December 2008 and covers the contracts with settlement dates after the respective end of the reporting period:

In millions of Russian Roubles	Contracts with positive fair value	Contracts with negative fair value	Total
Foreign exchange swaps with settlement dates of more than 30 days: fair values at the end of the reporting period, of			
USD receivable on settlement (+)	88 069	32 160	120 229
USD payable on settlement (-)	-	(43 696)	(43 696)
RR receivable on settlement (+)	-	30 406	30 406
RR payable on settlement (-)	(62 730)	(22 268)	(84 998)
Euros receivable on settlement (+)	3 194	-	3 194
RR payable on settlement (-)	(2 277)	-	(2 277)
CHF receivable on settlement (+)	12 689	-	12 689
RR payable on settlement (-)	(8 168)	-	(8 168)
JPY receivable on settlement (+)	-	1 201	1 201
RR payable on settlement (-)	-	(1 815)	(1 815)
Foreign exchange forwards with settlement dates from 2 to 30 days: fair values at the end of the reporting period, of			
RR receivable on settlement (+)	-	19 317	19 317
USD payable on settlement (-)	-	(19 558)	(19 558)
Total net fair value	**30 777**	**(4 253)**	**26 524**

As at 31 December 2009 receivables and payables on settlement of foreign exchange swaps included the balances with one foreign bank in the amount of RR 84 345 million and RR 68 156 million, respectively, or 40% of total receivables or 37% of total payables on settlement of foreign exchange swaps (2008: RR 87 644 million and RR 73 945 million, respectively, or 52% of total receivables or payables on settlement on foreign exchange swaps).

36 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The best evidence of the fair value is the quotation of the financial instrument in an active market.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, securities available for sale, securities categorised as "repurchase receivable" are carried on the consolidated statement of financial position at their fair value based on quoted market prices.

Other financial instruments at fair value through profit or loss and derivative financial instruments including embedded derivatives are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets.

C*ash and cash equivalents* are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities is based on market prices/dealer price quotations. Where this information is not available, fair value is based on valuation technique with inputs observable in markets.

Liabilities carried at amortised cost. The fair value of other borrowed funds is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

36 Fair Value of Financial Instruments (Continued)

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty. The analysis of these rates (in % p.a.) is as follows:

	2009	2008
Due from other banks		
Short-term placements with other banks with original maturity more than one month	7%-15%	7%-42%
Loans and advances to customers		
Corporate loans	9%-21%	9%-20%
Loans to individuals	8%-25%	10%-24%
Securities held to maturity	3%-13%	6%-25%
Due to other banks	1%-11%	2%-24%
Customer accounts		
- Term deposits of legal entities	2%-15%	2%-13%
- Term deposits of individuals	2%-13%	3%-13%
Promissory notes issued	2%-15%	5%-12%
Syndicated loans	1%	5%-6%
Subordinated debts	2-8%	4%-8%

36 Fair Value of Financial Instruments (Continued)

(a) Fair value of financial instruments not measured at fair value and

(b) Financial instruments measured at fair value

	2009		2008	
In millions of Russian Roubles	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS CARRIED AT AMORTISED COST				
Cash and cash equivalents				
- cash on hand	12 373	12 373	5 504	5 504
- cash balances with the CBRF (other than mandatory reserve deposits)	17 691	17 691	27 841	27 841
- correspondent accounts and placements with other banks with original maturities of less than one month	64 894	64 894	49 832	49 832
Mandatory cash balances with the CBRF	2 974	2 974	963	963
Due from other banks	37 792	37 792	96 880	96 880
Loans and advances to customers				
- Loans to corporates	475 129	466 428	383 298	375 944
- Lending for food interventions	42 666	42 666	10 442	10 442
- Reverse repo agreements	894	894	622	622
- Investments in agricultural cooperatives	694	694	682	682
- Loans to individuals	65 024	64 271	57 257	56 041
Investment securities held to maturity	7 732	7 283	10 207	8 644
Other financial assets	4 168	4 168	145	145
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**732 031**	**722 128**	**643 673**	**633 540**
FINANCIAL ASSETS CARRIED AT FAIR VALUE	**61 648**	**61 648**	**57 677**	**57 677**
TOTAL FINANCIAL ASSETS	**793 679**	**783 776**	**701 350**	**691 217**
FINANCIAL LIABILITIES CARRIED AT AMORTISED COST				
Due to other banks				
- Term borrowings from other banks	121 800	121 800	137 256	137 256
- Term borrowings from the CBRF	70 126	70 126	105 827	105 827
- Correspondent accounts and overnight placements of other banks	84	84	19	19
Customer accounts				
- State and public organisations	57 818	57 818	34 946	34 946
- Other legal entities	91 138	91 138	69 153	69 153
- Individuals	81 347	81 676	50 396	50 396
Promissory notes issued	12 567	12 567	9 845	9 845
Other borrowed funds				
- Eurobonds issued	158 841	169 636	132 239	92 281
- Bonds issued on domestic market	57 643	58 769	43 675	43 141
Syndicated loans	7 570	7 570	10 532	10 532
Other financial liabilities	5 486	5 486	221	221
Subordinated debts	46 370	46 310	45 540	39 456
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**710 790**	**722 980**	**639 649**	**593 073**
FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**167**	**167**	**4 253**	**4 253**
TOTAL FINANCIAL LIABILITIES	**710 957**	**723 147**	**643 902**	**597 326**

36 Fair Value of Financial Instruments (Continued)

(c) Analysis by fair value hierarchy of financial instruments carried at fair value

Analysis of financial instruments at fair value at 31 December 2009 is as follows:

In million of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading securities	18 022	-	18 022
Repurchase receivable	3 467	-	3 467
Other financial instruments at fair value through profit or loss	-	4 070	4 070
Investment securities available for sale	7 800	-	7 800
Derivative financial instruments assets	-	28 289	28 289
Financial liabilities			
Derivative financial instruments liabilities	-	(167)	(167)

Analysis of financial instruments at fair value at 31 December 2008 is as follows:

In million of Russian Roubles	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Total**
Financial assets			
Trading securities	17 668	-	17 668
Other financial instruments at fair value through profit or loss	-	4 439	4 439
Investment securities available for sale	4 793	-	4 793
Derivative financial instruments assets	-	30 777	30 777
Financial liabilities			
Derivative financial instruments liabilities	-	(4 253)	(4 253)

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) at 31 December 2009 (2008: nil).

37 Presentation of Financial Instruments by Measurement Category

According to the IAS 39, *Financial Instruments: Recognition and Measurement*, the Group classifies its financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit and loss. Financial assets at fair value through profit and loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) financial assets held for trading. The table below provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009.

In millions of Russian Roubles	**Loans and receivables**	**Available for sale assets**	**Trading assets**	**Financial assets designated at fair value through profit or loss**	**Held-to-maturity assets**	**Total**
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	12 373	-	-	-	-	12 373
- cash balances with the CBRF (other than mandatory reserve deposits)	17 691	-	-	-	-	17 691
- correspondent accounts and placements with other banks with original maturities of less than one month	64 894	-	-	-	-	64 894
Mandatory cash balances with the CBRF	2 974	-	-	-	-	2 974
Trading securities						
- Debt securities	-	-	18 022	-	-	18 022
Repurchase receivable	-	-	3 467	-	-	3 467
Other financial instruments at fair value through profit or loss	-	-	-	4 070	-	4 070
Derivative financial instruments	-	-	28 289	-	-	28 289
Due from other banks	37 792	-	-	-	-	37 792
Loans and advances to customers						
- Loans to corporates	475 129	-	-	-	-	475 129
- Lending for food interventions	42 666	-	-	-	-	42 666
- Reverse repo agreements	894	-	-	-		894
- Investments in agricultural cooperatives	694	-	-	-	-	694
- Loans to individuals	65 024	-	-	-	-	65 024
Investment securities available for sale	-	7 800	-	-	-	7 800
Investment securities held to maturity	-	-	-	-	7 732	7 732
Other financial assets	4 168	-	-	-	-	4 168
TOTAL FINANCIAL ASSETS	**724 299**	**7 800**	**49 778**	**4 070**	**7 732**	**793 679**
Non-financial assets						**36 985**
TOTAL ASSETS	**724 299**	**7 800**	**49 778**	**4 070**	**7 732**	**830 664**

37 Presentation of Financial Instruments by Measurement Category (Continued)

The table below provides a reconciliation of classes of financial assets with measurement categories mentioned above as at 31 December 2008.

In millions of Russian Roubles	Loans and receivables	Available for sale assets	Trading assets	Financial assets designated at fair value through profit or loss	Held-to-maturity assets	Total
FINANCIAL ASSETS						
Cash and cash equivalents						
- cash on hand	5 504	-	-	-	-	5 504
- cash balances with the CBRF (other than mandatory reserve deposits)	27 841	-	-	-	-	27 841
- correspondent accounts and placements with other banks with original maturities of less than one month	49 832	-	-	-	-	49 832
Mandatory cash balances with the CBRF	963	-	-	-	-	963
Trading securities						
- Debt securities	-	-	17 668	-	-	17 668
Other financial instruments at fair value through profit or loss	-	-	-	4 439	-	4 439
Derivative financial instruments	-	-	30 777	-	-	30 777
Due from other banks	96 880	-	-	-	-	96 880
Loans and advances to customers						
- Loans to corporates	383 298	-	-	-	-	383 298
- Lending for food interventions	10 442	-	-	-	-	10 442
- Reverse repo agreements	622	-	-	-	-	622
- Investments in agricultural cooperatives	682	-	-	-	-	682
- Loans to individuals	57 257	-	-	-	-	57 257
Investment securities available for sale	-	4 793	-	-	-	4 793
Investment securities held to maturity	-	-	-	-	10 207	10 207
Other financial assets	145	-	-	-	-	145
TOTAL FINANCIAL ASSETS	**633 466**	**4 793**	**48 445**	**4 439**	**10 207**	**701 350**
Non-financial assets						**11 764**
TOTAL ASSETS	**633 466**	**4 793**	**48 445**	**4 439**	**10 207**	**713 114**

All of the Group’s financial liabilities except for derivative financial instruments are carried at amortised cost. Derivative financial instruments are classified as held for trading.

38 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank’s only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property (Refer to Note1).

38 Related Party Transactions (Continued)

The Group has used the exemption allowed by IAS 24 (Revised) from the disclosures required in relation to related parties transactions and outstanding balance with government controlled entities.

In these consolidated financial statements the most significant transactions with related parties controlled by the Russian state are disclosed.

The Group has the following collectively insignificant transactions with related parties:

- interest income on cash equivalents, trading securities, investment securities available for sale, investment securities held to maturity, due from other banks;
- interest expense on due to other banks;
- results from operation with trading securities and available for sale;
- other.

As the result of application of IAS 24, the Group has disclosed as comparatives only individually significant transactions and balances, including commitments.

