

IMPORTANT NOTICE

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

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

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

Confirmation of your representation: In order to be eligible to view the Base Prospectus or make an investment decision with respect to the securities, investors must be (i) “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) that are also “qualified purchasers” as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940, as amended, or (ii) non-U.S. persons (as defined in Regulation S under the Securities Act) outside the United States who are not acting for the account or benefit of U.S. persons. By accepting the email and accessing the Base Prospectus, you shall be deemed to have represented to us that you are a qualified institutional buyer and a qualified purchaser or are outside the United States and not a U.S. person and/or not acting for the account or benefit of a U.S. person.

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 the Issuer. This Base Prospectus constitutes an advertisement for the purpose of the Commission Regulation (EC) No 809/2004 (the “**Prospectus Regulations**”). The final copy of the “prospectus,” prepared pursuant to the Prospectus Regulations, will be available from the registered office of the Issuer and the website of the UK Listing Authority (as defined herein).

The Notes are not eligible for placement and circulation in the Russian Federation, unless, and to the extent, otherwise permitted by Russian law. This Base Prospectus and information contained herein do not constitute an advertisement or an offer of, or an invitation to make offers, sell, exchange or otherwise transfer any securities in the Russian Federation or to or for the benefit of any Russian person or entity. It is not intended to be, and must not be, distributed or circulated in the Russian Federation unless and to the extent otherwise permitted under Russian law.

You are reminded that you are accessing the Base Prospectus on the basis that you are a person by whom the Base Prospectus may be lawfully accessed in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Base Prospectus to any other person.

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

This Base Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and, consequently, neither PSB Finance S.A., Open Joint-Stock Company Promsvyazbank nor any of the Permanent Dealers, nor any person who controls any of them, nor any director, officer, employee or agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format and the hard copy version available to you on request from PSB Finance S.A., Open Joint-Stock Company Promsvyazbank or any Permanent Dealer.



Promsvyazbank
U.S.\$3,000,000,000

Programme for the Issuance of Loan Participation Notes

issued by, but with limited recourse to,

PSB Finance S.A.

for the sole purpose of financing loans to

OPEN JOINT-STOCK COMPANY PROMSVYAZBANK

Financial Services Authority
UK Listing Authority
Document approved

Date: 14th April 2011

Signed: 1. *[Signature]*

Signed: 2. *[Signature]*

Under the programme for the issuance of loan participation notes (the "Programme") as described in this base prospectus (the "Base Prospectus"), PSB Finance 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, as supplemented by a final terms supplement (each such final terms supplement "Final Terms") setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$3,000,000,000 (or the equivalent in other currencies). Notes will be issued in Series (as defined in "Overview of the Programme") and the sole purpose of issuing each Series will be to finance 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 Open Joint-Stock Company Promsvyazbank ("PSB" or the "Borrower") as borrower, on the terms of either: (i) in relation to a Senior Loan, a facility agreement between the Issuer and PSB dated 14 April 2011 (the "Facility Agreement"), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on or before each issue date ("Issue Date") of the relevant Series (each a "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 PSB, to be dated on or before the Issue Date of the relevant Series (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 to the provisions of the Trust Deed (as defined herein), the Issuer will (a) charge, in favour of Deutsche Trustee Company Limited as trustee (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 or the Subordinated Loan Agreement, as the case may be), but excluding any Reserved Rights (as defined in the Trust Deed), and (b) assign, in favour of the Trustee, certain of its other rights under the Loan Agreement but excluding any Reserved Rights, 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 and retained (net of tax) from PSB by or for the account of the Issuer pursuant to the relevant Loan Agreement, less any amounts in respect of the Reserved Rights. 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 PSB in respect of the payment obligations of the Issuer under the Notes.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 9.

THIS BASE PROSPECTUS CONTAINS, AND ANY FINAL TERMS MAY CONTAIN, RATINGS ON THE RUSSIAN FEDERATION, THE BORROWER AND THE NOTES. FITCH RATINGS LTD. IS ESTABLISHED IN THE EUROPEAN UNION AND HAS APPLIED FOR REGISTRATION UNDER REGULATION (EC) NO 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 16 SEPTEMBER 2009 ON CREDIT RATING AGENCIES (THE "CRA REGULATION"), ALTHOUGH NOTIFICATION OF THE CORRESPONDING REGISTRATION DECISION HAS NOT YET BEEN PROVIDED BY THE RELEVANT COMPETENT AUTHORITY. MOODY'S EASTERN EUROPE LLC IS NOT ESTABLISHED IN THE EUROPEAN UNION BUT MOODY'S INVESTORS SERVICE LTD. (WHICH IS ESTABLISHED IN THE EUROPEAN UNION AND HAS APPLIED FOR REGISTRATION UNDER THE CRA REGULATION ALTHOUGH NOTIFICATION OF THE CORRESPONDING REGISTRATION DECISION HAS NOT YET BEEN PROVIDED BY THE RELEVANT COMPETENT AUTHORITY) PLANS TO ENDORSE THE RATINGS ISSUED BY IT.

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")). 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 (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".

The Notes are not eligible for placement and circulation in the Russian Federation, unless otherwise permitted by Russian law. The information provided in this Base Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to or for the benefit of any Russian person or entity. Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 ("FSMA") (the "UK Listing Authority") for Notes issued under the Programme for the period of 12 months from the date of this Base Prospectus to be admitted to the Official List of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") for such Notes to be admitted to trading on the London Stock Exchange's regulated Market (the "Market"). References in this Base Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive"). Such approval relates only to the Series of Notes which are to be admitted to trading on the Market or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area. Unlisted Notes or Notes listed on a different 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 official list and admitted to trading on the Market. Regulation S Notes of each Series which are sold in an "offshore transaction" within the meaning of Regulation S will initially be represented by interests in a global unrestricted Note in registered form (each a "Regulation S Global Note"), without interest coupons, which will be deposited with a common depository for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg") on its Issue Date. Beneficial interests in a Regulation S Global Note 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 interests in a global restricted Note in registered form (each a "Rule 144A Global Note" and together with any Regulation S Global Notes, the "Global Notes"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company ("DTC") on its Issue Date. Beneficial interests in a Rule 144A Global Note 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 definitive Notes in registered form will only be available in certain limited circumstances as described herein. The price and amount of Notes to be issued under the Programme will be determined by the Issuer, PSB and the relevant Dealer at the time of issue in accordance with prevailing market conditions. The minimum denomination of any Regulation S Notes issued under the Programme shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes) and the minimum denomination of any Rule 144A Notes issued under the Programme shall be U.S.\$200,000 or its equivalent in other currencies rounded upwards as agreed between the Issuer, PSB and the relevant Dealer(s).

Arrangers and Permanent Dealers
PSB

DEUTSCHE BANK

J.P. MORGAN

The date of this Base Prospectus is 14 April 2011



Promsvyazbank

U.S.\$3,000,000,000

Programme for the Issuance of Loan Participation Notes

issued by, but with limited recourse to,

PSB Finance S.A.

for the sole purpose of financing loans to

OPEN JOINT-STOCK COMPANY PROMSVYAZBANK

Under the programme for the issuance of loan participation notes (the “**Programme**”) as described in this base prospectus (the “**Base Prospectus**”), PSB Finance 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, as supplemented by a final terms supplement (each such final terms supplement “**Final Terms**”) setting out the specific terms of each issue. The aggregate principal amount of Notes outstanding will not at any time exceed U.S.\$3,000,000,000 (or the equivalent in other currencies). Notes will be issued in Series (as defined in “**Overview of the Programme**”) and the sole purpose of issuing each Series will be to finance 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 Open Joint-Stock Company Promsvyazbank (“**PSB**” or the “**Borrower**”) as borrower, on the terms of either: (i) in relation to a Senior Loan, a facility agreement between the Issuer and PSB dated 14 April 2011 (the “**Facility Agreement**”), as amended and supplemented by a loan supplement to be entered into in respect of each Loan on or before each issue date (“**Issue Date**”) of the relevant Series (each a “**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 PSB, to be dated on or before the Issue Date of the relevant Series (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 to the provisions of the Trust Deed (as defined herein), the Issuer will (a) charge, in favour of Deutsche Trustee Company Limited as trustee (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 or the Subordinated Loan Agreement, as the case may be), but excluding any Reserved Rights (as defined in the Trust Deed), and (b) assign, in favour of the Trustee, certain of its other rights under the Loan Agreement but excluding any Reserved Rights, 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 and retained (net of tax) from PSB by or for the account of the Issuer pursuant to the relevant Loan Agreement, less any amounts in respect of the Reserved Rights. 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 PSB in respect of the payment obligations of the Issuer under the Notes.

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Arrangers and Permanent Dealers

DEUTSCHE BANK

PSB

J.P. MORGAN

The date of this Base Prospectus is 14 April 2011

This Base Prospectus comprises a base prospectus for the purposes of EU Directive 2003/71/EC (the “**Prospectus Directive**”) and for the purpose of giving information with regard to the Issuer, PSB and its subsidiaries taken as a whole (the “**Group**”) and the Notes which, according to the particular nature of the Issuer, PSB and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer, PSB and the Group and of rights attaching to the Notes.

Each of the Issuer and PSB accepts responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of each of the Issuer and PSB (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. PSB’s legal name is Open Joint-Stock Company Promsvyazbank, and the address of PSB’s registered office is Smirnovskaya Street 10, Building 22, Moscow 109052, Russian Federation. The telephone number of the registered office is +7-495-777-1020. The Issuer’s legal name is PSB Finance S.A. The Issuer is registered with the *Registre de Commerce et des Sociétés* in Luxembourg under number B118687. Its registered address is 2, Boulevard Konrad Adenauer, L-1115 Luxembourg. The Issuer may be reached by telephone at +352-421-22-462.

Each of PSB 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 annual reports, 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 (“**Rosstat**”). Each of PSB and the Issuer has accurately reproduced such information received from third parties. As far as each of PSB and the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where such information is included, the source is identified. See “Risk Factors — Risks Relating to the Russian Federation — *Official data may be unreliable*”.

This Base Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer, PSB, the Group, the Trustee, the Dealers or the Arrangers (or any of them) (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 offering of any Notes or sale of any Notes in certain jurisdictions may be restricted by law. The Issuer, PSB, the Group, the Arrangers and the Dealers each require any persons into whose possession this Base Prospectus comes to inform themselves about and to observe any such restrictions. Further information with regard to restrictions on offers and sales of any Notes and the distribution of this Base Prospectus is set out under “Subscription and Sale”.

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. Persons into whose possession this Base Prospectus comes are required by PSB, the Issuer and the Dealers to inform themselves about and to observe such restrictions. Any consents or approvals that are needed in order to purchase any Notes must be obtained. PSB, the Issuer 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. None of the Issuer, PSB, the Trustee, the Group, the Arrangers or the Dealers or any of the respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of an investment by such offeree or purchaser under relevant legal investment or similar laws. Such investors should consult their legal advisers regarding such matters. For a description of further restrictions on offers and sales of the Notes and distribution of this Base Prospectus, see “Subscription and Sale” below.

This document is only being distributed to and is only directed at persons who are outside the United Kingdom of Great Britain and Northern Ireland (the “**United Kingdom**”); investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”); and high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order, such persons collectively being referred to as “**relevant persons**.” A Series of Notes issued under the Programme shall only be available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Series of Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on the contents of this Base Prospectus.

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

Neither the delivery of this Base Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, PSB or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented or that

there has been no adverse change (financial or otherwise) in the condition of the Issuer, PSB or the Group since the date hereof or the date upon which this Base Prospectus has been most recently amended or supplemented. The delivery of this Base Prospectus at any time does not imply that the information set forth in it is correct as at any time after its date. The websites of PSB or any member of the Group do not form any part of the contents of this Base Prospectus.

The Notes are not eligible for placement and circulation in the Russian Federation, unless, and to the extent, otherwise permitted by Russian law. The information set forth in this Base Prospectus is not an offer of, or an invitation to make offers, sell, exchange or otherwise transfer, the Notes in the Russian Federation or to or for the benefit of any Russian person or entity. Information set forth in this Base Prospectus is not an advertisement of the Notes in the Russian Federation and is not intended to create or maintain an interest in the Issuer or the Notes or to facilitate any sale, exchange or transfer of 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 to make any representation not set forth in this Base Prospectus. Any information or representation not so set forth must not be relied upon as having been authorised by or on behalf of any of the Issuer, PSB, the Trustee or any of the Dealers or Arrangers.

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)**”) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms 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 the relevant 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(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

THE DEALERS AND ARRANGERS MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS BASE PROSPECTUS, AND NOTHING CONTAINED IN THIS BASE PROSPECTUS IS, OR MAY BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. TO THE FULLEST EXTENT PERMITTED BY LAW, NONE OF THE DEALERS OR THE ARRANGERS ACCEPTS ANY RESPONSIBILITY FOR THE CONTENTS OF THIS BASE PROSPECTUS OR FOR ANY OTHER STATEMENT, MADE OR PURPORTED TO BE MADE BY THE ARRANGERS OR A DEALER OR ON ITS BEHALF IN CONNECTION WITH THE ISSUER, PSB OR THE GROUP ON THE ISSUE AND OFFERING OF THE NOTES. THE ARRANGERS AND EACH DEALER ACCORDINGLY DISCLAIMS ALL AND ANY LIABILITY WHETHER ARISING IN TORT OR CONTRACT OR OTHERWISE (SAVE AS REFERRED TO ABOVE) WHICH IT MIGHT OTHERWISE HAVE IN RESPECT OF THIS BASE PROSPECTUS OR ANY SUCH STATEMENT.

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 PSB AND THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY AND RISKS 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. ANY NOTES ISSUED UNDER THIS PROGRAMME HAVE NOT BEEN AND WILL NOT BE 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 OR WILL ANY OF THE FOREGOING AUTHORITIES PASS UPON OR ENDORSE THE MERITS OF THE NOTES OR THE ACCURACY OR THE ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

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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 PSB is required to file periodic reports under Section 13 or 15 of the U.S. Securities Exchange Act of 1934, as amended (the “**Exchange Act**”). For so long as either the Issuer or PSB 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 PSB, 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, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

FORWARD-LOOKING STATEMENTS

This Base Prospectus contains “forward-looking statements” that relate to, among other things, the Group’s plans, objectives, goals, strategies, future operations and performance, as well as assumptions in respect thereof. Such forward-looking statements are characterised by words such as “anticipates,” “estimates,” “expects,” “believes,” “intends,” “plans,” “may,” “will,” “should” and similar expressions but are not the sole means of identifying such statements. Such forward-looking statements appear in “Overview of Promsvyazbank,” “Risk Factors,” “Management Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and other sections of this Base Prospectus.

PSB bases such forward-looking statements on the views and projections of its management with respect to future events and financial performance. Although PSB believes that such views and projections are reasonable, if any of such views and projections prove to be incorrect or incomplete, the Group’s actual results may differ materially from those expressed in such forward-looking statements and from past results. In addition, such forward-looking statements involve uncertainties and are subject to certain risks, the occurrence of which could cause the Group’s actual results to differ materially from those predicted in such forward-looking statements and from past results. See “Risk Factors”. PSB expressly qualifies in their entirety all forward-looking statements attributable to it, or to persons acting on its behalf, by the cautionary statements set forth throughout this Base Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of any Notes should not place undue reliance on these forward-looking statements. Such forward-looking statements speak only as at the date on which they are made. The Group’s business and financial condition may have changed since that date. PSB and the Group do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.

ENFORCEABILITY OF JUDGMENTS

PSB is an open joint stock company incorporated under the laws of the Russian Federation. Its assets are currently located outside the United Kingdom and the United States and all of its directors and executive officers are residents of countries other than the United Kingdom and the United States. As a result, it may not be possible for the Noteholders to effect service of process within the United Kingdom or the United States upon any of PSB, the members of PSB’s board of directors (the “**Board of Directors**”) or its executive officers named in this Base Prospectus; or enforce, in the English or U.S. courts, judgments obtained outside English or U.S. courts against PSB or any of its directors and executive officers named in this Base Prospectus in any action. In addition, it may be difficult for the Noteholders to enforce, in original actions brought in courts in jurisdictions located outside the United Kingdom and the United States, liabilities predicated upon English laws or U.S. Federal securities laws.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only (i) if an international treaty providing for the recognition and enforcement of judgments in civil

cases exists between the Russian Federation and the country where the judgment is rendered, and/or (ii) a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments. No such federal law has been passed and no such treaty exists between the United Kingdom and the Russian Federation or between the United States and the Russian Federation for the reciprocal enforcement of foreign court judgments, and no relevant federal law on enforcement of foreign court judgments has been adopted in Russia. However, most recent case law suggests that recognition and enforcement may be possible even in the absence of an international treaty, bilateral or multilateral, on the grounds of international comity and reciprocity. It is not clear to what extent this case law can be applicable to the enforcement of English or U.S. court judgments. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general statutory grounds set out in Russian legislation for the refusal to recognise and enforce foreign court judgments in the Russian Federation, may significantly delay the enforcement of any such judgment, or completely deprive the plaintiff of effective legal recourse.

Each Loan Agreement will be governed by English law and will provide the option for disputes, controversies and causes of action brought by any party thereto against PSB to be settled by arbitration in accordance with the rules (the “**Rules**”) of the London Court of International Arbitration (“**LCIA**”). The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 (the “**New York Convention**”). However, it may be difficult to enforce arbitral awards in the Russian Federation due to the inexperience of Russian courts in international commercial transactions; official and unofficial political resistance to the enforcement of such awards against Russian companies in favour of foreign investors; and the inability of Russian courts to enforce such awards.

Furthermore, any arbitral award pursuant to arbitration proceedings in accordance with the Rules of the LCIA 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. See “Risk Factors — Risks Relating to the Russian Legal System and Legislation — *Foreign court judgments and arbitral awards may not be enforceable*”. In addition, the enforcement of an award, duly obtained abroad, in Luxembourg is subject to the Luxembourg procedure code and applicable treaties and conventions.

SUPPLEMENTAL BASE PROSPECTUS

PSB will, in connection with the listing of the Notes on the London Stock Exchange, so long as any Note remains outstanding and listed on such exchange, in the event of any significant new factor, material mistake or inaccuracy relating to the information contained in this Base Prospectus, prepare a supplement to this Base Prospectus or publish a new Base Prospectus for use in connection with any subsequent issue of the Notes to be listed on the London Stock Exchange. The Issuer and PSB may agree with any Dealer the form of any future Subordinated Loan Agreement, in which event a supplemental Base Prospectus will be published for use in connection with any subsequent issue of any Subordinated Series to be listed on the London Stock Exchange.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The financial information set forth herein, unless otherwise indicated, has been derived from the Group’s audited consolidated financial statements as at and for the year ended 31 December 2010 (the “**2010 Annual Financial Statements**”) and from its audited consolidated financial statements as at and for each of the years ended 31 December 2009 and 2008 (the “**2009 Annual Financial Statements**” and “**2008 Annual Financial Statements**”, respectively, and together with the 2010 Annual Financial Statements, the “**Financial Statements**”).

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by International Accounting Standards Board (the “**IASB**”). The Financial Statements, together with the independent auditor’s report of ZAO PricewaterhouseCoopers Audit in respect of the 2010 Annual Financial Statements and the independent auditor’s reports of ZAO KPMG in respect of the 2009 Annual Financial Statements and the 2008 Annual Financial Statements, are set out in the F-pages to this Base Prospectus. The Russian rouble is the functional and reporting currency for the Financial Statements. See “Index to Financial Statements”.

Impact of Changes in Presentation

In connection with the preparation of the Group’s 2010 Annual Financial Statements, the Group changed the presentation of certain line items as compared to the presentation for the years ended 31 December 2009 and 2008, restating the 2009 comparative figures included in the 2010 Annual Financial Statements. The financial statements for

prior periods, including the 2009 and 2008 Annual Financial Statements were not required to be, and were not, restated for these changes in presentation. Accordingly, the 2010 Annual Financial Statements are not presented on a directly comparable basis in the 2009 and 2008 Annual Financial Statements for the items below. The Group's management believes that the effect of these changes in presentation is not material and does not affect the comparability of the financial information for the years ended 31 December 2010, 2009 and 2008. Accordingly, the financial information for the years ended 31 December 2009 and 2008 presented in this Base Prospectus has been extracted from the 2009 and 2008 Annual Financial Statements, respectively.