In millions of Russian Roubles	**2009**	**2008 Restated**	**2008 as originally presented**
Loans and advances to customers			
State-controlled companies (contractual interest rate: 7%-12% p.a. (2008: 7%-9% p.a.))	44 794	22 184	30 146
Key management and their family members (contractual interest rate: 5%-22% p.a. (2008: 5%-8% p.a.))	32	34	34
Provision for loan impairment at the year end			
State-controlled companies	(9)	(27)	(266)
Term deposits and current/settlement accounts			
State-controlled companies (contractual interest rate for term deposits 7%-16% p.a. (2008: 11%-13% p.a.)	64 438	44 302	51 123
Key management and their family members (contractual interest rate for term deposits: 2%-13% p.a. (2008: 4%-13% p.a.)	532	312	312
Subordinated debts (contractual interest rate 8% p.a.)	25 000	25 000	25 000
Off-balance sheet			
Sureties with state-controlled banks	35 059	-	-

38 Related Party Transactions (Continued)

The income and expense items with related parties were as follows:

In millions of Russian Roubles	2009	2008 Restated	2008 as originally presented
Interest income on loans and advances to customers			
State-controlled companies	3 907	133	1 136
Key management and their family members	2	1	1
Interest expense on customer accounts			
State-controlled companies	(11 814)	(1 674)	(1 725)
Key management and their family members	(47)	(27)	(27)
Interest expense on subordinated debts			
State-controlled companies	(2 000)	(377)	(377)

In 2009, the total remuneration of the members of the Management Board was RR 155 million (2008: RR 196 million).

	2009		2008	
In millions of Russian Roubles	Remuneration paid	Accrued liability	Remuneration paid	Accrued liability
Short-term benefits:				
Salary, social security costs and short-term bonuses included in salary	132	13	174	14
Post-employment benefits:				
- Defined contribution retirement scheme	9	-	7	-
- State pension and social costs	1	-	1	-
Total	**142**	**13**	**182**	**14**

Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

39 Principal Consolidated Subsidiaries and a Special Purpose Entity

As at 31 December 2009, the Bank's principal consolidated subsidiaries were as follows:

Name	Nature of business	Effective percentage of ownership	Country of registration
Subsidiaries			
Closed Joint-Stock Company Chelyabinsky Commercial Land Bank	Bank	99.47%	Russia
Limited Liability Company TD Agrotorg	Trading	99.00%	Russia
Limited Liability Company TD Agrotorg Tulsky	Trading	99.00%	Russia
Open Joint-Stock Company Rassvet	Animal agriculture	99.03%	Russia
Open Joint-Stock Company Luzhskiy kombikormoviy zavod	Compound animal feedstuff	87.53%	Russia
Open Joint-Stock Company Luzhskiy myasokombinat	Meet processing	98.43%	Russia
Open Joint-Stock Company Albashskiy elevator	Grain storage	75.00%	Russia
Open Joint-Stock Company Beloglinskiy elevator	Grain storage	80.41%	Russia
Open Joint-Stock Company Velichkovskiy elevator	Grain storage	80.03%	Russia
Open Joint-Stock Company Eyanskiy elevator	Grain storage	76.68%	Russia
Open Joint-Stock Company Krilovskiy elevator	Grain storage	75.64%	Russia
Open Joint-Stock Company Ladoshskiy elevator	Grain storage	80.34%	Russia
Open Joint-Stock Company Malorossiyskiy elevator	Grain storage	75.75%	Russia
Open Joint-Stock Company Rovnenskiy elevator	Grain storage	75.13%	Russia
Open Joint-Stock Company Stepnyanskiy elevator	Grain storage	75.01%	Russia
Open Joint-Stock Company Umanskiy elevator	Grain storage	97.88%	Russia
Limited Liability Company Bashkirskaya saharnaya kompaniya	Trading	98.01%	Russia
Limited Liability Company Karlamansky sakhar	Food processing	98.01%	Russia
Limited Liability Company Raevsakhar	Food processing	98.01%	Russia
Limited Liability Company Dominant	Agriculture	74.25%	Russia
Limited Liability Company Agroinvest	Agriculture	74.25%	Russia
Closed Joint-Stock Company Agroproekt	Financial services	74.25%	Russia
Limited Liability Company Agrolyuks	Compound animal feedstuff and other productions	57.31%	Russia
Closed Joint-Stock Company Khomyakovsky khladokombinat	Food processing	76.15%	Russia
Limited Liability Company Optovye tekhnologii	Food processing	76.15%	Russia
Closed Joint-Stock Company Agroholding SP-Kholod	Food processing	76.15%	Russia
Limited Liability Company Brigantina	Food processing	76.15%	Russia
Special purpose entity			
RSHB Capital S.A.	Eurobond issue	-	Luxemburg

Percentage of voting rights for all principal consolidated subsidiaries are the same as effective percentage of ownership, except for Open Joint-Stock Company Luzhskiy kombikormoviy zavod, for which percentage of voting rights is equal to 75.60%.

39 Principal Consolidated Subsidiaries and a Special Purpose Entity (Continued)

As at 31 December 2008, the Bank's principal consolidated subsidiaries were as follows:

Name	Nature of business	Effective percentage of ownership	Country of registration
Subsidiaries			
Closed Joint-Stock Company Chelyabinsky Commercial Land Bank	Bank	99.47%	Russia
Limited Liability Company TD Agrotorg	Trading entity	99.00%	Russia
Special purpose entity			
RSHB Capital S.A.	Eurobond issue	-	Luxemburg

RSHB Capital S.A. was registered in Luxembourg in 2005. The Company is owned by the foundations established under the laws of the Netherlands and has been established as a special purpose vehicle for the sole purpose of issuing Eurobonds and lending the issue proceeds to the Bank (refer to the Notes 20, 23).

40 Business Combinations

During the year ended 31 December 2009 the Group acquired from its borrowers as part of the loan restructuring the following entities:

Name	Nature of business	Effective percentage of ownership	Acquisition date
Business combinations (the Krasnodar Region):			
Open Joint-Stock Company Albashskiy elevator	Grain storage	75.00%	25 June 2009
Open Joint-Stock Company Beloglinskiy elevator	Grain storage	80.41%	25 June 2009
Open Joint-Stock Company Velichkovskiy elevator	Grain storage	80.03%	25 June 2009
Open Joint-Stock Company Eyanskiy elevator	Grain storage	76.68%	25 June 2009
Open Joint-Stock Company Krilovskiy elevator	Grain storage	75.64%	25 June 2009
Open Joint-Stock Company Ladoshskiy elevator	Grain storage	80.34%	25 June 2009
Open Joint-Stock Company Malorossiyskiy elevator	Grain storage	75.75%	25 June 2009
Open Joint-Stock Company Rovnenskiy elevator	Grain storage	75.13%	25 June 2009
Open Joint-Stock Company Stepnyanskiy elevator	Grain storage	75.01%	25 June 2009
Open Joint-Stock Company Umanskiy elevator	Grain storage	97.88%	25 June 2009
Business combinations (The Leningrad Region):			
Open Joint-Stock Company Rassvet	Cattle farming	99.03%	31 March 2009
Open Joint-Stock Company Luzhskiy kombikormoviy zavod	Compound animal feedstuff	87.53%	27 April 2009
Open Joint-Stock Company Luzhskiy Myasokombinat	Meet processing	98.43%	27 April 2009
Business combinations (The Samara Region):			
Limited Liability Company Dominant	Agriculture	74.25%	17 September 2009
Limited Liability Company Agroinvest	Agriculture	74.25%	17 September 2009
Closed Joint-Stock Company Agroproekt	Financial services	74.25%	13 October 2009
Limited Liability Company Agrolyuks	Compound animal feedstuff and other productions	57.31%	2 November 2009
Business combinations (The Tula Region):			
Closed Joint-Stock Company Khomyakovsky Khladokombinat	Food processing	76.15%	12 October 2009
Limited Liability Company Optovye tekhnologii	Food processing	76.15%	12 October 2009
Closed Joint-Stock Company Agroholding SP-Kholod	Food processing	76.15%	12 October 2009
Limited Liability Company Brigantina	Food processing	76.15%	12 October 2009

40 Business Combinations (Continued)

The acquired subsidiaries contributed the following revenue and profit/(loss) to the Group for the period from the date of acquisition to 31 December 2009:

In millions of Russian Roubles	Revenue	Losses before tax
Business combinations (The Krasnodar Region)	123	(184)
Business combinations (The Leningrad Region)	839	(10)
Business combinations (The Samara Region)	70	(207)
Business combinations (The Tula Region)	65	(88)

The consideration paid by the Group for the above acquisitions was based on the results of an external independent appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences and as set out in the table below, may result in recognition of goodwill.

Details of the assets and liabilities acquired from business combination in the Krasnodar Region are as follows:

In millions of Russian Roubles	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents	2	2
Premises and equipment	218	8 007
Trade receivables	1 845	1 845
Other assets	84	84
Net deferred tax assets/(liabilities)	209	(1 349)
Trade payables	(2 976)	(2 976)
Fair value of net assets of subsidiaries	**(618)**	**5 613**
Less: non-controlling interests		(1 161)
Fair value of acquired interest in net assets of subsidiaries		**4 452**

Details of the assets and liabilities acquired from business combination in the Leningrad Region are as follows:

In millions of Russian Roubles	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents	42	42
Loans and advances to customers	76	76
Premises and equipment	608	2 051
Trade receivables	480	480
Other assets	284	284
Due to other banks and legal entities	(953)	(953)
Net deferred tax assets/(liabilities)	(11)	(299)
Trade payables	(332)	(332)
Other liabilities	(2)	(2)
Fair value of net assets of subsidiaries	**192**	**1 347**
Less: non-controlling interests		(100)
Fair value of acquired interest in net assets of subsidiaries		**1 247**

40 Business Combinations (Continued)

Details of the assets and liabilities acquired from business combination in the Samara Region are as follows:

In millions of Russian Roubles	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Cash and cash equivalents	13	13
Loans and advances to customers	2 496	2 496
Premises and equipment	5 371	5 371
Trade receivables	55	55
Other assets	242	242
Due to other banks and legal entities	(6 043)	(6 043)
Net deferred tax assets/(liabilities)	23	23
Trade payables	(391)	(391)
Other liabilities	(298)	(298)
Fair value of net assets of subsidiaries	**1 468**	**1 468**
Less: non-controlling interests		(378)
Fair value of acquired interest in net assets of subsidiaries		**1 090**

Details of the assets and liabilities acquired from business combination in the Tula Region are as follows:

In millions of Russian Roubles	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Cash and cash equivalents	10	10
Loans and advances to customers	215	215
Premises and equipment	796	969
Trade receivables	671	671
Other assets	97	97
Due to other banks and legal entities	(732)	(732)
Net deferred tax assets/(liabilities)	81	46
Trade payables	(136)	(136)
Other liabilities	(853)	(853)
Fair value of net assets of subsidiaries	**149**	**287**
Less: non-controlling interests		(73)
Fair value of acquired interest in net assets of subsidiaries		**214**

The purchase consideration comprises of the following:

In millions of Russian Roubles	**Business combination (the Krasnodar Region)**	**Business combination (The Leningrad Region)**	**Business combination (The Samara Region)**	**Business combination (The Tula Region)**
Purchase consideration				
Loans and advances to customers repayment	3 152	1 247	1 343	391
Cash paid	1 598	-	-	-
Total purchase consideration	**4 750**	**1 247**	**1 343**	**391**
Fair value of acquired interest in net assets of subsidiary	4 452	1 247	1 090	214
Goodwill	**298**	**-**	**253**	**177**

40 Business Combinations (Continued)

In millions of Russian Roubles	**Business combination**
Outflow of cash and cash equivalents on acquisition	
Cash paid	1 598
Cash and cash equivalents of subsidiaries acquired	(67)
Outflow of cash and cash equivalents on acquisition	**1 531**

41 Events after the End of the Reporting Period

In February 2010 the Central Bank of the Russian Federation approved the share capital increase in the amount of RR 825 million.