The presentation of the following items of the consolidated income statement has been changed in the 2010 Annual Financial Statements to better present the nature of the underlying transactions:

- Income on early redemption of other financial liabilities was included in the category "Interest expense", as it represents decrease of interest expense, whereas in the 2009 and 2008 Annual Financial Statements it was presented as a separate line item;
- Contributions under obligatory deposit insurance were included in the category "Other income and expense", as they represent operating expenses incurred whereas they were presented as separate line items in the 2009 and 2008 Annual Financial Statements;
- The category "Net gain on purchase of interest in subsidiaries" was combined with the category "Other income and expense" in the 2010 Annual Financial Statements;
- The categories "Administrative expenses" and "General expenses" were combined in the category "General and administrative expenses" in the 2010 Annual Financial Statements; and
- The category "Other income" was renamed "Other income and expense" in the 2010 Annual Financial Statements.

Additionally, the presentation of certain captions of the disclosures on loans to customers was changed as at 31 December 2010 as compared to the presentation as at 31 December 2009 and 2008 to better present the nature of the underlying transactions. The industry classification of loans to customers was revised in the 2010 Annual Financial Statements to reflect a more precise classification of borrowers.

The presentation of segment assets and liabilities was changed as at 31 December 2010 as compared to the presentation as at 31 December 2009 and 2008 to better reflect the way the Group's management analyses the business. In the 2010 Annual Financial Statements assets and liabilities related to management operations performed by PSB's Treasury Department were included in the category "Reconciling items", whereas in the 2009 and 2008 Annual Financial Statements they were included in the category "International business, investments and financial markets".

Impact of New Accounting Standards

Certain new IFRS became effective for the Group from 1 January 2008. All such changes in accounting policies were applied retrospectively. The nature of the adjustments made due to application of new IFRS and its effect on corresponding information for the year ended 31 December 2008 is set out in Note 3 to the 2008 Annual Financial Statements.

In October 2008, the International Accounting Standards Board (the "IASB") issued a new amendment to IAS 39 and IFRS 7, which permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (*i.e.*, trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, would have met the definition of loans and receivables at initial recognition, and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in "rare circumstances". The amendment was effective retrospectively from 1 July 2008. Pursuant to this amendment, the Group reclassified certain non-derivative financial assets from trading assets into held to maturity assets. The nature of this reclassification is set out in Note 11 to the 2008 Annual Financial Statements.

From 1 January 2009, the Group adopted the revised version of IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2009). As a result, in addition to the consolidated income statement the Group discloses a statement of comprehensive income that includes all non-owner changes in equity, such as the revaluation of available for sale assets and revaluation of property and equipment. The balance sheet is renamed

the statement of financial position and the cash flow statement is renamed the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or correction of errors. In addition, starting from 1 January 2009, the Group adopted IFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision-maker in order to assess each segment’s performance and to allocate resources to them.

As at the date of the 2010 Annual Financial Statements, all new standards and amendments that are relevant to the Group’s operations and are effective for accounting periods beginning on January 1, 2010 have been adopted. In addition, the Group has adopted the amendment to IFRS 7 “Financial instruments: Disclosures”, before its effective date. Details of these new standards, amendments and interpretations are set out in Note 3 to the 2010 Annual Financial Statements.

Independent Current and Former Auditors

The Group’s 2010 Annual Financial Statements included in this Base Prospectus have been audited by ZAO PricewaterhouseCoopers Audit, independent auditors, of Butyrsky Val 10, 125047 Moscow, Russian Federation, as stated in their report appearing herein. ZAO PricewaterhouseCoopers Audit is a member of the Russian Chamber of Auditors (Auditorskaya palata Rossii).

ZAO KPMG, independent auditors, having their registered address at Naberezhnaya Tower Complex, Block C, 10 Presnenskaya Naberezhnaya, Moscow 123317, Russian Federation, have audited the 2009 and 2008 Annual Financial Statements of the Group included in this Base Prospectus, as stated in their audit reports appearing herein. ZAO KPMG is a member firm of KPMG International, a Swiss cooperative. ZAO KPMG is a member of the Russian Chamber of Auditors (Auditorskaya palata Rossii).

Currency

In this Base Prospectus, the following currency terms are used: “EUR,” “euro” or “€” means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended; “RUB,” “Russian rouble” or “rouble” means the lawful currency of the Russian Federation; and “USD,” “U.S. dollar,” “dollar” or “U.S.\$” means the lawful currency of the United States.

PSB’s Market Share Information

PSB has calculated its market share information presented in this Base Prospectus on the basis of market data regularly published by the CBR and third party independent sources.

Differences between EU-Adopted IFRS and IASB IFRS

The financial information included in this Base Prospectus has not been prepared in accordance with the international accounting standards adopted pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002 (the “EU IFRS”) and there may have been differences in the financial information had the EU IFRS been applied, but PSB does not believe that these differences would have been material. The principal differences between IFRS as adopted by the IASB and the EU IFRS concern the application of IAS 39. For a description of the accounting policies in respect of IAS 39 application by PSB in its IFRS financial statements, see Note 3 to the 2009 Annual Financial Statements and Note 3 to the 2008 Annual Financial Statements.

EU IFRS may differ from IFRS as adopted by the IASB if, at any point in time, new or amended IFRS have not been endorsed by the EU. As at 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010 affecting the Financial Statements, and there was no difference between EU IFRS and IFRS as adopted by the IASB in terms of their application to the Group.

Exchange Rates

The following table sets forth, for the periods indicated, the high, low, average and period-end official exchange rate between the rouble and the U.S. dollar based on the official exchange rates quoted by the CBR. These rates may differ from the actual rates used in the preparation of the Group’s Financial Statements and other financial information appearing in this Base Prospectus.

The rouble is generally not convertible outside Russia. A market exists within Russia for the conversion of roubles into other currencies, but the limited availability of other currencies may tend to distort their values relative to the rouble. Fluctuations in the exchange rates between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future.

Year ended 31 December	Roubles per U.S. dollar			Period End
	High	Low	Average⁽¹⁾	
2006.....	28.48	26.18	27.10	26.33
2007.....	26.58	24.26	25.49	24.55
2008.....	29.38	23.13	24.96	29.38
2009.....	36.43	28.67	31.93	30.24
2010.....	31.78	28.93	30.37	30.48

2011	Roubles per U.S. dollar			Period End
	High	Low	Average⁽¹⁾	
January	30.63	29.67	29.99	29.67
February	29.80	28.94	29.32	28.94
March	28.90	28.16	28.50	28.43
April (through to 11 April)	28.52	28.12	28.28	28.12

(1) The average of the exchange rate on the last business day of each full month for the relevant annual period and on each business day for any other period.

Source: CBR

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, and figures expressed as percentages in the text may not total 100% when aggregated.

OVERVIEW OF PROMSVYAZBANK

The following overview is qualified in its entirety by, and is subject to, information contained elsewhere in this Base Prospectus (including the Financial Statements and the notes thereto). Unless the context implies otherwise, all data in this Base Prospectus is presented on a consolidated basis. See “Risk Factors” for a discussion of certain factors that should be considered in connection with an investment in the Notes.

PSB is one of the leading universal banks in Russia. As at 1 January 2011, PSB was ranked the tenth largest bank by assets and second largest among the banks not controlled by Russian state-controlled entities or foreign financial institutions, according to the information published by the CBR. As at 1 January 2011, PSB’s total assets accounted for 5.8% of the total assets of the Russian private banking system (i.e., excluding state owned and foreign owned banks) and 3.9% of the total term retail deposits of the Russian private banking system (i.e., excluding state owned and foreign owned banks), according to Interfax. PSB offers an extensive range of services comprising corporate banking services, small and medium enterprises (“SME”) services, retail services, and investment banking and financial markets services, to clients located predominantly in Moscow, the Moscow region and other Russian regions. According to Russian Factoring Companies Association as at 31 December 2010, PSB was the leading market participant in the Russian factoring market, with 27% of the market share. In March 2010, PSB received the “Bank of the Year 2009” award from Banki.ru, one of Russia’s principal banking information portals for both banking clients and market participants and in June 2010, PSB received the “Financial Elite of Russia 2010” award.

PSB was established in 1995 and originally focused on providing corporate banking services to the Russian telecommunications sector. Since its establishment, PSB has expanded its lending activities to include a wide range of services, and by 2001, PSB had become a universal commercial bank providing an extensive range of banking services in both the corporate and retail sectors. PSB currently has four principal business lines: (i) corporate banking services (excluding SMEs), including corporate lending, international settlements, international trade finance, ECA-backed financing, factoring, corporate deposit taking, and transactions with precious metals; (ii) SME banking services, including commercial lending, deposit taking, issuance of promissory notes, money transfers, guarantees, brokerage in securities and foreign exchange services; (iii) retail banking services, including retail loans to and deposit taking from individuals (excluding high net worth individuals (“VIP clients”)), banking card products, settlement and cash services and foreign exchange services; and (iv) investment banking and financial markets services focused on private banking services for VIP clients, capital markets transactions, sales and trading, including the origination, underwriting and trading of municipal and corporate domestic bonds, brokerage, M&A advisory services and asset management.

Following the onset of the Financial Crisis, PSB suspended active retail lending in 2009 and in the first half of 2010, as a result of which its retail borrower base has decreased to 129,000 customers. In November 2009, PSB resumed lending to existing customers with an established positive credit history with PSB and in July 2010, PSB resumed *en masse* retail lending. Currently, PSB offers its retail customers general-purpose consumer loans for existing and new clients and credit card products. In the beginning of 2011 PSB resumed mortgage lending.

PSB’s products and services are distributed in Moscow, the Moscow region and other Russian regions. As at 1 March 2011, PSB had the 18th largest distribution network among Russian banks, according to RBC. In particular, from 2004 to the first half of 2008, PSB undertook a major branch expansion strategy driven by growth in its lending, especially its SME and retail lending. In December 2007, PSB was awarded Russia’s National Banking Award by the Association of Russian Banks and the National Banking Journal for the “Development of the Branch Network”. As at 1 March 2011, in Russia PSB had a total of 250 branches, sub-branches, points of sale or other representations, of which 183 were universal full-service branches or sub-branches. Of the 250 outlets, 58 were located in Moscow or the Moscow region. In addition, PSB maintains a branch and retail sub-branch in Cyprus, and three representative offices in China, India and Ukraine.

PSB’s operating income increased from RUB28.2 billion for the year ended 31 December 2008, to RUB34.1 billion for the year ended 31 December 2009, and decreased to RUB28.2 billion for the year ended 31 December 2010. PSB’s total assets increased from RUB461.8 billion as at 31 December 2008, to RUB471.2 billion as at 31 December 2009, and to RUB475.1 billion as at 31 December 2010 and total equity decreased respectively, from RUB40.0 billion to RUB38.2 billion, and increased to RUB44.8 billion as at the same dates.

PSB is a Russian commercial bank organised as an open joint-stock company under the laws of the Russian Federation. PSB holds a general banking licence from the CBR and is authorised by the CBR to hold deposits and to place precious metals. PSB’s head office is located at Smirnovskaya Street 10, Building 22, Moscow 109052, Russian Federation, and its telephone number is +7-495-777-1020. PSB’s website is www.psbank.ru.

OVERVIEW OF THE PROGRAMME

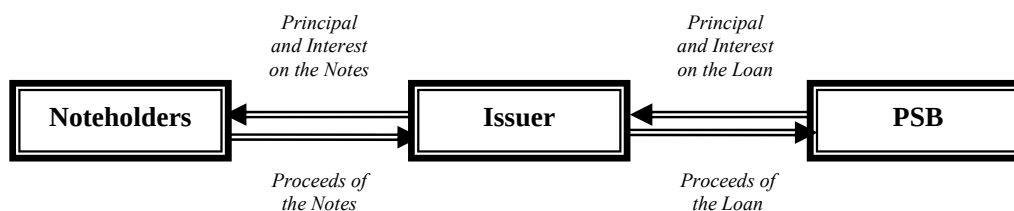
The following overview contains basic information about the Notes and the Loans and should be read in conjunction with, and is qualified in its entirety by, the information set forth under “Terms and Conditions of the Notes” and “Facility Agreement” appearing elsewhere in this Base Prospectus. The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document and, in relation to the terms and conditions of any particular Series of Notes, the applicable Final Terms. Words and expressions defined in “Terms and Conditions of the Notes” below shall have the same meanings in this overview.

Each transaction will be structured as a Loan by the Issuer to PSB of a sum equivalent to the gross proceeds of an issue of a Series of Notes. The Issuer will issue Notes to Noteholders for the sole purpose of funding such Loan. The assets backing the issue of Notes will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes when issued. Each Series of Notes will be constituted by a principal trust deed as supplemented and amended in respect of such Series of Notes by a Supplemental Trust Deed (together, the “**Trust Deed**”), each entered into between the Issuer and the Trustee (as defined below). Pursuant to the Trust Deed the Issuer will (i) charge to the Trustee by way of a first fixed charge as security for a Series of Notes (a) all rights to principal, interest and other amounts payable by PSB under the relevant Loan Agreement, (b) the right to receive all sums which may be payable by PSB under any claim, award or judgment relating to the relevant Loan Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account established for the relevant Series of Notes with the Principal Paying Agent in the name of the Issuer (the “**Account**”) including interest from time to time earned thereon and (ii) assign certain of its rights under the relevant Loan Agreement (but, in each case, 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.

PSB will be obliged to make payments under each Loan to the Issuer in accordance with the terms of the relevant Loan Agreement. PSB will be obliged under the terms of the relevant Loan Agreement to make payments in respect of principal, interest and additional amounts (if any) to the Issuer to the Account. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of any Loan Agreement, unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to each Loan Agreement. Any material amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with, and as more fully described in, “Terms and Conditions of the Notes — 14. Notice.” and shall be binding on the Noteholders. Formal notice of the security interests created by any Trust Deed will be given to PSB and the Principal Paying Agent who will each be required to acknowledge the same.

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

Set out below is a diagrammatic representation of the structure:



Notes to be Issued under the Programme

Issuer	PSB Finance S.A., a company with limited liability (“ <i>société anonyme</i> ”) incorporated under the laws of Luxembourg with its registered office at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg registered with the <i>Registre de Commerce et des Sociétés</i> in Luxembourg under number B118687.
PSB (as Borrower)	Open Joint-Stock Company Promsvyazbank with its registered office at Smirnovskaya Street 10, Building 22, Moscow 109052, Russian Federation.
Description	Programme for the Issuance of Loan Participation Notes pursuant to which the Issuer may issue Notes for the sole purpose of financing loans to PSB.
Programme Size	Up to U.S.\$3,000,000,000 (or its equivalent in other currencies at the date of issue) in aggregate principal amount of Notes outstanding at any one time. PSB may increase the amount of the Programme in accordance with the Dealer Agreement (as defined herein). In this respect, for the purpose of calculating the aggregate principal amount of Notes outstanding, Notes issued at a premium shall be treated as having been issued at the amount of their net proceeds received by the Issuer.
Arrangers	Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd. and Open Joint-Stock Company Promsvyazbank.
Dealers	Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd. and Open Joint-Stock Company Promsvyazbank. Pursuant to the terms of the Dealer Agreement, the Issuer, on PSB’s instructions, may from time to time terminate the appointment of any Dealer under the Programme or appoint additional Dealers either in respect of one or more Series of Notes or in respect of the whole Programme. References in this Base Prospectus to “Permanent Dealers” are to the persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to “Dealers” are to all Permanent Dealers and all persons appointed as dealers in respect of one or more Series of Notes.
Trustee	Deutsche Trustee Company Limited.
Principal Paying Agent	Deutsche Bank AG, London Branch, unless it is specified in the relevant Final Terms relating to a Series of Notes that another principal paying agent is appointed in respect of that Series. References in this Base Prospectus to “Principal Paying Agent” are to Deutsche Bank AG, London Branch, or such alternative principal paying agent or agents, as the case may be.
Registrar	Deutsche Bank Trust Company Americas, or, in relation to Notes sold in reliance on Regulation S, Deutsche Bank 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 Deutsche Bank Trust Company Americas and/or Deutsche Bank Luxembourg S.A., or such alternative Registrar, as the case may be.
Paying Agents	Deutsche Bank AG, London Branch, or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms relating to a Series of Notes that another paying agent is appointed in respect of that Series. References in this Base Prospectus to “Paying Agents” are to Deutsche Bank AG, London Branch and/or to Deutsche Bank Trust Company Americas or such alternative paying agent, as the case may be.
Transfer Agents	Deutsche Bank AG, London Branch, or, in relation to Notes sold pursuant to Rule 144A, Deutsche Bank Trust Company Americas, unless it is specified in the relevant Final Terms relating to a Series of Notes that another transfer agent is appointed in respect of that Series. References in this Base Prospectus to “Transfer Agent” are to Deutsche Bank AG, London Branch or such alternative transfer agent, as the case may be.

Calculation Agent	Deutsche Bank AG, London Branch, 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 Deutsche Bank AG, London Branch, 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	The Notes may be issued at their principal amount or at a discount or premium to their principal amount.
Status	Each Series of Notes will constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the corresponding Loan and to account to the Noteholders for amounts equivalent to sums of principal and interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer pursuant to the corresponding Loan, all as more fully described in “Terms and Conditions of the Notes — 1. Status.”
Security	The Issuer’s payment obligations in respect of each Series of Notes will be secured by a first fixed charge on: (a) 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 (as defined in the Trust Deed)); and (b) all the rights, title and interest in and to all sums of money held from time to time in an account for the particular Series specified in the relevant 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 date of the relevant supplemental trust deed entered into in connection with the corresponding Series of Notes.
Form	Each Series of Notes will be issued in registered form. The Regulation S Notes and the Rule 144A Notes will be represented by the Regulation S Global Note and the Rule 144A Global Note, respectively, in each case without interest coupons. The Global Notes will be exchangeable for Definitive Notes in the limited circumstances specified in the Global Notes.
Clearing Systems	DTC (in the case of Notes sold pursuant to Rule 144A), Euroclear and Clearstream, Luxembourg (in the case of Notes sold pursuant to Regulation S) and such other clearing system as may be agreed between the Issuer, PSB, the Paying Agents, the Trustee and the relevant Dealer(s).
Initial Delivery of Notes	On or before the issue date for each Series, the Rule 144A Global Note will be deposited with a custodian for DTC and the Regulation S Global Note will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will be registered in the name of a nominee of DTC, and the Regulation S Notes will be registered in the name of a nominee of Euroclear and Clearstream, Luxembourg. 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, PSB, the Paying Agents, the Trustee and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, PSB 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, PSB 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 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 U.S.\$200,000 or its equivalent in other currencies rounded upwards as agreed between the Issuer, PSB and the relevant Dealer(s) or higher integral multiples of U.S.\$1,000 in excess thereof and (iii) except in the case of (ii) above, the minimum denomination of any Note shall be €100,000 (or its equivalent in any other currency as at the issue date of the relevant Notes).
Rate of Interest	The Notes may be issued on a fixed rate or a floating rate basis.
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series and corresponding Loan as follows: (a) 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 (b) by reference to LIBOR or EURIBOR (or such other benchmark as may be specified in the relevant Final Terms) as adjusted for any applicable margin.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms.
Redemption	The relevant Final Terms will specify the basis for calculating the redemption amounts payable and, in respect of a Senior Series only, whether there will be any Put Option(s) (as defined in the Conditions of the relevant Series of Notes). Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year and in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of Section 19 of the 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, <i>inter alia</i> , incur any other indebtedness for borrowed moneys, or enter into other transactions or engage in any business (other than transactions contemplated by this Base Prospectus), declare any dividends or have any subsidiaries. See "Terms and Conditions of the Notes — 4. Restrictive Covenants." 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 the terms of the corresponding Loan Agreement unless the Trustee has given consent.