In March 2010 the Group issued Eurobonds denominated in Russian Roubles in the amount of RR 30 000 million with maturity in March 2013 with semi-annual payment of coupon income at 7.5% p.a.

APPENDIX A
OVERVIEW OF THE RUSSIAN BANKING SECTOR AND REGULATION IN THE RUSSIAN FEDERATION

The following information relating to the Russian banking sector and regulation in Russia is for background purposes only. This information has been extracted from publicly available sources. RAB has not independently verified the following information. Although RAB accepts responsibility for extracting and reproducing such information accurately, none of RAB, the Arranger or the Dealers accepts responsibility for the accuracy of such information.

Introduction to the Russian Banking Sector

History and Development of the Russian Banking Sector

Prior to the reorganisation in 1987, the Soviet banking system consisted of the former State Bank of the USSR, or Gosbank (the predecessor to the CBR) ("**Gosbank**"), which allocated resources from the state budget according to the prevailing economic plan and whose regional branches held the current accounts of all production and trading entities, and Stroibank of the USSR and Vneshtorgbank of the USSR that primarily serviced payments relating to capital expenditure in connection with construction and infrastructure projects and the foreign trade of Soviet entities, respectively. Gosbank operated a network of "savings branches" (*sberegatelnyie kassy*), the predecessors to Sberbank branches, that offered retail banking services, mainly deposit taking and processing of utility bill payments, throughout the country.

In 1987, the Soviet banking system was partially liberalised. A few specialised banks developed to service specific industries, namely, Agroprombank (Farming Production Bank), Promstroibank (Production and Construction Bank), Zhilsotsbank (Bank for Housing Maintenance and Utilities Sector and Social Development), Vnesheconombank of the USSR (Bank for Foreign Economic Activity) and Sberbank of the USSR (Bank for Labour Savings and Lending to the Population).

Vnesheconombank of the USSR became the full successor of Vneshtorgbank of the USSR pursuant to Resolution No. 745 of the Council of Ministers of the USSR dated 14 June 1988.

During 1988-1989, many regional commercial banks emerged, primarily in the form of co-operatives or joint stock companies. In 1991, three of the specialised state banks were transformed into joint stock companies. Some regional branches of these specialised state banks became independent from their head offices through management buy-outs. Furthermore, after the collapse of the Soviet Union in November 1991, the CBR assumed all of Gosbank's functions in the Russian Federation, and the Russian Government liquidated Gosbank one month later.

During 1991-1998, the Russian banking system experienced rapid growth. The number of commercial banks in the Russian Federation increased from approximately 350 in 1990 to more than 2,500 in 1998. Several large privately-held banking groups were formed, including UNEXIM Bank, Inkombank, Menatep, Rossiyskiy Credit Bank and SBS-Agro. Although most private banks focused on providing banking services to newly privatised companies and governmental bodies, some private banks started to compete with state-owned banks by offering banking products to retail customers.

In 1998, the Russian financial market crisis, which occurred largely due to the Russian Government's default on much of its short-term domestic debt, signified the weakness of the Russian banking sector.

During this crisis many banks were subsequently reorganised, became bankrupt or were placed under the administration of the Agency for the Restructuring of Credit Organisations ("**ARCO**"), a state corporation established in 1999 to restructure defaulting banks and protect their creditors. In 2002, 14 banks were under ARCO's administration, and by 31 December 2002, 11 of them completed the financial restructuring process. Other defaulting banks were liquidated. As the Russian banking sector was stabilising during 2000-2004, ARCO's role decreased substantially. On 18 October 2003, the last credit organisation was withdrawn from ARCO's administration, and pursuant to Federal Law No. 87-FZ dated 28 July 2004, ARCO itself was liquidated. Pursuant to the Retail Deposit Insurance Law, the assets of ARCO were transferred to the state corporation Agency for Deposit Insurance (the "**Deposit Insurance Agency**"), which was established in January 2004 under the Retail Deposit Insurance Law.

The 1998 financial crisis revealed a lack of proper regulation of the Russian banking sector and reinforced concerns about the integrity of the banking system. However, during 1999-2003, the Russian banking system gradually recovered from the 1998 financial crisis. Higher liquidity levels and a shift from investments in Russian Government securities to corporate loans characterised this recovery.

From April to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and press speculation and, in some cases, regulatory and liquidity problems, several privately-owned Russian banks, including Guta Bank, experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, these banks faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed, or ceased or severely limited their operations.

The CBR adopted several measures in response to the 2004 crisis, including the immediate reduction of the mandatory reserves that banks must deposit with the CBR from 7 per cent. to 3.5 per cent. Accordingly, banks' borrowing costs declined. In addition, the Russian Government adopted legislation pursuant to which the CBR became responsible for payments to retail customers of insolvent Russian banks that did not participate in the retail deposit insurance system before their insolvency. The CBR was also given a power to impose, for a period of one year, a limit on interest rates on retail deposits. In addition, Russian banks became required to disclose certain information concerning the interest rates on retail deposits, their liabilities in respect of deposits and amounts of cash withdrawals by private depositors.

According to the CBR, as of 1 April 2012, the total assets of the Russian banking sector were 41,532.5 billion roubles as compared to 34,009.4 billion roubles as of 1 April 2011, with capital of the banking sector of 5,242.1 billion roubles as of 1 January 2012 as compared to 4,732.3 as of 1 January 2011. As of 1 March 2012, the total charter capital of Russian credit organisations was 1,285.4 billion roubles as compared to 1,205.0 billion roubles as of 1 March 2011.

One of the main sources of recent growth of the banks' financial resources was the increasing number of retail deposits. According to the CBR, the aggregate amount of retail deposits in the Russian banking sector increased from 7,485.0 billion roubles as of 1 January 2010 to 9,818.0 billion roubles as of 1 January 2011 and to 11,793.4 billion roubles as of 1 March 2012 (of which deposits in roubles amounted to 9,703.0 billion roubles and deposits in foreign currencies totalled 2,090.5 billion roubles). According to the CBR, the aggregate amount of corporate deposits increased from 5,466.6 billion roubles as of 1 January 2010 to 6,035.6 billion roubles as of 1 January 2011, and further to 7,325.3 billion roubles as of 1 March 2012 (of which deposits in roubles amounted to 4,768.4 billion roubles and deposits in foreign currencies totalled 2,556.9 billion roubles).

The remaining sources of growth of the banking sector's funding base are the increasing volumes of loans, deposits and other funds received from the CBR and interbank borrowings, amounting to 1,257.7 billion roubles and 4,130.0 billion roubles, respectively, as of 1 March 2012, as compared to 325.7 billion roubles and 3,754.9 billion roubles, respectively, as of 1 January 2011 and 1,423.1 billion roubles and 3,117.3 billion roubles, respectively, as of 1 January 2010.

As of 1 April 2012, the total amount of loans and other funding in roubles provided by Russian banks in roubles increased to 21,875.8 billion roubles (of which loans in the amount of 5,616.6 billion roubles were provided to retail customers, loans and other funding in the amount of 13,632.5 billion roubles were provided to corporate customers, excluding banks and other financial institutions, and loans and other funding in the amount of 376.6 billion roubles were provided to state financial agencies and non-budgetary funds) as compared to 16,099.2 billion roubles as of 1 January 2011 and 13,872.6 billion roubles as of 1 January 2010. The total amount of loans and other funding provided by Russian banks in foreign currencies amounted to 7,080.6 billion roubles as of 1 April 2012 (of which loans in the amount of 278.6 billion roubles were provided to retail customers, loans and other funding in the amount of 4,088.1 billion roubles were provided to corporate customers, excluding banks and other financial institutions, and no loans and other funding were provided to state financial agencies and non-budgetary funds) as compared to 6,041.0 billion roubles as of 1 January 2011 and 5,974.4 billion roubles as of 1 January 2010.

In accordance with the Federal Law No. 175-FZ "On Additional Measures Aimed at Improving the Stability of the Banking System for the Period until 31 December 2014" dated 27 October 2008, as amended (the "**Banking System Stability Law**") and the decisions made in September and October 2008 prior to the effective date of this law, Russian authorities and the CBR introduced certain measures intended to prevent bankruptcy of credit organisations. The number of credit organisations subject to such measures increased from seven (with assets of 576.2 billion roubles, or 2.3 per cent. of the total assets of Russian credit organisations) as of 1 November 2008 to 20 (with assets of 749.2 billion roubles, or 2.7 per cent. of the total assets of Russian credit organisations) as of 1 January 2009, but then decreased slightly to 18 as of 1 June 2010 and further to 12 as of 1 April 2011 (with assets of 511.2 billion roubles or 1.5 per cent. of the total assets of Russian credit organisations) and 8 as of 1 April 2012 (with assets of 1,715.8 billion roubles or 4.1 per cent of the total assets of Russian credit organisations).

Structure of the Russian Banking Sector

The Russian banking sector consists of the CBR and credit organisations which, in turn, consist of banks, which provide a wide range of banking services, and non-bank credit organisations, which provide only limited banking services, such as maintaining accounts and making payments. As of 1 April 2012, there were 975 credit organisations operating in the Russian Federation. Poor corporate governance, inadequate risk management, lack of transparency, absence of developed regional networks and weak management remain main characteristics of many Russian banks.

State-Owned Banks

State-owned banks continue to play a leading role in the Russian banking sector. Several state-owned banks focus on the implementation of Russian Government programmes, such as RAB in the agricultural sector and Roseximbank in respect of import-export operations.

Retail Banks

Sberbank and, to a lesser extent, VTB24 (former Guta Bank purchased and renamed by VTB (former Vneshtorgbank)), a subsidiary of VTB, are the leaders in retail banking operations. The collapse of large privately-owned banks, such as SBS-Agro and Inkombank, after the August 1998 financial crisis considerably undermined the credibility of privately-owned retail banks among retail customers. State-owned banks currently dominate this sector, partially because of the indirect state guarantee of their retail deposits and partially because of their large office networks.

Foreign Owned Banks

The presence of foreign owned banks in the Russian market had been kept limited until 2002 in order to protect the newly formed Russian banks. However, given that foreign banks were later prohibited to directly conduct business in the Russian Federation, many major foreign banks have established subsidiaries in Russia.

Currently, foreign owned banks may need to comply with certain additional requirements that may be established by the CBR. The maximum aggregate participation limit of foreign shareholders in the Russian banking system may be determined by a federal law proposed by the Russian Government in conjunction with the CBR, however no such law has been enacted.

According to the CBR, as of 1 March 2012, 113 credit organisations controlled by foreign groups holding more than 50 per cent. of their shares were operating in the Russian Federation, of which several ranked in the top 30 of all banks operating in the country by value of their assets. Of these 113 credit organisations, 77 were wholly-owned subsidiaries of foreign groups as of 1 March 2012.

Although certain foreign owned banks focus primarily on cash and settlement services to non-residents and interbank operations, many foreign owned banks, such as UniCredit Bank (formerly International Moscow Bank), Raiffeisenbank, Citibank, Bank Société Générale Vostok, Delta Bank and Bank DeltaCredit, offer the full range of services to their Russian customers, including retail deposits and loans.

Legislative Framework for the Russian Banking Sector

The Banking Law

Federal Law No. 395-1 "On Banks and Banking Activity" dated 2 December 1990, as amended (the "**Banking Law**") is the main law regulating the Russian banking sector. Among other things, it defines credit organisations, sets forth the list of banking operations and other transactions that credit organisations may perform, and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

The Association of Russian Banks, a non-profit self-regulatory organisation established pursuant to the Banking Law, offers technical support to its members and lobbies for the interests of commercial banks with various governmental bodies, including the Russian Parliament, the Russian Government and the CBR. As of 30 April 2012, the Association of Russian Banks consisted of 706 members, including 512 credit organisations.

Banking Operations

The Banking Law defines the following services as "banking operations" that require an appropriate licence from the CBR:

- taking deposits from individuals and legal entities (both demand and fixed-term deposits);
- investing deposited funds as principal;
- opening and maintaining bank accounts for individuals and legal entities;
- performing money transfers in accordance with the instructions from individuals and legal entities, including correspondent banks, from and to their bank accounts;
- services involving handling of cash, cheques, promissory notes, and payment documents, and other cash services to individuals and legal entities;
- purchase and sale of foreign currency (both cash and non-cash);
- taking deposits in precious metals and investing them;
- issuing bank guarantees; and
- performing money transfers, including electronic transfers, without opening bank accounts (excluding money transfers by post).

The Banking Law provides that a credit organisation may be authorised to take deposits from individuals only, *inter alia*, after it has been registered for two years or earlier, if it meets certain capital and disclosure requirements set out for newly established banks.

Other Activities

In addition to banking operations, credit organisations may:

- guarantee monetary obligations of third parties;
- purchase of receivables from third parties;
- engage in the fiduciary management (which differs from the concept of trust under English law) of monetary funds and other property for individuals and legal entities;
- engage in operations with precious metals and stones (in accordance with Federal Law No. 41-FZ "On Precious Metals and Precious Stones" dated 26 March 1998, as amended, and other legislation);
- rent out special premises and safe deposit boxes to individuals and legal entities;
- engage in leasing operations;
- provide consultancy and informational services; and
- enter into any other transactions in accordance with Russian law.

Under the Banking Law, a credit organisation cannot engage in manufacturing, commodities trading (excluding precious metals) or insurance activities. Article 15.26 of the Administrative Offences Code of the Russian Federation dated 30 December 2001, as amended, envisages a fine in an amount of between 40,000 and 50,000 roubles for non-compliance with this prohibition.

The Securities Market Law

A banking licence does not authorise a credit organisation to act as a securities broker or dealer or to provide custody services (other than acting as a paying agent). In order to perform these functions, according to Federal Law No. 39-FZ "On the Securities Market" dated 22 April 1996, as amended, a credit organisation must obtain a licence from the FSFM. The operations of Russian banks in the securities market are subject to Russian securities laws and regulations adopted by the FSFM or its predecessor that govern the activities of brokers, managers and securities custodians, and the relations between professional market participants and investors. The FSFM also oversees the compliance of all professional market participants, including banks, with the Russian securities laws and regulations.

The National Payment System Law

For the purposes of development and modernisation of the Russian banking sector and financial market, in light of establishment of International Financial Centre in Russia Federal Law No. 161-FZ "On the National Payment System" dated 27 June 2011 (the "National Payment System Law") was adopted. The National Payment System Law generally came into force on 29 September 2011 with some provisions entering into force later in 2011 and 2012.

The National Payment System Law sets out legal and administrative basis of the national payment system, regulates the procedure of rendering payment services, including the performance of the transfer of monetary resources, the employment of the electronic means of payment, the activity of the participants of the national payment system, as well as determines the requirements of the organisation and functioning of payment systems, the procedure of the supervision and observation in the national payment system.

The National Payment System Law provides, *inter alia*, that a bank may act as an operator of the transfer of monetary funds, including operator of the electronic monetary resources and an operator of the payment system. The National Payment System Law envisages that the CBR performs the function of supervision over the functioning of the national payment system.

The Retail Deposit Insurance Law

The Retail Deposit Insurance Law introduced a mandatory retail deposit insurance scheme for Russian banks that offer retail deposit services pursuant to a CBR licence. In order to be eligible to participate in the deposit insurance scheme, banks were required to apply with the CBR before 27 June 2004. The Retail Deposit Insurance Law prescribed the requirements for admission to the deposit insurance scheme, and compliance with these requirements was verified by the CBR on a case-by-case basis.

According to the Deposit Insurance Agency, as of 27April 2012, 895 banks are participants to the deposit insurance scheme. A bank that does not participate in the deposit insurance scheme is not permitted to accept retail deposits or open accounts for individuals.

The Retail Deposit Insurance Law guarantees each customer's deposit for up to 700,000 roubles per bank. Insurance proceeds are payable from the retail Deposit Insurance Fund into which participating banks must make quarterly contributions. An insurance payment from the Deposit Insurance Fund becomes payable to depositors if the CBR revokes the bank's licence or imposes a moratorium on payments by the bank. The amount of each bank's contribution to the deposit insurance scheme is assessed based on the quarterly average of daily balances of its retail deposits (excluding bearer deposits). Standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but not for more than two quarters in any 18-month period. When the size of the insurance fund exceeds 5 per cent. of all Russian banks' combined retail deposits, all subsequent contribution premiums cannot exceed 0.05 per cent. of the contribution basis. When the size of the insurance fund exceeds 10 per cent. of all Russian banks' combined retail deposits, no contributions will need to be made, but contributions must be resumed if the size of the insurance fund falls below 10 per cent. of the combined retail deposits.

The Retail Deposit Insurance Law provides for the establishment of a new regulator, the Deposit Insurance Agency, which, among other things, collects fund contributions, manages the fund, calculates insurance premiums and monitors insurance payments. The Deposit Insurance Agency maintains a register of all banks that hold a retail banking licence.

The Rescue Measures Law

Federal Law No. 173-FZ dated 13 October 2008 "On Supplementary Measures to Support the Financial System of the Russian Federation", as amended (the "**Rescue Measures Law**") came into effect on 14 October 2008.

Under Article 4 of the Rescue Measures Law, Vnesheconombank is to receive deposits in the amount of up to 410 billion roubles in the aggregate from the National Wealth Fund, which Vnesheconombank would use to provide unsecured subordinated loans to Russian banks. The availability period for such loans expires on 31 December 2010.

On 20 October 2008, the Supervisory Board of Vnesheconombank approved the "Procedure for implementation by Vnesheconombank of measures set out in Articles 4 and 6 of the Rescue Measures Law" which describes the measures implemented to provide additional liquidity to Russian banks through Vnesheconombank (the "**Procedure**").

The Procedure lists certain eligibility criteria that a Russian bank must meet to qualify for Vnesheconombank financing, including a minimum credit rating of B- from Fitch or S&P's and B3 from Moody's absence of outstanding tax liabilities at the federal or regional level and absence of CBR sanctions against the bank and some other criteria.

Chapter III of the Procedure sets out the key terms of Vnesheconombank loans, which include, *inter alia*, the requirement to appoint Vnesheconombank representatives to the management bodies of the borrower upon Vnesheconombank's request.

Under Article 6 of the Rescue Measures Law, Vnesheconombank was allowed, *inter alia,* to provide an unsecured subordinated loan, during the availability period commencing on 14 October 2008 and ending on 31 December 2008, to RAB in the amount of up to 25 billion roubles for a term of up to 31 December 2019 under a 10-non-call-5 structure (10-year term with an early prepayment option after 5 years) at the fixed annual interest rate of 6.5 per cent, which loan was made and remains outstanding as of the date of this Base Prospectus.

The Banking System Stability Law

Banking System Stability Law, which came into effect on 28 October 2008, expands the list of bankruptcy prevention measures available for Russian credit organisations under the Bank Insolvency Law by introducing the following additional procedures:

- provision of financial assistance to private investors that have agreed to acquire a controlling stake in a distressed credit organisation;
- financial assistance to other credit organisations that have agreed to acquire certain assets and obligations of a distressed credit organisation;
- acquisition of a controlling stake of a distressed credit organisation directly by the Deposit Insurance Agency;
- provision of financial assistance to a distressed credit organisation subject to acquisition of a controlling stake in such credit organisation by either a private investor or the Deposit Insurance Agency;
- making arrangements for public sale of the assets securing obligations of a credit organisation to its creditors, including the CBR; and
- appointment of the Deposit Insurance Agency by the CBR to act as temporary administrator in relation to a credit organisation.

The decision as to whether bankruptcy prevention measures should be launched in respect of a particular credit organisation rests with the CBR.

The analysis of the financial position of a credit organisation for the purpose of provision of state support will be jointly performed by the CBR and the Deposit Insurance Agency. On the basis of the results of such analysis, the Deposit Insurance Agency will develop a rehabilitation plan for the credit organisation, which will then be required to be approved by the CBR.

According to the CBR, as of 1 April 2012, the CBR and the Deposit Insurance Agency have launched rehabilitation measures in respect of 8 credit organisations.

Currency Laws

Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Law**"), introduced the existing currency control regime. The Currency Law is generally aimed at the gradual liberalisation of Russian currency control regulations. Pursuant to the Currency Law, the CBR has the power to regulate certain currency operations (including non-banking operations performed by Russian banks) by introducing a "special account requirement", which, as of 1 January 2007, along with the other major remaining restrictions envisaged in the Currency Law, was abolished in line with the Russian Government's policy to have the rouble as a fully convertible currency. However, there can be no assurance that the Currency Law itself will not be revised or amended in the future or that no new restrictive measures will be implemented in the Russian Federation.

The Anti-Money Laundering Law

Federal Law No. 115-FZ "On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means" dated 7 August 2001, as amended (the "**Anti-Money Laundering Law**"), was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering ("**FATF**"). Credit organisations must comply with the provisions of the Anti-Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, customer identification, control over customer operations and reporting of suspicious activities.