Redemption by the Issuer at the Option of PSB	In the case of a Senior Series only, the Issuer will redeem the Notes in whole, but not in part, at 100% of their aggregate principal amount plus accrued and unpaid interest or increased aggregate principal amount plus accrued and unpaid interest, as the case may be, and all additional amounts, if any, if PSB elects to repay any Loan in the event it is required to pay increased and/or 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 PSB is required to pay additional amounts on account of certain costs incurred by the Issuer pursuant to the relevant Senior Loan Agreement.
Optional Redemption by the Noteholders upon a Change of Control	In the case of a Senior Series only, upon the occurrence of a Change of Control (as defined in “Terms and Conditions of the Notes — 6. Redemption and Purchase”) the Notes may be redeemed at the option of a Noteholder at their principal amount together with accrued interest, if any, all as more fully described in the “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 or increased principal and interest, as the case may be, 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) PSB to allow the relevant Loan to remain outstanding under the relevant Loan Agreement. In either case, the Loan would 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 to be made by the Issuer in respect of each Series of Notes will be made in full without set-off or counterclaim and free and clear of and without deduction for or on account of all taxes, which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation or Luxembourg, or any taxing authority thereof or therein, other than as required by law. If any such taxes, duties and other charges are payable, the sum payable by PSB to the Issuer under the relevant Loan Agreement will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Noteholders receive the net sum which they would have received free from any liability in respect of any such deduction or withholding had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received and retained (net of tax) from PSB.
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.
Listing	Application will be made, where specified in the relevant Final Terms, for a Series of Notes to be admitted to the Official List and to trading on the Market or to be listed on such other stock exchange and traded on such other market as shall be specified in the relevant Final Terms or the Series of Notes will remain unlisted.

Rating..... The Programme has been assigned the following ratings: “Ba2” (senior) “Ba3” (sub) by Moody’s Eastern Europe LLC (“**Moody’s**”), and “BB–” (senior) “B+” (sub) by Fitch Ratings Ltd. (“**Fitch**”). Series of Notes issued under this Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as the ratings assigned to the Programme. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the “**CRA Regulation**”) will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before June 7, 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Credit ratings included or referred to in this Base Prospectus have been issued by Fitch and Moody’s. Moody’s is not established in the European Union but Moody’s Investors Service Ltd. (which is established in the European Union and has applied for registration under the CRA Regulation although notification of the corresponding registration decision has not yet been provided by the relevant competent authority) plans to endorse the ratings issued by it. Fitch is established in the European Union and has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or PSB could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Governing Law The Notes and the Trust Deed will be governed by English law.

Selling Restrictions United States, United Kingdom, Russian Federation, Luxembourg and any other jurisdiction relevant to any Series. 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 the Loan. Accordingly, the Notes should not be acquired by any benefit plan investor. Each purchaser and/or holder of Notes and each transferee therefore will be deemed to have made certain representations as to its status under ERISA. Potential purchasers should read the section entitled “Transfer Restrictions”.

The Senior Loan Corresponding to Each Senior Series of Notes

Lender PSB Finance S.A.

Borrower PSB

Security and Ranking No Senior Loan 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 PSB.

Interest Basis Interest will be payable on a fixed or floating rate basis as specified in the relevant Loan Supplement.

Redemption at the Option of PSB ..	Each Senior Loan may be prepaid at PSB's option in whole, but not in part, 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 or increased principal and interest, as the case may be, and additional amounts, if any, for certain tax reasons or by reason of certain increased costs.
Mandatory Repayments.....	In the event that it becomes unlawful for the Issuer or PSB to fund any Senior Loan or allow such Senior Loan to remain outstanding under the relevant Senior Loan Agreement or allow the corresponding Senior Series of Notes to remain outstanding, PSB may be required to repay the corresponding Senior Loan in full.
Redemption upon a Change of Control.....	Each Senior Loan will be repaid in whole or in part by PSB upon the exercise of the Put Option upon a Change of Control (as defined in the Facility Agreement) by any holder of Notes at the principal amount of the Notes so tendered, together with accrued and unpaid interest or increased principal and interest, as the case may be, and additional amounts, if any.
Certain Restrictions and Covenants	The Issuer will have the benefit of certain covenants made by PSB all as more fully described in the relevant Senior Loan Agreement.
Events of Default.....	In the case of an Event of Default (as defined in the relevant Senior Loan Agreement), the Trustee may, subject as provided in the Trust Deed, cause the Issuer to declare all amounts payable under the relevant Senior Loan Agreement to be due and payable.
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 Senior Loan to PSB. In connection with the receipt of such Senior Loan, PSB 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 and without deduction for or on account of all taxes which are or will be imposed, assessed, charged, levied, collected, demanded, withheld or claimed by the Russian Federation or Luxembourg, other than as required by law. If any such taxes, duties or other charges are payable in respect of the Senior Loan, the sum payable by PSB under the corresponding Senior Loan will (subject to certain conditions) be required to be increased to the extent necessary to ensure that the Issuer receives and retains the net sum which it would have received and retained 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 Each Subordinated Series of Notes	
Lender.....	PSB Finance S.A.
Borrower.....	PSB
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 Base 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 London Stock Exchange.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this document prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on PSB's and/or the Group's business, financial condition, results of operations or prospects, which, in turn, could have a material adverse effect on its ability to service payment obligations under any Loan Agreement and, as a result, the debt service on any Series of Notes. In addition, the value of the Notes could decline if any of these risks materialise, 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 the Group faces. The Group has described only the risks it considers to be material. However, there may be additional risks that the Group currently considers immaterial or of which it is currently unaware, and any of these risks could have the effect set forth above.

Risks Relating to the Global and Russian Banking Sectors

Instability of global credit markets

The credit markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the onset of the sub-prime mortgage crisis in the United States in 2007 and the subsequent global financial crisis (the “**Financial Crisis**”). Falling house prices and increasing foreclosures and unemployment impacted the global credit markets, resulting in significant mark-to-market write-downs of asset values by financial institutions, including government sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities, including collateralised debt obligations, collateralised loan obligations and securities held by structured investment vehicles, but which spread to credit default swaps and other derivative securities and other financial instruments such as syndicated loans, caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail, such as in the case of the U.S. investment bank, Lehman Brothers. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide, funding to borrowers, including other financial institutions. Overall, the uncertainty in the global markets, combined with corresponding domestic factors during 2008, led to very high volatility in the Russian stock markets and at times gave rise to much higher than normal interbank lending rates. For example, in January 2008, an average interbank rouble lending rate was 2.8%, while in January 2009, it increased to 16.3%. During the fourth quarter of 2009 and in 2010 the interbank lending rate was 5.4% and 3.1%, respectively.

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, the United States and many of the largest countries in Europe and elsewhere announced, and in many cases begun to implement, significant rescue packages, which included, among other things: the recapitalisation of banks through the state purchase 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 measures, the volatility and market disruption in the global banking sector has continued through 2010. While many countries have recently reported improvement of the situation in the financial markets and some have even expressed cautious optimism about the prospects for economic recovery, no assurance can be given that a further downturn will not occur, or that further state support measures will not be required, or that any state support measures will be sufficient to restore stability in the global banking sector and financial markets. Further, the political instability and public protests in Middle Eastern countries, including (without limitation) Bahrain, Egypt, Libya and Tunisia, since January 2011, as well as any economic downturn in Japan as a result of the recent earthquake and tsunami may also result in increased market volatility. Any such uncertainty, disruption or volatility may have an adverse effect on the Group's business, financial condition, results of operations and prospects.

A restructuring of sovereign debt issued by one or more Member States participating in the third stage of the European and Economic Monetary Union pursuant to the Treaty establishing the European Community, as amended from time to time (the “**Eurozone Member States**”) and the impact of that on global or Russian markets could have an adverse effect on PSB's business, financial condition, results of operations and prospects.

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

The Russian banking market is highly competitive. According to the CBR, as at 1 February 2011, 1,012 banks and non-bank credit organisations were operating in Russia and the 20 largest banks held 68.9% of total banking assets.

The steady growth of the Russian banking sector in recent years led to the perception of increased opportunities and foreign banks setting up operations in the Russian Federation, however the competitive landscape in the Russian banking sector has changed since the onset of the Financial Crisis. Until recently, the Russian banking sector has experienced steady growth, with total assets growing by 36.6% in 2005, 44.1% in 2006, 44.1% in 2007 and 39.2% in 2008, according to the CBR. Similarly, PSB had experienced steady growth, due in part to growth in the overall Russian banking sector.

Between 1 December 2008 and 1 December 2009, however, growth in the banking sector declined to 10.7% due to the impact of the Financial Crisis, declining further to 5.0% growth in 2009, before returning to 14.9% in 2010. The decline in growth of the Russian Federation's banking sector during the Financial Crisis has affected, and may continue to affect, PSB's growth. While one of PSB's strategies continues to be to expand its business in Russia, stagnation, contraction or a renewed decline in growth of the banking sector in Russia may make it difficult for PSB to expand its operations.

PSB's primary competitors have historically been primarily in the corporate banking area (including commercial and SME lending), such as Sberbank, OAO "Alfa-Bank" ("**Alfa Bank**"), FC "Uralsib" ("**Uralsib**") and OAO "MDM Bank" ("**MDM Bank**"), each of which aimed to attract and serve major Russian companies. In the investment banking area, PSB's principal competitors were VTB, Troika Dialog, Alfa Bank, Renaissance Capital and OAO "Bank ZENIT" ("**Bank ZENIT**"). PSB also undertook an expansion strategy in its retail programme from 2004 through late 2008. However, due to the effects of the Financial Crisis, PSB suspended its retail lending programme, and commenced again in July 2010. With respect to retail activities, PSB has faced competition from a number of Russian banks and Russian subsidiaries of international banks, including Sberbank, JSC "VTB 24" ("**VTB 24**"), Alfa Bank, ZAO "Citibank", MDM Bank, ZAO "Raiffeisenbank", Rosbank, Uralsib, ZAO "Russian Standard Bank" ("**Russian Standard**") and ZAO "Home Credit & Finance Bank" ("**Home Credit**"). See "Business — Market Position — *Competition and Market Share*".

As a result of the Financial Crisis, however, PSB now faces far greater competition from state-controlled banks such as Sberbank, VTB, Gazprombank, Russian Agricultural Bank and The Bank of Moscow. Due to the direct support of the Russian Federation, state-controlled banks have access to cheaper sources of funding from international capital markets and are major beneficiaries of government programmes, including anti-crisis aid. Using these advantages, these banks have been able to add branches to their respective networks through the acquisition of defaulting banks and can attract the most important clients and, as a result, maintain their market share — which according to PSB's calculations based on official CBR data was nearly 56% of the total assets of Russian banking system as at 31 December 2010.