Under the Anti-Money Laundering Law, one of a bank's main obligations is the "control function", which involves identification of the bank's clients, gathering information with respect to client operations and reporting of certain operations to the Federal Service for Financial Monitoring of the Russian Federation, the Russian Federation's anti-money laundering authority. The Anti-Money Laundering Law requires that banks exercise the "control function" over any operations in the amount of 600,000 roubles or more (or its equivalent in foreign currencies) when such operations involve:

- cash transactions;
- transactions where one of the counterparties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering;
- making certain bank deposits or money transfers that do not identify beneficiaries, including deposits to or debiting money from the account of legal entities with less than three months existence and performing such operations in relation to the account for the first time since its opening; and
- similar transactions with moveable property involving precious stones, precious metals and other property.

In addition, banks must exercise the "control function" over any operation involving an individual or organisation that is known to participate in extremist or terrorist activities, as well as any legal entity that such organisations control or the agents of such organisations.

If bank officers suspect that an operation is conducted in order to legalise any funds received from illegal activities or to finance terrorist activities, their banks must report such operations to the Federal Service for Financial Monitoring of the Russian Federation, whether or not they qualify as controlled operations. Russian banks have the right not to inform customers that transactions are being reported to the Federal Service for Financial Monitoring of the Russian Federation.

The Bank Insolvency Law

Credit organisations are subject to special insolvency procedures set forth in the Bank Insolvency Law. It provides, among other things, that if a credit organisation becomes bankrupt, it must pay its retail depositors after the claims of individuals for personal injury, deaths or moral damages, if any, are satisfied. See — "*The Insolvency Regime for Credit Organisations*".

Measures to Support the Liquidity and Solvency of Russian Banks and legal entities since October 2008

Since October 2008, the Russian Government and the CBR have announced and, in many cases, fully implemented measures intended to support the liquidity and solvency of Russian banks and to increase the availability of financing to Russian companies, which have been seen as critical for restoring investor confidence and supporting the medium-term economic growth of the Russian economy. These measures are set out below:

- The Russian Government through the CBR and Vnesheconombank may provide up to 910 billion roubles in subordinated loans to state- and private-owned banks under certain conditions. The 910 billion roubles state contribution to banking sector capital in the form of long-term subordinated loans with a term of at least five years is one of the key economic initiatives announced by the Russian Government to restore confidence in the Russian banking sector. Sberbank, VTB and RAB received 500 billion roubles, 200 billion roubles and 25 billion roubles, respectively, as part of this initiative. Part of the remaining 185 billion roubles has been distributed among privately-owned Russian banks subject to certain conditions;

- The CBR established a new facility to conduct uncollateralised lending covering a number of Russian banks, including RAB, and RAB has borrowed money under this facility. The maximum amounts that RAB and other banks can raise under this facility has been set by the CBR depending on the international credit rating, asset size and the level of capitalisation of the borrower;

- From 14 October 2008 to 31 December 2010, the CBR has been granted the authority to guarantee interbank lending transactions for state-owned banks, and, in an effort to encourage interbank lending in the short term, to reimburse some of the losses and expenses of certain banks incurred during interbank lending operations with Russian banks whose licenses have been revoked;

- In October 2008, the CBR temporarily decreased the reserve requirements for banks to 0.5 per cent. for all types of financial obligations (prior to the decrease, the reserve requirements for banks were 4.5 per cent. for financial obligations to non-resident banks, 1.5 per cent. for financial obligations to individuals and 2.0 per cent. for all other financial obligations). However, starting from May 2009 through March 2011, the CBR gradually increased the requirements and as of 1 April 2011, they amounted to 5.0 cent. for the bank's obligations to non-resident legal entities in roubles or foreign currency and to 4.0 per cent. for the bank's other obligations in roubles or foreign currency, including those to individuals.

- The Russian Government has increased the insurance coverage for retail deposits to 700,000 roubles;

- Vnesheconombank made available foreign currency denominated loans in the aggregate amount of up to US$50 billion to Russian corporates, including credit organisations, to allow them to refinance loans obtained prior to 25 September 2008 from non-Russian sources. This refinancing option was available until 31 December 2009;

- The number of instruments eligible for the CBR's collateralised facility and for refinancing transactions with the CBR has been increased and the CBR may accept, among other things, the pledge of certain bonds and suretyships granted by certain Russian banks as collateral under its facilities to credit organisations;

- The Russian Government has increased the range of financial instruments in which funds from the National Welfare Fund (established in 2008 using oil revenues with a view to partially fund pensions of Russian citizens and to cover shortfalls in other contributions from the federal budget to federal pension funds) may be deposited with Vnesheconombank to support the Russian financial markets;

- The Russian Government has pledged 500 billion roubles to stabilise the financial markets, out of which Vnesheconombank, a state-owned bank, has received 250 billion roubles to implement measures to support the Russian financial markets. In November 2008, Vnesheconombank received a contribution of 75 billion roubles to its charter capital to help stabilise the repo market. The remaining 175 billion roubles was deposited with Vnesheconombank and partially used to support the Russian debt and equity markets; and

- The Ministry of Finance of the Russian Federation has, as a temporary measure, increased the limit on the amount of funds from the federal budget that may be placed as deposits with privately-owned banks to 1,500 billion roubles from 525 billion roubles.

The measures taken by the Russian Government and the CBR to provide additional liquidity to Russian banks have caused massive attacks on the rouble and, as a result, its significant devaluation against the U.S. dollar in the second half of 2008 and beginning of 2009. The financial aid provided to banks at the end of 2008 and the beginning of 2009 did little to improve the access of Russian corporates or individuals to credit.

At the end of January 2009, the CBR modified its fiscal policy in order to prevent further devaluation of the rouble by adopting a tighter monetary policy and significantly limiting access of Russian banks to liquidity.

Role of the CBR

The CBR was established on 13 July 1990 as a successor to Gosbank. After the collapse of the USSR in 1991, the CBR took over Gosbank's operational facilities and resources, including Gosbank's subsidiaries and branches.

The CBR operates under the CBR Law. According to the CBR Law, the Russian Government is not liable for CBR's obligations, and the CBR is not liable for the obligations of the Russian Government, unless the liability of the Russian Government for CBR's obligations or the liability of the CBR for the obligations of the Russian Government has been assumed by the Russian Government or the CBR, respectively, or the Russian Government is liable for CBR's obligations or CBR is liable for the obligations of the Russian Government under Russian law. The assets of the CBR are owned by the Russian federal government.

Management of the CBR

The CBR is a legal entity and is operationally independent from the Russian Government. The CBR has a head office in Moscow and regional branches in the constituent subjects of the Russian Federation, as well as local branches. Where constituent subjects of the Russian Federation are republics, the CBR's branch in a republic is called a National Bank. The management of the CBR consists of the Chairman of the CBR, the Board of Directors and the National Banking Council.

The Russian President nominates the Chairman of the CBR, whom the State Duma, one of the chambers of the Russian Parliament, then confirms for a four-year term in office. The Chairman of the CBR may be replaced by the President and the State Duma pursuant to the same procedure. The Chairman of the CBR has the right to participate in meetings of the Russian Government.

The Board of Directors of the CBR performs general management functions, such as allocating the CBR's annual budget, determining the CBR's organisational structure and formulating internal policies and procedures. It also performs certain external regulatory functions, such as:

- establishing rules governing the conduct of commercial banking operations;

- establishing accounting rules for commercial Russian banks;

- determining mandatory economic ratios and provisioning policies for Russian banks; and

- determining pricing policies for the CBR's open market operations.

The Board of Directors of the CBR consists of the Chairman of the CBR and twelve members. The Chairman of the CBR nominates, with the approval of the Russian President, each director, whom the State Duma then approves for a four-year term in office.

The National Banking Council performs certain policy-making functions, such as determining the CBR's maximum capital expenditures, appointing the CBR's auditors and approving the CBR's accounting procedures, and allocating CBR's expenses. Of the twelve members of the National Banking Council, the Council of Federation, the upper chamber of the Russian Parliament, appoints two from among its members, the State Duma appoints three from among its members, and the President and the Russian Government each appoints three members. The Chairman of the CBR is an *ex officio* member of the National Banking Council.

Functions of the CBR

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

Under current legislation, the CBR performs the following main functions:

Monetary Policy

The CBR determines monetary policy in the Russian Federation. The CBR has the authority to extend credit to banks in the form of short-term loans issued at a discount (refinancing) rate set by the CBR. The CBR also establishes reserve requirements, capital adequacy requirements and mandatory economic ratios. The CBR also conducts currency interventions, issues its own bonds, which it can offer only to credit organisations, and trades in the Russian Government securities.

Bank Regulation

The CBR has the authority to issue, suspend or revoke banking licences and register new securities issuances by Russian banks. The CBR also oversees banks' compliance with economic ratios and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks' operations and transactions, appoints temporary administrations of banks that are facing insolvency, regulates the acquisition or trust management of significant interests in banks (for interests between 1 per cent. and 20 per cent., the CBR requires notification; in respect of stakes that are equal or exceed 20 per cent., the CBR must give its prior approval of the transaction) and assesses the financial standing of banks' founders.

Transactions with Banks

The CBR has the authority to:

- extend loans to banks at a discount (refinancing) rate;
- maintain rouble-denominated correspondent accounts of other banks;
- provide cash and settlement services and issue guarantees to banks;
- purchase and sell Russian state securities, its own bonds, certificates of deposit, precious metals and stones;
- purchase and sell foreign currency and foreign currency-denominated payment instruments issued by Russian and foreign banks; and
- register securities issued by banks.

Except under the limited circumstances set forth in the CBR Law, the CBR may not participate in the charter capital of banks and other commercial entities.

Issue of Currency and Regulation of Its Circulation

The CBR has the exclusive authority to issue currency in the Russian Federation and to regulate its circulation. The CBR arranges for the printing of banknotes and the engraving of coins, establishes rules for their transportation and storage, and regulates over-the-counter cash operations.

Foreign Currency Operations

The CBR has substantial power to regulate foreign currency operations in the Russian Federation and foreign currency operations conducted by Russian residents abroad. It also administers the Russian Federation's international reserves, and establishes rules governing rouble- and foreign currency-denominated bank accounts in the Russian Federation of both residents and non-residents.

Domestic Government Debt Service and Federal Budget Administration

The CBR acts as placement agent for, and services domestic sovereign debt issued by, the Ministry of Finance of the Russian Federation.

The CBR also administers federal budget accounts. However, under the CBR Law, the CBR cannot, unless the federal budget expressly authorises it to do so, extend loans to the Russian Government to finance Russian Government budget deficits.

Licensing

A credit organisation must hold a CBR licence to conduct "banking activities", as defined in the Banking Law. Licence applicants must submit to the CBR a feasibility study, detailed information on their senior management and compliance with eligibility requirement and documents certifying the source of funds contributed to their charter capital.

The credit organisation must be incorporated in the Russian Federation. Under the Banking Law, credit organisations may be incorporated as joint stock companies, limited liability companies or companies with additional liability. The last form, however, is uncommon, since it envisages joint liability of the company's owners for the credit organisation's obligations.

The CBR may refuse to register a credit organisation and to issue a banking licence if, among other things:

- application materials do not comply with Russian law;
- the financial standing of the credit organisation's founders is unsatisfactory;
- candidates for a position of a chief executive officer or chief accountant of the credit organisation fail to meet eligibility requirements; or
- a candidate for a position of a member of the credit organisation's board of directors has a business reputation which does not meet eligibility requirements.

Capital Requirements

The basic concept underlying Russian capital requirements is the amount of the capital base (own funds) of a credit organisation, which is defined as the sum of the "main capital" and "additional capital" of the credit organisation minus certain obligations as determined by the CBR.

Pursuant to the CBR Regulation No. 215-P dated 10 February 2003, the main capital and the additional capital are defined by way of an exhaustive list of different types of debt and equity that qualify for treatment as the main and additional capital, as applicable. For example, the amount of the charter capital of the credit organisation is included in the main capital of the credit organisation and constitutes a part of the credit institution's capital base.

Capital base of a credit organisation must not be less than 300 million roubles with an exception for banks whose capital base constituted less than 180 million roubles as of 1 January 2007. Each bank whose capital base was below 180 million roubles as of 1 January 2007, or a bank established after 1 January 2007, is required to increase its capital base to (i) a minimum of 90 million roubles by 1 January 2010;

(ii) a minimum of 180 million roubles by 1 January 2012; and (iii) to a minimum of 300 million roubles by 1 January 2015. Failure to comply with this requirement will result in revocation of a bank's banking licence. A minimum capital base requirement for a bank seeking a general licence with a right to attract deposits of individuals is not less than 900 million roubles.

The Banking Law establishes minimum charter capital for banks. Under the Banking Law, the minimum charter capital both for newly-established and foreign owned banks is equivalent to 300 million roubles. A bank whose capital base falls below its nominal charter capital must increase its capital base (or, if impossible, reduce its nominal charter capital) accordingly. The CBR Directive No. 1260-U dated 24 March 2003, as amended, establishes the procedures for such adjustment.

The capital base required for a newly established bank seeking to obtain a general banking licence with a right to attract deposits of individuals should be not less than 3.6 billion roubles provided that it complies with the disclosure requirements established by the CBR.

Reserve Requirements

Under the CBR Law, the CBR's Board of Directors may establish reserve requirements for banks. Reserve requirements must not exceed 20 per cent. of the bank's liabilities and may vary for different types of banks.

Banks are currently required to post mandatory reserves with the CBR to be held in non-interest bearing accounts. In response to the financial crisis, as a measure aimed at stabilising Russian financial market and improving the liquidity of the Russian banking sector, in October 2008 the CBR decreased mandatory reserves for various obligations of credit organisations. However, the CBR increased the requirements starting from 1 March 2011 to 4.5 per cent. for the bank's obligations to non-resident legal entities in roubles or foreign currency and to 3.5 per cent. for the bank's other obligations in roubles or foreign currency, including those to individuals, and, starting from 1 April 2011 to 5.5 per cent. and 4.0 per cent., respectively.

Russian banks are required to calculate the exact amount of their mandatory reserves in accordance with CBR Regulation No. 342-P dated 7 August 2009 (the "**Reserves Regulation**"). The Reserves Regulation does not require creation of reserves for certain long-term borrowings but requires posting of reserves with the CBR in respect of short-term obligations to non-resident banks. The Reserves Regulation also requires banks to report the calculation of reserves to the CBR and its regional branches promptly after the end of each calendar month, as well as to post additional reserves if necessary.

The CBR may fine a bank that fails to comply with reserve requirements and debit the insufficient reserve from its correspondent account with the CBR. The CBR and its regional branches may also conduct unscheduled audits to assess a bank's compliance with the reserve requirements.

Amounts deposited with the CBR pursuant to reserve requirements are not subject to seizure for the satisfaction of judgments against the bank. In the event of the revocation of the bank's licence, mandatory reserves are included in the pool of assets available for distribution to the bank's creditors according to the priority ranking established by law.

Loss Provisions

The CBR regulates the creation of provisions for bank loan losses. CBR Regulation No. 254-P "On the Procedure for Making Provisions for Possible Losses on Loans and Similar Indebtedness by Credit Organisations" dated 26 March 2004, as amended ("**Regulation No. 254-P**") requires banks to adopt procedures for calculating and posting provisions for loan losses and to monitor the financial position of borrowers.

Regulation No. 254-P requires credit organisations to classify their loans into the following categories and to create provisions for such loans in the corresponding amounts:

On a standalone basis (with respect to the particular loan):

Category	**Status of Loan**	**Provision**
Category I	Standard loans, without credit risk	0 per cent.
Category II	Non standard loans, moderate credit risk	1 per cent.-20 per cent.
Category III	Doubtful loans, considerable credit risk	21 per cent.-50 per cent.
Category IV	Problem loans, high credit risk	51 per cent.-100 per cent.
Category V	Bad loans	100 per cent.

On the aggregate basis (with respect to the portfolio of similar loans):

Category	**Status of Loan**	**Provision**
Category I	Standard loans, without credit risk	0 per cent.
Category II	Non standard loans, moderate credit risk	Up to 3 per cent.
Category III	Doubtful loans, considerable credit risk	More than 3 per cent. – up to 20 per cent.
Category IV	Problem loans, high credit risk	More than 20 per cent. – up to 50 per cent.
Category V	Bad loans	More than 50 per cent.

Loans should be classified on the basis of professional judgment by the credit organisation taking into account the borrower's financial position and debt servicing history. The credit organisation must evaluate at its discretion the borrower's financial position and debt servicing history as good, average or bad. Regulation No. 254-P sets forth tests to be applied towards a particular loan and borrower.

Regulation No. 254-P is applied subject to the order of the CBR No. 2459-U "On Peculiarities of the Credit Risk Assessment in relation to Single Loans, Loan and Similar Indebtedness" dated 3 June 2010.

Regulation No. 254-P expands the definition of a "loan" to include rights assigned under contracts, mortgages acquired in the secondary market, claims relating to purchase of financial assets with deferred payment and others. Under Regulation 254-P, credit organisations do not need to make provisions for Category I loans (standard loans). Additionally, credit organisations must classify loan collateral into two categories on the basis of its quality. Finally, Regulation No. 254-P provides for a simplified procedure in respect of writing off bad debts, especially minor debts, as compared to former procedures.

Provisions for loan losses are calculated at the end of each calendar month. Such provisions only cover losses relating to the principal amount of loans and exclude interest and any discount. The CBR and its regional branches may audit banks' compliance with requirements relating to provisions for loan losses and verify the calculation of such provisions.

The CBR also regulates the creation of provisions for possible losses other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities and other transactions. CBR Instruction No. 283-P dated 20 March 2006, as amended, requires banks to classify such activities into the following five risk categories and to make provisions in the corresponding amount at their discretion:

- no real or potential possibility of losses (0 per cent.);
- moderate potential possibility of losses (1-20 per cent.);
- serious potential or moderate real possibility of losses (21-50 per cent.);
- simultaneous potential and moderate real possibility of losses or material real possibility of losses (51-100 per cent.); and
- complete loss (100 per cent.).

Banks must report to the CBR the amount of new non-loan provisions within ten days after the end of each reporting month. The CBR and its regional branches monitor banks' compliance with these rules.

Mandatory Economic Ratios

CBR Instruction No. 110-I "On Banks' Mandatory Economic Ratios" dated 16 January 2004, as amended, establishes mandatory economic ratios for banks.

The following table sets forth mandatory economic ratios that banks must observe on a daily basis and periodically report to the CBR. Unless stated otherwise, such ratios are calculated on the basis of RAS, as formulated by the applicable Russian laws and CBR regulations.

As mentioned above, a bank's capital base consists of main capital and additional capital. Main capital includes, among other items, charter capital, share premium, retained earnings and certain reserve funds. Additional capital includes, among other items, reserves for asset revaluations, reserves for loan losses, certain preferred shares and subordinated debts.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirement
Capital adequacy ratio (N1)	This ratio is intended to limit the risk of a bank's insolvency and to establish the minimum size of the bank's capital base necessary to cover credit and market risks.	For banks whose capital base is less than 180 million roubles, minimum 11 per cent. For banks whose capital base is 180 million roubles or more, minimum 10 per cent.
	It is defined as the ratio of a bank's capital base to its aggregate risk weighted assets and off-balance sheet liabilities. (Assets and off-balance sheet liabilities are weighted according to five broad risk categories.)	
Instant liquidity ratio (N2)	This ratio is intended to limit the bank's liquidity risk within one operational day. It is defined as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.	Minimum 15 per cent.
Current liquidity ratio (N3)	This ratio is intended to limit the bank's liquidity risk within 30 calendar days preceding the date of the calculation of this ratio. It is defined as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50 per cent.
Long-term liquidity ratio (N4)	This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is defined as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year.	Maximum 120 per cent.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirement
Maximum exposure to a single borrower or a group of affiliated borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of affiliated borrowers (defined as persons who belong to the same banking or financial industrial group, are close relatives, or persons who can directly or indirectly materially influence the decisions of corporate borrowers). It is defined as the maximum ratio of the aggregate amount of the bank's various credit claims against a borrower (or a group of affiliated borrowers) to its capital base. The CBR issued Letter No. 106-T dated 10 September 2004 recommending that Russian banks implement an exposure limit for economically related borrowers. Under this letter, borrowers are "economically related" if a decline in the financial condition of one borrower affects or may affect the financial condition of the other borrower and may result in such other borrower's inability to perform its obligations to the bank (*e.g.*, if the borrower is simultaneously a creditor of a bank and a debtor to another creditor of the bank). The limit has not been officially introduced yet.	Maximum 25 per cent.
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, clients with exposure exceeding 5 per cent. of the bank's capital base). It is defined as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800 per cent.
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's shareholders/participants. It is defined as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants or shareholders to its capital base.	Maximum 50 per cent.

Mandatory Economic Ratio	Description	CBR Mandatory Economic Ratio Requirement
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 bank's credit decisions). It is defined as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.	Maximum 3 per cent.
Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is defined as the maximum ratio of the bank's investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25 per cent.

In addition, CBR Regulation No. 112-I dated 31 March 2004 describes the methods of calculating additional ratios that, pursuant to Federal Law No. 152-FZ "On Mortgage Backed Securities" dated 11 November 2003, as amended (the "**Mortgage Backed Securities Law**"), apply to banks that issue mortgage-backed securities. Among these additional ratios are the following:

- the ratio of loans secured by mortgages to a bank's capital base (N17) must be at least 10 per cent.;
- the ratio of claims relating to principal and interest on loans secured by mortgages to the principal and interest of mortgage-backed securities (N18) must be at least 100 per cent.; and
- the ratio of a bank's aggregate obligations to creditors with priority to satisfy their claims before the holders of mortgage-backed securities to a bank's capital base (N19) must not exceed 50 per cent.

A bank must comply with these special ratios from the time it decides to issue mortgage-backed securities until the complete redemption of mortgage-backed securities.

Regulation of Currency Exposure

CBR Instruction No. 124-I dated 15 July 2005, as amended, governs banks' exposure to foreign currency and precious metals (together, "**currency exposure**"). Banks calculate their currency exposure in respect of net balance sheet positions, spot market positions, forward positions, option positions, guarantees, suretyships and letters of credit. An "open currency position" is the sum of these net amounts. Banks calculate their exposure for each currency and each precious metal and then convert it into roubles in accordance with CBR's official exchange rates and prices for precious metals.