Furthermore, increased competition from state-controlled banks, which have the benefit of significantly larger liquid resources at their disposal than private international and domestic banks, may lead to a decrease in interest rate margins, lower fees and commissions, and an outflow of customer deposits which may adversely affect the profitability and financial condition of private international and domestic banks, including PSB. In addition, it is possible that in the future the Russian Federation may use its state-controlled financial institutions to implement policy decisions such as requiring such banks to issue numerous or reduced interest rate loans, which may negatively affect PSB's results of operations by forcing it to charge lower interest rates, which may have a material adverse effect on PSB's business, financial condition, results of operations or prospects.

Another factor behind the significant competition is the limited size of the banking market in Russia. For all banks, other than some state-controlled banks, the potential market is limited to regions with large cities, as other locations have historically been unprofitable. The largest Russian banks are concentrated in Moscow, while large regional banks conduct most of their business in the central cities of their respective regions. Competition for client business among Russian banks is intense, not least in the current market climate, where there are fewer low-risk or high-quality borrowers. This has led, among other things, to the narrowing of spreads between deposit and loan interest rates, affecting Russian banks' profitability. However, in the first few months of 2011, deposit interest rates have decreased slightly, leading to widening of spreads in the Russian banking market.

Most of PSB's national competitors are based in Moscow, although a few have regional branch networks and Sberbank and VTB 24 have a national network. Accordingly, PSB faces competition in substantially all the business segments and regions in which it operates. See "Business — *Market Position*". Further, because Russia's banking system is highly fragmented, significant merger and acquisition activities may take place in the short or medium-term which may result in the emergence of new strong competitors for PSB. Some consolidation is already under consideration in the sector — the most important being the acquisition by VTB of JSC "TransCreditBank" and JSCB "Bank of Moscow". If further consolidation takes place and PSB fails to attract additional capital or engage in mergers and acquisitions in order to remain competitive, it could have a material adverse effect on PSB's business, financial condition, results of operations or prospects.

PSB has longstanding relationships with certain large corporate clients and public authorities, from which it receives significant business, and it expects these relationships to continue in the future. Nevertheless, some of PSB's clients could transfer some or all of their business to PSB's competitors, including those from among the state-controlled sector. In addition, the moderate size of PSB compared to that of some other Russian banks might impede its competitive ability.

Risks Relating to PSB and the Group's Business and Industry

The Financial Crisis had, and may again in future have, adverse consequences on PSB's liquidity position

PSB's material sources of funding include borrowings on the international capital markets, the domestic interbank market, syndicated loans, bilateral trade-related loans and letters of credit with different forms of funding. As at 31 December 2010, funds raised on international capital markets (which include senior loan participation notes, syndicated loans, subordinated borrowings and deposits from foreign banks) represented 10.6% of PSB's total liabilities. The principal source of funding for PSB is domestic current account balances and deposits from customers. According to the CBR's statistics, from 2005 through to year end 2010, the Russian banking market experienced an average annual growth in corporate and retail deposits of 42.7% and 30.8% respectively.

During the Financial Crisis however, there was a sharp fall in the supply of long- and medium- term financing in the domestic market. For example, according to the CBR's review of the Russian banking sector, in 2008 the growth of retail deposits in the Russian banking market halved to 14.5% compared with a growth rate of 35.4% for the previous year, and corporate deposits growth slowed to 40.5% in 2008, from 67.5% in 2007. The peak of the Financial Crisis saw a severe impact on liquidity of banks across the world, as well as the availability of credit, and the terms and cost of funding in Russia. Investment capital inflows into Russia have decreased significantly as a result of the Financial Crisis, reducing bank liquidity. In 2008, the Russian economy experienced a net capital outflow in the private sector of U.S.\$132.7 billion, compared with a net capital inflow of U.S.\$82.4 billion in 2007. However, following signs of some economic recovery, net capital outflows reduced to U.S.\$56.9 billion in 2009 and to US \$38.3 billion in 2010, according to CBR estimates. According to the Federal State Statistics Service, the volume of foreign investment into Russia in 2008 constituted U.S.\$103.8 billion and fell by 21% to U.S.\$81.9 billion in 2009, but increased by 40% to U.S.\$114.7 billion in 2010.

Due to the unfavourable economic conditions and limited access to the international capital markets arising from the Financial Crisis, PSB turned in 2009 to retail depositors as a key source of funding. The offering of attractive interest rates, coupled with proactive campaigns by banks to attract retail depositors in a climate of returning trust to the financial markets and the banking system resulted in the stable growth of retail deposits in the Russian banking sector, from RUB5,907 billion as at 1 January 2009 to RUB7,485 billion as at 1 January 2010 and RUB9,818 billion as at 1 January 2011, or growth of approximately 31.2% as at 31 December 2010 compared with the previous year, according to the CBR's review. This trend was so pronounced that by the fourth quarter of 2009 PSB was experiencing excess liquidity and registered a significant deposit inflow, resulting in an increase in total assets in 2009 and a further increase in 2010. This overall improvement in liquidity position enabled PSB to repay in the first quarter 2009 the anti-crisis support funds extended by the CBR. Under Russian law, however, retail depositors can withdraw retail deposits, including term deposits, at any time. As a result, all such retail deposits are effectively short-term deposits, and accordingly any current, or any future, liquidity problems in the Russian or global markets may adversely affect the Group's business, financial condition, results of operations and prospects. Furthermore, the Financial Crisis has stimulated Russian legislative initiatives which strengthen the protection of retail customers under Russian law and could place corresponding restrictions on PSB's retail business. See "Risk Factors — Risks Relating to the Russian Legal System and Legislation — *Russian banking and financial regulation has been undergoing significant changes*".

The Russian economy continued to recover in 2010 and interest rates continued their stable descent in the context of improved liquidity in the financial system. Accordingly, PSB reviewed its approach to liquidity management and reduced its liquidity cushion from the inflated anti-crisis levels to standard levels in 2010. As at 31 December 2010 the share of liquid assets (defined as cash and cash equivalents, placements with banks and other financial institutions with remaining maturity of less than one month, financial assets at fair value through profit or loss which are included in the up to one month category, amounts receivable under reverse repurchase agreements with remaining maturity of less than one month and investments held to maturity with remaining maturity of less than one month) to total assets was at the optimal level of 20% as compared to 33% and 28% as at 31 December 2009 and 2008, respectively.

In the fourth quarter of 2008, Russian banks (including PSB) benefited from government liquidity support, which helped improve the liquidity position. During 2009, due to mediocre demand for credit and increased government spending aimed at supporting the economic growth of the Russian Federation, the Russian economy, and the banking system in particular, witnessed a significant inflow of liquidity. PSB benefited from this trend in the banking system and

experienced a considerable inflow of deposits. As a result, by the end of 2009, PSB was experiencing excess liquidity. It simultaneously experienced a squeeze of the liquidity gap in the “up to one year” time bucket, which amounted to RUB16.8 billion or 3.6% of the total assets as at 31 December 2009, as compared to RUB25.7 billion and 5.6%, respectively, as at 31 December 2008. During the first half of 2010, PSB made considerable efforts to bring its liquidity level back to the pre-Financial Crisis level by lowering interest rates for retail deposits and also divesting some of its most expensive and sizeable corporate deposits. As a result, PSB’s liquidity cushion reverted to a normal operating level of 20% by mid-2010 and remained at this approximate level throughout the remainder of the year. This trend consequently led to the widening of PSB’s short-term negative liquidity gap (i.e., within one year time bucket) to 8.5% of total assets or RUB40.2 billion as at 31 December 2010. PSB considers this level to be manageable in light of its experience prior to the Financial Crisis and in view of the existing reserve liquidity lines available from the CBR during stress scenarios.

Following the onset of the Financial Crisis, the Russian Federation enacted several measures specifically designed to support the liquidity of the Russian banking sector, restore investor confidence and support the medium-term economic growth of the Russian economy by facilitating credit across the Russian banking sector. See “The Banking Sector and Banking Regulation in Russia — Russian Banking Sector — *Anti-Crisis Legislation*” for further detail. Notwithstanding the same, some Russian financial institutions have continued to demonstrate liquidity problems and while a general improvement of the situation in the financial markets is reported, no assurance can be given that similar liquidity problems will not occur in future, or that the Russian Government (the “**Government**”) will implement any state support measures to support the Russian banking sector, or that the measures implemented will be effective. Accordingly, any deterioration in the liquidity of Russian companies or of the Russian and international capital, syndicated loan, interbank and trade finance markets, significant withdrawals of corporate and retail deposits and maturity mismatches between PSB’s assets and liabilities may, together or individually, have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group’s financial position and results of operations could be affected by declines in net interest margins, increased competition and/or excess liquidity in the Russian banking sector

PSB’s results of operations depend to a large extent on its net interest income. Net interest income represented 73% of PSB’s operating income for the year ended 31 December 2010 and approximately 75% and 78% for the years ended 31 December 2009 and 2008, respectively.

Interest rates in Russia slightly decreased in 2006 and fluctuated in 2007, increasing slightly towards the end of the year. However, in 2008 and early 2009, an accelerating domestic consumer price index and a global re-pricing of credit risk as a result of the turmoil in the international financial markets led to increasing interest rates in both lending and deposit-taking across the Russian banking sector. From the second half of 2009, interest rates began to decrease, resulting in a decrease in 2010 in PSB’s interest income by 15.2% and in its interest expense by 11.3%, as compared with the year 2009. During 2010, PSB also experienced increased competition for quality borrowers and resulting pressure on the margins of credit products. As a result, PSB’s net interest margin (calculated on a quarterly basis) for the year ended 31 December 2010 declined to 4.7% as compared with 6.6% for each of the years ended 31 December 2009 and 2008. However, PSB’s net interest margin improved in the second half of 2010 as compared to the first half of 2010.

From the last quarter of 2010 up to the date of this Base Prospectus interest rates on lending have reached relatively moderate levels. Rates on new customer deposits have been relatively stable during this period but notably, the trend differed between government banks and private sector banks. In the case of government banks the rates decreased, while in the case of private sector banks an increasing trend was noticed. While higher inflationary pressures combined with general expectations of reference rate hikes in the first and second quarters of 2011 were expected to result in an upward pressure on lending and deposit rates, excess of rouble liquidity together with low levels of demand for new credit in the economy limited the extent of increase in interest rates. There has also been increased pressure on margins resulting from interest rates on loans falling at a higher rate than deposit rates and as a result of competition from state-controlled banks. Overall, Russian banks are being forced to compete with each other for the business of only a small number of low risk and high quality corporate borrowers and this, combined with an excess of liquidity in a historically low interest rate environment, puts increased pressure on margins and profitability. See “— *There is significant competition in the Russian banking market, particularly from state-owned banks*”. In addition, competitive pressures or fixed rates in existing loan commitments or facilities may mean that PSB will be restricted in its ability to increase interest rates charged to customers in response to changes in interest rates that affect wholesale borrowing which may put pressure on, or have a material adverse affect on, PSB’s interest margin. See “Management Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations for the Years Ended 31 December 2010, 2009 and 2008 — Interest Income — *Interest income from loans to customers*”.

Since loans to customers constitute the greatest portion of PSB’s interest-earning assets, this increased competition in the banking sector has had, and is expected to continue to have, an adverse affect on PSB’s results of

operations. Although PSB has been increasing the volume of its fee- and commission-earning operations to further strengthen its operating revenues, PSB cannot guarantee that its margins will remain stable. Reductions in market interest rates could affect the interest rates earned on the Group's interest-earning assets, leading to a reduction in the Group's net interest income and adversely affecting its financial position and results of operations.

PSB may be unable to assess adequately the credit risk of potential borrowers

Credit risk assessment is difficult for PSB due to the unpredictability of economic conditions in Russia and abroad and lack of reliable information in Russia about potential corporate or retail borrowers. The financial performance of Russian companies is generally more volatile and their credit quality is less predictable than those of similar companies in more mature markets and economies. Further, many customers do not prepare audited accounts and if they do, the accounts may not be prepared in accordance with IFRS or Generally Accepted Accounting Principles in the United States ("U.S. GAAP"). In addition, Russia's network of independent credit bureau is not as developed as those in Western countries, and little prospective corporate or retail borrower information is available from third parties or is externally verifiable.

PSB attempts to reduce credit risk by conducting thorough investigations of prospective corporate and retail borrowers (including by conducting a current accounts analysis in respect of SME borrowers) and by requiring periodic review of each corporate borrower's financial information. However, such investigations and financial information may not always present a complete and comparable picture of a customer's financial condition and loan repayment ability especially given the Financial Crisis. PSB had, prior to the onset of the Financial Crisis, increased its lending volumes to SMEs and individuals. See "*— The quality and robustness of PSB's loan portfolio may continue to be tested in adverse economic conditions*". Few of such borrowers have credit histories, and, as a result, PSB had to primarily rely on the information provided by them in making its credit decisions. In addition, these clients are more likely to default on their loans, necessitating higher loan impairment allowances and reducing the overall credit quality of PSB's loan portfolio. See "Risk Management — Credit Risk — *Credit Policies and Procedures for Legal Entities*".

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

In addition, the lack of frequent and reliable information about borrowers in Russia may result in PSB not becoming aware of events of default of its borrowers, which could have an adverse effect PSB's operations and financial condition.

The quality and robustness of PSB's loan portfolio may continue to be tested in adverse economic conditions

In the three years prior to 2009, PSB's loan portfolio, especially its retail loan portfolio, expanded significantly and, during the same period, the Russian economy also continued to expand in terms of the nominal growth of its gross domestic product ("GDP"). In 2010, Russian GDP grew by approximately 4.0% and PSB's gross loan portfolio grew by approximately 14% for the year ended 31 December 2010. The recent turmoil in the global and Russian credit markets, the decrease in commodities exports and declining GDP in Russia, have had a significant negative impact on the Russian economy while also contributing to falling commodities prices, slow growth of industrial production and the volatility of the rouble. While the Russian economy has demonstrated some recovery in 2010, if the domestic economy otherwise continues to weaken or remains in a weakened condition, there may be a risk that PSB's existing loan portfolio may continue to decline or not demonstrate as positive a performance as in years prior to 2009.

PSB has been subject to risks regarding the credit quality of, and the recovery of loans to and amounts due from, customers and market counterparties. Financial services institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. The recent downturn in the Russian economy in connection with the Financial Crisis has affected, and may continue to affect, many companies' and individuals' ability to repay their loans, particularly foreign currency-denominated loans. Factors including, without limitation, increased unemployment in Russia, inflation, reduced corporate liquidity and profitability, increased corporate and personal insolvencies and/or fluctuating interest rates may reduce PSB's customers', and market counterparties', ability to repay loans. Any further deterioration in the performance of the Russian economy or a reduction in levels of personal income, individual purchasing power and consumer confidence, either generally or specifically in respect of the banking

sector, could have a material adverse effect on the development of PSB's business, financial condition, results of operations and prospects.

In addition, changes in economic conditions may result in further deterioration in the value of security held against lending exposures and increase the risk of loss in the event of borrower default. Any changes in the credit quality of PSB's Russian and/or international borrowers and counterparties, arising from systemic risks in the Russian and global financial systems, could accordingly reduce the value of PSB's assets, and require an increase in PSB's write-downs and allowances for impairment losses. As a result of the Financial Crisis, PSB has been required to renegotiate and reschedule a larger proportion of its loans to borrowers than in prior years. This has had an impact on PSB's revenues. There can be no assurance that this situation will not continue, or that it will not worsen in the event of another downturn. There can also be no assurance that renegotiated and/or rescheduled loans will not be the subject of further borrower repayment difficulties necessitating further restructuring or renegotiating, or resulting in borrower default. Where circumstances or risks occur that PSB does not identify or anticipate in developing their risk management methods for, PSB's non-performing loan levels (where "non-performing loans" shall mean loans with principal and/or interest overdue by more than 90 days (except for loans to individuals and SMEs for which partial repayment of overdue principal and/or interest took place during the last quarter of the year ended 31 December 2010) and loans restructured as a result of the borrowers' inability to repay, together "NPLs"), provisioning levels and write-offs could be greater than expected, which could have a material adverse effect on PSB's business, financial condition, results of operations or prospects. As at 31 December 2010, PSB's impairment allowance decreased to RUB37.7 billion, compared with RUB38.8 billion as at 31 December 2009, a decrease of 3%. See "Management Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations for the Years Ended 31 December 2010, 2009 and 2008 — *Loan Impairment*". Further, as at 31 December 2010, the level of NPLs decreased to 9.2% of the total gross loan portfolio, as compared to 12.3% of the total gross loan portfolio as at 31 December 2009 and 2.8% of the total gross loan portfolio as at 31 December 2008.

In addition, in Russia, the SME loan segment, together with the retail-lending segment, are typically higher risk sectors as compared to lending to large corporate entities, although they offer a higher interest margin. As a result of new activity in the SME loan and retail-lending segments, the net profit of the Group may be favourably or adversely affected by the ability of PSB to manage growth and margins and provide for the related loan loss risks.

Although PSB has invested substantial time and effort in its risk management strategies when creating its existing portfolio, there can be no guarantee that such risk management strategies will protect PSB from increased levels of NPLs, particularly when confronted with risks that PSB did not identify or anticipate from its existing portfolio.

The quality of PSB's loan portfolio may be adversely affected as a result of re-launch of mortgage instruments and expansion of the retail lending programme in 2010-2011

PSB expanded its retail lending programme in 2010 and resumed mortgage lending in 2011. Although increased lending to retail customers helps diversify the Group's loan portfolio, it may also increase credit risk exposure. Retail customers typically pose greater credit risk than large companies and there is often less credit history available for such customers as compared to larger corporate customers. Further, the independent credit bureau network in Russia is not as well developed as in Western countries, and the information available on retail borrowers is minimal and may not be externally verifiable. Financial information disclosed by retail customers to PSB may not be accurate or complete and PSB may be unable to independently confirm such information. As a result, such customers may become over-extended due to other credit obligations of which the Group is unaware and/or may complete applications for credit inaccurately or fraudulently.

Any failure by the Group to correctly assess the credit risk of potential retail borrowers or inability to implement an accurate risk management policy may have a negative effect on the Group's business, financial condition, results of operation and/or prospects.

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

Most of PSB's loans are secured, in whole or in part, by collateral such as real property, land leasing rights, production equipment, vehicles, ships, securities (including shares of borrowers and borrowers' affiliates), precious metals, raw materials and inventory. See "Risk Management — Credit Risk". The downturns in the relevant markets and a general deterioration of economic conditions in Russia have resulted in declines in the value of collateral securing a number of loans. As collateral values have declined, the collateral may not be sufficient to cover uncollectible amounts of the secured loans. The decline in the value of collateral securing PSB's loans or PSB's inability to obtain additional collateral has, and may continue to, require PSB to reclassify relevant loans, establish additional allowances for loan

impairment losses and increase reserves, which could adversely affect PSB's financial position and results of operations. See "Risk Management — Credit Risk".

A portion of PSB's loans is secured by collateral consisting of ownership rights in certain businesses. Therefore, as events of default occur, PSB may acquire controlling or minority stakes in and be required to manage, or contribute to the management of, defaulting companies which operate in sectors that are not core to PSB's business and in respect of which PSB has limited operational or management expertise. PSB may not have an adequate number of personnel with sufficient experience to assume control of and manage these companies and may also fail to manage these businesses efficiently. This, along with downturns in the industries in which PSB's clients operate and any future deterioration of economic conditions in Russia, may result in declines in the value of these businesses to levels below the amounts of the outstanding principal and accrued interest on the loans secured by this collateral, thereby resulting in further losses and possible write-offs or impairments to PSB.

Furthermore, foreclosure under Russian law may be complex and time-consuming. See "*— It may be difficult for PSB to enforce security and guarantees under Russian law*". Even if PSB is successful in foreclosing on collateral, it may be difficult to find buyers for such collateral, and, consequently, the collateral may be sold for significantly less than its appraised value. Failure to recover the expected value of collateral may expose PSB to losses, which may adversely affect PSB's financial position and results of operations.

It may be difficult for PSB to enforce security and guarantees under Russian law

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

A substantial portion of PSB's loans to its corporate and retail customers is guaranteed by individuals and other corporate customers. In addition, a substantial portion of PSB's loans to corporate customers is assured by the borrower's agreement that a certain volume of its cash receivables will flow through accounts over which PSB has direct debit rights. However, if the guarantor's financial condition deteriorates or if the borrower does not honour an assurance arrangement, PSB may not be able to recover on guarantees or assurance arrangements which may lead to losses, materially adversely affecting its financial condition and results of operations.