At the end of each operational day, the aggregate amount of all long and short currency positions must not exceed 20 per cent. of the bank's capital base. Concurrently, at the end of each operational day, the long and short position in respect of any single currency or precious metal must not exceed 10 per cent. of the bank's capital base.

Reporting Requirements

Under CBR Regulation No. 2332-U dated 12 November 2009, as amended, routine reporting is performed by credit organisations on a daily, five-day, ten-day, monthly, quarterly, half-yearly and yearly basis, and certain reporting is effected on a non-regular basis. Specific reporting requirements apply to credit organisations in liquidation pursuant to CBR Regulation No. 1594-U dated 14 July 2005, as amended.

Financial statements must be disclosed to the public by the bank on a quarterly and yearly basis. Annual financial statements must be published only after their certification by an independent auditor. Quarterly financial statements may be published without their certification by an independent auditor.

Under the Banking Law, banking groups (i.e., alliances of banks in which one bank directly or indirectly controls decisions of the management bodies of other banks within the alliance) and consolidated groups (i.e., alliances of legal entities in which one bank, directly or indirectly, controls decisions of the management bodies of other commercial non-banking companies within such alliances) must regularly submit their consolidated accounts to the CBR.

The CBR may at any time conduct full or selective audits of any bank's filings and may inspect all of its books and records. The CBR, however, is prohibited from conducting a secondary audit of matters covered by the previous audit within a single reporting period, except for limited circumstances provided in the CBR Law.

Accounting Practices

The CBR establishes a standard format for presentation of financial and statistical data and recording banking transactions. The CBR also establishes accounting rules and procedures for banks.

Accounting practices are regulated by CBR Regulation No. 302-P dated 26 March 2007, as amended, pursuant to which financial statements of credit organisations must be prepared in accordance with RAS.

Pursuant to CBR Regulation No. 1363-U dated 25 December 2003, as amended ("**Regulation No. 1363-U**"), credit organisations are required to submit their financial statements to the regional representatives of the CBR for the period from 1 January to 31 December prior to 1 July of the following year.

Pursuant to Regulation No. 1363-U and CBR Letter No. 169-T dated 24 November 2011 ("**CBR Letter No. 169-T**"), credit organisations must prepare financial statements in accordance with IFRS on the basis of financial statements prepared in accordance with RAS and submit them to the CBR prior to 1 July of the following year. The CBR Letter No. 169-T contains pro forma IFRS financial statements and examples of typical adjustments to RAS financial statements.

Role of the Federal Antimonopoly Service

Anti-monopoly activity in the Russian Federation is governed by the Federal Law No. 135-FZ "On the Protection of Competition" dated 26 July 2006, as amended. It is aimed at preventing and restraining monopoly activities and unfair competition.

Further Reform of the Russian Banking Sector

The 1998 financial crisis revealed a lack of proper risk management in the Russian banking sector and heightened public anxiety about the integrity of the banking system. Major concerns include misleading advertisements, money laundering issues, corruption and criminal penetration of the banking sector. From 1999 to 2001, the Russian banking sector gradually recovered from the 1998 financial crisis. Higher liquidity levels and a shift from investments in Russian Government securities to loans to companies and other legal entities characterised this recovery.

Strategic Plans for Banking Sector Reform

At the end of 2001, the Russian Government and the CBR issued a joint declaration entitled "*The Strategy of the Development of the Banking Sector of Russia*", setting forth the strategy for banking reform in the Russian Federation and calling for certain legislative steps and structural changes during the subsequent five years (the "**Joint Declaration**"). In August 2003, the Russian Government adopted a programme for the social and economic development of the Russian Federation for the years 2003 to 2005, which also sets forth goals for the Russian banking sector reform. The programme contemplates, among other things, the simplification of procedures for banks' reorganisation and the introduction of regulation of syndicated lending, financing of affiliates, credit bureaus and pledges of money held in a bank account.

On 5 April 2005, the Russian Government and the CBR published a new strategy for the development of the Russian banking sector for the period from 2005 to 2008 (the "**2005 Russian Banking Sector Strategy**"), which replaced the Joint Declaration. The main objective of the 2005 Russian Banking Sector Strategy was to increase the stability and effectiveness of the banking system. Among other things, the 2005 Russian Banking Sector Strategy analysed current conditions in the Russian banking sector, outlined goals for the sector's reform and forecasted the results of such reform. The main objectives of the 2005 Russian Banking Sector Strategy included:

- improving legislative oversight of banking activities and increasing the efficiency of bank regulation;
- developing banking infrastructure, including increasing the effectiveness of deposit taking and lending activities of banks, and facilitating banks' roles as financial intermediaries;
- strengthening investors', depositors' and creditors' trust in the Russian banking sector and protecting the interests of banks' depositors and creditors;
- strengthening market discipline in the banking sector and ensuring fair competitive conditions for all credit organisations;
- increasing the competitiveness of Russian credit organisations; and
- ensuring the transparency of banking activities and preventing the use of credit organisations for unlawful purposes, including money laundering.

As part of measures taken to improve legislative oversight of banking activities, the 2005 Russian Banking Sector Strategy outlined, among other things, the following steps:

- improving the protection of creditors' rights (in particular, those secured by collateral);
- improving procedures for liquidation of credit organisations whose banking licences have been revoked;
- simplifying procedures for mergers between, and acquisitions of, credit organisations;
- facilitating an efficient system for collecting and using credit history data; and
- improving the regime for taxation of credit organisations.

The 2005 Russian Banking Sector Strategy envisioned the following as high priority reforms:

- increasing the minimum amount of a bank's charter capital to €5 million;
- increasing the minimum amount of a bank's capital adequacy ratio (mandatory economic ratio N1) to 10 per cent. commencing in 2007, regardless of the type of credit organisation and its existing capital adequacy ratio;
- simplifying procedures for the participation of non-residents in the capital of Russian banks, without, however, lifting existing restrictions on foreign banks' ability to open branches in the Russian Federation; and
- introducing a simplified procedure for the assignment of bank loans.

The first two goals have been achieved by introducing amendments to the Banking Law.

On 5 April 2011, the Russian Government and the CBR issued a declaration on "The Strategy of the Developments of the Banking Sector of Russia for the period till 2015" (the "**2011 Russian Banking Sector Strategy**"). 2011 Russian Banking Sector Strategy was developed in the course of the implementation of the Plan for Implementation of the Main Directions of the Anticrisis Activities and Modernisation Policy of the Russian government for 2010 approved by the Russian Prime Minister Vladimir Putin on 2 March 2010. It was prepared by the Ministry of Finance and Ministry of Economic Development with the assistance of the CBR.

According to the 2011 Russian Banking Sector Strategy the main purpose of the new period of the development of the Russian banking sector will include the improvement of the quality of the banking business by expanding the range of banking products and services, improving of their quality, using modern technologies and, improving of the long-term effectiveness and stability of the banking business.

The 2011 Russian Banking Sector Strategy sets out the switch of the banking sector from the extensive to the intensive model of development as one of the key targets. It will, in particular, include the following features:

- a high level of competition in the banking and financial sector;
- the provision of a wide range of modern banking services to clients;
- level of banking sector capitalisation that will support the development of the banking sector, increasing a competition and efficiency;
- developed systems of corporate governance and risk management;
- a high level of transparency and market discipline of credit organizations and other market participants;
- liability of senior management, members of the board of directors and owners of banks for the business's operation and the accuracy of disclosed information and information provided to the regulators.

The above mentioned targets are expected to be achieved by the Russian government and the CBR through the improvement of regulations, establishment of relevant infrastructure, improvement of corporate governance and risk management quality in credit organizations, as well as the maintenance of financial stability. As practical steps, the 2011 Russian Banking Sector Strategy envisages in particular a decrease in the participation of the Russian state in the charter capital of Russian banks (in particular Sberbank, VTB and RAB), the adoption of certain laws establishing minimum charter capital requirement for newly established banks from 1 January 2012, and a minimum own capital requirement for existing banks of RUB300 million, starting from 1 January 2015. The 2011 Russian Banking Sector Strategy also envisages certain measures to further develop banking supervision.

Credit Reporting

Federal Law No. 218-FZ "On Credit Histories" dated 30 December 2004, as amended (the "**Credit Histories Law**"), provides for the establishment, for the first time in the Russian Federation's recent history, of "credit bureaus" that will maintain a database of borrowers' credit histories. The Credit Histories Law requires all credit organisations, starting from 1 September 2005, to provide at least one credit bureau with credit histories of all borrowers that have consented to the distribution of such credit histories. The borrower's credit history will consist both of public and confidential parts and must include, among other things, information on the borrower's outstanding debt and interest thereon, the terms of repayment and legal proceedings involving the borrower in respect of loans and credits. The FSFM will oversee the credit bureaus and maintain a general catalogue of credit histories. As of 1 June 2010, the FSFM had registered 34 credit bureaus.

Regulation of Mortgage Backed Securities

In addition to the Credit Histories Law and as part of the development of consumer lending legislation, the Mortgage Backed Securities Law and amendments to the Civil Code, Tax Code and the Federal law "On Mortgages" were enacted in 2003-2004 in an effort by Russian legislators to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. The legislators also aimed 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 "On Amendments to the Federal Law "On Mortgages" and Certain Legislative Acts of the Russian Federation" dated 22 December 2008, important procedural changes were introduced to the process of recording mortgage certificates in order to facilitate transactions with such certificates, which is expected to facilitate the issuance of mortgage backed securities. An owner of mortgage certificates may submit them to a depositary for recording rights to such mortgage certificates and, as such, facilitating transactions with them. If mortgage certificates are recorded with a depositary, their transfer and pledge is effected by making entries in the relevant depositary account instead of endorsing the original mortgage certificates.

It is now possible to publish pro-forma conditions of mortgage certificates on an Internet website or in a publication and incorporate such conditions into the mortgage certificates by reference.

Developments in Regulation of Pledge and Pledge Enforcement

Federal Law No. 306-FZ "On Amending Certain Legislative Acts of the Russian Federation in Connection With Perfecting the Procedure for Levying of Execution Against Pledged Property" dated 30 December 2008 that came into effect on 11 January 2009 amends seven main laws governing the process of pledging and alters significantly the concept of pledge (including the concept of mortgage being the pledge of immovable property) as it relates to enforcement rights against pledged property (the "**Amendments**").

A further federal law No 312-FZ dated 30 December 2008 introduced amendments that took effect on 1 July 2009 concerning the pledge of participation interests in Russian limited liability companies.

Significant changes have been made to the enforcement procedure of pledged property. Under Russian law, the enforcement of a pledge occurs in two stages: first, the levying of execution against the pledged property; and second, its subsequent realisation (or sale).

The Amendments (i) confirm the availability of an out-of-court enforcement procedure for pledges of movable property, (ii) extend the right to use an out-of-court procedure to mortgages, and (iii) provide a mechanism for securing compliance with the out-of-court enforcement procedure.

The Amendments remove the requirement that the pledged property be sold at a public auction in all cases. Instead, the Civil Code now explicitly states that claims of a creditor secured by a pledge over property can be satisfied by the transfer of ownership in the pledged property to the secured creditor except where the mortgaged property is land. This is a fundamental development in the concept of pledge under Russian law and creates a more creditor friendly enforcement mechanism.

Parties to a pledge agreement now have several options as to how to sell or dispose of the pledged property in order to discharge secured claims.

Regulation of Insider Dealing

Federal Law No.224-FZ "On Counteracting the Abuse of Inside 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**") defines "inside information" and lists categories of persons that can be considered insiders, including, among others, issuers, professional securities market participants (including brokers and dealers) and other persons who transact on behalf of their clients with financial instruments, foreign currency and/or commodities, and have received inside information from their clients. Under the Insider Dealing Law, "inside information" is information, inter alia, (i) which is precise, (ii) which has not been distributed or furnished, (iii) the distribution or furnishing of which can have a significant impact on the price of financial instruments, foreign currencies and/or commodities, and (iv) which is included in the list of inside information adopted by the FSFM and published by the persons who are required to maintain such lists. Under the Insider Dealing Law, any person who illegally uses inside information and publishes misleading information may be held liable for misuse of such information and/or market manipulation. Most legal entities falling into one of the categories of insiders must draw up and maintain insider lists which must be submitted (i) to an exchange no later than 6 pm on the day following the date when they are drawn up or updated, and (ii) to the FSFM upon its request. Furthermore, insiders have certain reporting obligations towards the persons maintaining the relevant insider lists and the FSFM in respect of their operations with financial instruments, foreign currencies and/or commodities. Under the Insider Dealing Law and pursuant to the CBR Regulation No. 2723-U dated 31 October 2011, the CBR has started disclosing certain facts relating to banks on its website, including (1) the status and results of inspections, (2) revocation of licences, (3) administrative liability of credit organisations or their sole executive bodies, (4) invalidation of the CBR's approval to accept retail deposits and open and maintain bank accounts for individuals, and (5) phases of issuance of securities. Given the Insider Dealing Law is relatively new and vaguely worded, its application in practice is not yet settled.

The Insolvency Regime for Credit Organisations

Overview

Credit organisations, including banks, are subject to special insolvency rules set forth in the Bank Insolvency Law. In addition, Federal Law No. 127-FZ "On Insolvency (Bankruptcy)" dated 26 October 2002, as amended (the "**Insolvency Law**"), regulates issues not expressly addressed in the Bank Insolvency Law.

Workout Proceedings

Before commencement of insolvency proceedings, a credit organisation may be subject to the following "workout" proceedings:

- financial rehabilitation, which includes restructuring of assets and liabilities, organisational restructuring and capital injections from third parties, including shareholders or creditors;
- the appointment of a temporary administration; or
- reorganisation.

The credit organisation's creditors or its shareholders may initiate financial rehabilitation or reorganisation at their discretion or after a request by the CBR. However, only the CBR can appoint a temporary administrator for a credit organisation.

Insolvency Proceedings

Revocation of the Banking Licence and Filing the Insolvency Petition with Arbitrazh Court

A pre-requisite to initiation of bankruptcy proceedings in respect of a credit organisation is the revocation of its licence by the CBR. Under the Bank Insolvency Law, if a credit organisation cannot satisfy creditors' claims within 14 days of when they come due, the following persons may petition the CBR (the "**Licence Revocation Petition**") for revocation of the credit organisation's licence:

- the credit organisation itself;
- its creditors; or
- an authorised governmental agency.

Under the Banking Law, the CBR must revoke a licence of a credit organisation if, among other things:

- the credit organisation's capital adequacy ratio falls below 2 per cent.;
- the credit organisation's capital base is less than the minimum nominal charter capital requirement established by the CBR;
- the credit organisation fails to adjust its capital base and nominal charter capital within the established time period; or
- the credit organisation fails to satisfy the monetary claims of its creditors, including taxes and other mandatory payments, in the aggregate amount of at least 100,000 roubles within 14 days of when they come due.

In addition, under certain circumstances, the CBR has the right but is not required to revoke the licence of a credit organisation.

If the CBR revokes the credit organisation's licence, the following persons can petition an arbitrazh court to declare the credit organisation insolvent (the "**Insolvency Petition**"):

- the credit organisation itself;
- its creditors;
- an authorised governmental agency; or
- the CBR.

If the CBR fails to respond to the Licence Revocation Petition within two months after its submission, the applicant may file an Insolvency Petition with the arbitrazh court.

Upon revocation of the credit organisation's licence, the CBR must appoint a temporary administration for the credit organisation if the temporary administration is not already in place. Upon revocation of the credit organisation's licence, the credit organisation may not enter into certain new transactions or perform certain transactions pursuant to existing obligations.

The CBR must make a public announcement of the revocation of a credit organisation's licence within one week from the revocation date.

Insolvency Proceedings

After a court hearing on the Insolvency Petition, the arbitrazh court may declare the credit organisation insolvent if certain tests established in the Bank Insolvency Law are satisfied.

Upon initiation of bankruptcy proceedings, a moratorium on payments to existing creditors is introduced, and the credit organisation may perform transactions and make payments only in order to satisfy creditors' claims, the ranking of which is set forth in the Bank Insolvency Law and the Insolvency Law.

Appointment of a Receiver

Along with the initiation of bankruptcy proceedings, the arbitrazh court must appoint a receiver for the credit organisation. If the credit organisation did not have a licence to accept deposits from individuals, the court will choose one of the receivers accredited by the CBR. If the credit organisation had such a licence, a representative of the Deposit Insurance Agency will be appointed.

The receiver assumes management over the credit organisation's operations. The receiver:

- analyses the credit organisation's financial position;
- evaluates the credit organisation's assets;
- identifies creditors and notifies them of the credit organisation's insolvency;
- identifies debtors and requests performance of their obligations to the insolvent credit organisation; and
- performs other functions pursuant to the Bank Insolvency Law.

The receiver reports to a committee of creditors and to the CBR, subject to supervision by the arbitrazh court.

Priority of Claims

Under the Civil Code, the Bank Insolvency Law and the Insolvency Law, the creditors' claims of a credit organisation rank in the following order of priority:

- *Claims in respect of insolvency proceedings (current payment claims).* Claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utilities bills, legal expenses and other payments arising after the revocation of the credit organisation's licence.
- *First priority.* The following claims:

- for reimbursement of damages caused to individuals' life or health, as well as moral damages;
- retail depositors' and individuals' claims holding current accounts with the credit organisation (except for individual entrepreneurs);
- claims of the Deposit Insurance Agency in respect of deposits and current accounts transferred to it pursuant to the Retail Deposit Insurance Law; and
- claims of the CBR relating to the CBR payments to retail depositors of insolvent credit organisations that do not participate in the deposit insurance system.

- *Second priority.* Claims under employment contracts and other social benefits and copyright claims.
- *Claims secured by a pledge of the credit organisation's assets.* Any residual claims of secured creditors that remain unsatisfied after the sale of such collateral rank *pari passu* with claims of unsecured creditors.
- *Third priority.* Claims of all other creditors except for claims of subordinated creditors (including, among others, claims of retail depositors for lost profits and penalties). Generally, under the Insolvency Law, taxes and similar payment obligations rank *pari passu* with the claims of unsecured creditors. These provisions, however, contradict the Civil Code of the Russian Federation, which ranks taxes and similar payment obligations above the claims of unsecured creditors. The outcome of this conflict remains untested.
- *Last priority.* Claims of subordinated creditors.

Claims of each category of creditors must be satisfied in full before claims of the next category are considered.

Changes to Russian Insolvency Laws

The amendments to the Insolvency Law and the Bank Insolvency Law that took effect on 5 June 2009 (the "**Insolvency Law Amendments**") have significantly contributed to the development of Russian law relating to insolvency in the following areas:

- clarifying the circumstances under which the management and shareholders of a bank must act to liquidate the bank;
- establishing tests for imposing liability on the management of a bank for the debts to its creditors; and
- expanding and clarifying the grounds for challenging transactions entered into by the debtor.

The Insolvency Law Amendments significantly modify the provisions relating to the challenge by an arbitrazh manager in court of transactions concluded by the debtor by expanding the grounds under which such transactions may be challenged and clarifying the lengths of the applicable hardening periods. The arbitrazh manager can challenge a transaction on its own initiative or pursuant to a request made at the creditors' meeting or by the creditors' committee.

The Insolvency Law Amendments provide that the new rules for challenging transactions under the Insolvency Law also apply to bank debtors under the Bank Insolvency Law.

The Insolvency Law Amendments provide that if in relation to a bank there is "evidence of insolvency" pursuant to the applicable law, the management and shareholders must liquidate the bank. The "workout" measures to restore the solvency of a bank, which are available under the Bank Insolvency Law, are not available at this stage.

If the Chief Executive Officer, the members of the management board, the directors or the shareholders fail to initiate liquidation of the bank after the "evidence of insolvency" becomes available, the

Insolvency Law Amendments impose joint and several secondary (subsidiary) liability for the debts of the bank that arise after the "evidence of insolvency" became available.

In addition, under the Insolvency Law Amendments, if the accounting and other reporting documentation of a bank debtor which must be maintained under Russian law have not been transferred to the temporary administration or a bankruptcy manager or are fully or partially missing, the bank's management, which is under an obligation to ensure the safekeeping of its documentation and property, bears secondary (subsidiary) liability for the debts of the bank debtor.

Completion of Insolvency Proceedings

Upon, to the extent possible, the collection of debts and satisfaction of claims, the receiver submits a report to the arbitrazh court, which extends or closes the insolvency proceedings. Insolvency proceedings terminate when a formal entry is made into the legal entities register upon the liquidation of the credit organisation.

Basel Implementation in Russia

Current Russian regulation of capital is based on the Basel Accord. It is, however, less sophisticated in certain respects. Over the recent years, the CBR in cooperation with Russian banks, has started preparing the implementation of international approaches of capital adequacy of credit organisations under Basel II as issued by the Basel Committee. Currently, the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", is being applied in Russia. CBR Letter No. 96-T of 29 June 2011 issued as part of introducing Pillar 2 "Supervisory Review Process" (the "**Methodical Recommendations**") recommends credit organisations to elaborate and use the respective internal procedures for capital adequacy assessment comprise the process of assessment by a credit organisation of adequacy of its own capital, i.e. its internal capital to cover accepted and potential risks, as well as constitute a part of such credit organisation's corporate culture. It is expected that Basel II Pillar 2 will be gradually implemented not earlier than within the next five years.

Under the 2011 Russian Banking Sector Strategy, the implementation of Basel II in Russia may begin approximately in 2014. The 2011 Russian Banking Sector Strategy also contemplates an introduction in Russia of Basel III that will be applied as follows: (1) requirements for capital between 2013 and 2015, (2) capital conservation buffer within 2016-2018, (3) leverage ratio starting from 1 January 2018, (4) liquidity coverage ratio commencing from 1 January 2015, and (5) net stable funding ratio starting from 1 January 2018.

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