The interests of PSB's shareholders may conflict with those of Noteholders

The relevant Loan Agreement may not constrain PSB or any of its subsidiaries from declaring or paying dividends, making other distributions in respect of its share capital or redeeming its capital stock. Following such a dividend, distribution or redemption, PSB might have less cash available to service its indebtedness than it would have had absent such dividend, distribution or redemption. Furthermore, in the event of PSB's insolvency, amounts previously paid pursuant to such a dividend, distribution or redemption might be unavailable to satisfy claims, including claims of the Issuer pursuant to the relevant Loan Agreement, which could adversely affect the value of the Notes.

Currently, Mr. Alexey Ananiev and Mr. Dmitry Ananiev together beneficially own the majority of the share capital of PSB. Although they do not participate in the day-to-day management of the Group, they review and approve the Group's critical decisions through the resolutions of the General Shareholders' Meeting and the Board of Directors. See "Management". Moreover, in practice, they decide shareholder matters including, but not limited to, approving major transactions and setting the Group's strategy.

Although they have not done so in the past and the Group does not expect them to do so in the future (although there can be no assurance that they will not in fact do so), these individuals have the ability to cause the Group to enter into transactions advantageous to them or to their business interests, even though such transactions may result in increased risk for the Group and the Noteholders. The interests of the Group's beneficial owners could, in some circumstances, conflict with the interests of the Noteholders, and their decisions and actions that they may require PSB to take could adversely affect the value of the Notes.

In addition, PSB has two minority shareholders. Firstly, in November 2006, Commerzbank Auslandsbanken Holding AG (“**Commerzbank AG**”) purchased a 15.3% stake for RUB2.5 billion in PSB’s charter capital via a capital increase consisting of the issue of new shares of PSB with a nominal value of RUB50,000 each. Subsequently, in February 2010, the European Bank for Reconstruction and Development (“**EBRD**”) became a new shareholder of PSB following a further increase in charter capital, with the EBRD acquiring an 11.8% stake in PSB for RUB4.6 billion, making this investment the largest equity investment in a Russian bank by the EBRD as at that date. Commerzbank AG’s shareholding remained the same, with Promsvyaz Capital’s interest reducing to 72.9%. As at the date of this Base Prospectus, EBRD has nominated one member to the Board of Directors pursuant to a shareholders’ agreement of 23 November 2009 (the “**Shareholders’ Agreement**”), who was appointed member of the Board of Directors at the annual general shareholders’ meeting held on 25 June 2010 and re-elected at the extraordinary general shareholders’ meeting held on 12 November 2010. Commerzbank AG had similarly nominated one member to the Board of Directors at the annual general shareholders’ meeting held on 25 June 2010, who was re-elected at the extraordinary general shareholders’ meeting held on 12 November 2010. Commerzbank AG’s nominee passed away on 31 March 2011 and a new director is expected to be nominated by them at the next general shareholders’ meeting.

As Commerzbank AG and the EBRD have become significant minority shareholders in PSB, their interests may also, in some circumstances, conflict with the interests of the Noteholders and they may require PSB to take actions that could adversely affect the value of the Notes.

A significant part of PSB’s business is with or dependent upon related parties

PSB and its subsidiaries each engage in transactions with related parties that are important to their business. For instance, PSB’s shareholders control several companies that obtain financial services from PSB. All transactions with related parties are vetted by PSB’s Board of Directors, and all procedures required by Russian law before entering into a transaction with a related party are complied with. However, due to varying interpretations of the relevant Russian law governing transactions with related parties there is a risk that a transaction entered into by PSB will subsequently be declared invalid.

Under applicable Russian law, certain “interested party transactions” require preliminary approval procedures to be complied with. In accordance with applicable Russian legislation, for a company with 1,000 or fewer shareholders, the decision as to the approval of an “interested party transaction” is adopted by majority vote of disinterested members of the Board of Directors. Where the number of disinterested directors is less than the quorum necessary to conduct the meetings of the Board of Directors, or where the value of the transaction or several interconnected transactions is equal to or exceeds 2% of the company’s total asset value, or where the transaction or several interconnected transactions constitute placement by subscription or disposal of shares or securities convertible into shares constituting more than 2% of the ordinary shares previously placed by the company, then in such circumstances a majority vote of the disinterested shareholders of the company holding voting shares is also required. For example, a transaction between PSB and a wholly-owned subsidiary may be considered an “interested party transaction” and therefore may require preliminary approval from a majority of the disinterested directors of the Board of Directors or disinterested shareholders. The failure to obtain the appropriate preliminary approval for a transaction may result in it being declared invalid, subject to certain conditions, upon a claim by the company or any of its shareholders, which could have a material adverse affect on PSB’s business, financial condition, results of operations or prospects.

The concept of “interested parties” is defined with reference to the concepts of “affiliated persons”, “beneficiaries” and “group of persons” under Russian law, each of which is subject to many different interpretations. Moreover, subject to certain conditions, the provisions of Russian law defining which transactions must be approved as “interested party” transactions are subject to different interpretations. Although PSB has generally taken a reasonably conservative approach in applying these concepts, PSB cannot be certain that its application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of certain transactions that may be important to PSB’s business.

In addition, due to broad definitions contained in relevant Russian laws, transactions between PSB or other members of the Group and companies in which the Group’s beneficial owners, Mr. Alexey Ananiev and Mr. Dmitry Ananiev (or companies controlled by them), own at least 20% or are represented on their supervisory bodies and/or in their senior management may be viewed as “interested party transactions”. The failure to obtain appropriate approvals in connection with these transactions may lead to their invalidation.

PSB believes that it has been providing its products and services to related parties on an “arm’s length” basis. However, because Russian law confers significant powers on shareholders to control and influence the operations of a company, PSB’s shareholders could cause PSB to provide such services on other than an arm’s length basis. See “— *The interests of PSB’s shareholders may conflict with those of Noteholders*”. In addition, although PSB attempts to obtain all

corporate approvals required to consummate transactions with related parties, including intra-group transactions, it cannot be certain that it has obtained all such approvals, particularly since some of the concepts relating to transactions with related parties are subject to different interpretations under Russian law.

In addition, Mr. Dmitry Ananiev is actively involved in politics in Russia and his and the Group's business and financial standing depend, to some extent, on his political success. In September 2006, Mr. Dmitry Ananiev was elected a representative on the Federation Council, the upper chamber of the Russian parliament, on behalf of the Yamalo-Nenets Autonomous Region (as a result of which he resigned as Chairman and a member of the Board of Directors, although he remains one of PSB's beneficial owners). In October 2007, Mr. Dmitry Ananiev became the chairman of the Financial Markets and Monetary Circulation Committee of the Federation Council, in November 2007, he became a member of the National Banking Council, which is a consultative body constituted under the Federal Law on the CBR and in October 2008 he became a member of the Presidential Council for Russian Financial Market Development, which is a consultative body established to enhance state policy on financial market development in the Russian Federation.

PSB holds a loan and deposit portfolio with a relatively high level of industry and key client concentration

PSB's loan portfolio, like that of many Russian banks, has relatively high industry concentration levels, although these levels have declined over the past two years. As at 31 December 2010, food production and food trade, durables trade, real estate management and other non-food trade accounted for 12%, 9%, 7% and 7% of the Group's loan portfolio (gross of impairment allowance), respectively. As at 31 December 2009, wholesale trade, real estate investment and development, food production and finance and leasing accounted for approximately 12%, 8.5%, 7% and 6% of the Group's loan portfolio (gross of impairment allowance), respectively. As at 31 December 2008, wholesale trade, real estate investment and development, food production and construction accounted for approximately 13%, 9%, 7% and 6%, respectively, of the Group's total loan portfolio (gross of impairment allowance). A downturn in any of these sectors could result in PSB's customers facing difficulties in servicing their loans. Therefore, although PSB endeavours to limit its exposure to any single sector of the economy to 15% of its total loan portfolio and believes that its provisioning levels and collateral arrangements are adequate, any default by PSB's borrowers operating in these industries could have an adverse affect on PSB's business and financial condition.

Furthermore, current accounts and deposits from customers accounted for 69% of PSB's total liabilities as at 31 December 2010 as compared to 67% as at 31 December 2009 and 54% as at 31 December 2008. PSB's clients might find it necessary to withdraw their deposits and current account balances to satisfy their short-term liquidity needs, which, among other things, could result in liquidity difficulties and a loss of funding for PSB, adversely affecting its business and financial condition.

As at 31 December 2010, PSB's exposure to its 20 largest borrowers was RUB96 billion or 27.5% of PSB's gross loan portfolio as compared to RUB84.2 billion or 27.6% of PSB's gross loan portfolio as at 31 December 2009 and RUB82.6 billion or 25.9% of PSB's gross loan portfolio as at 31 December 2008. Additionally, the current accounts and term deposits of PSB's ten largest depositors represented 28% of PSB's total current accounts and term deposits from customers. Any impairment in the ability of such borrowers to repay their loans or any decision by these customers to withdraw their funds could have a material adverse effect on PSB's business and financial condition.

PSB's capital position may deteriorate

PSB's risk-based total capital adequacy ratio, calculated in accordance with the "International Convergence of Capital Measurement and Capital Standards", prepared by the Basel Committee on Banking Supervision, (updated in April 1998) and Amendment to the Capital Accord to incorporate market risks (updated in November 2005) (the "**Basel Accord**" or "**Basel I**"), declined from 16.4% as at 31 December 2006, to 13.5% as at 31 December 2007 and further declined to 13.1% as at 31 December 2008. As at 31 December 2009 total capital adequacy ratio increased to 14.3% and as at 31 December 2010, it was 14.4%. Nevertheless, if PSB's capital position declines, its ability to implement its business strategy may be adversely affected, and if PSB's capital adequacy ratio calculated pursuant to CBR requirements were repeatedly to fall below 10%, PSB would violate the CBR mandatory ratio, which may lead to the punitive measures or loss of one or more of its licences in case of continuous violation of CBR mandatory ratios, which in turn, may have a material adverse effect on PSB's business, financial condition, results of operations or prospects.

If PSB requires additional capital in the future, it cannot guarantee that it will be able to obtain this capital. If PSB is unable to raise further capital to support its growth or if its capital position otherwise declines, its ability to implement its business strategy, and its proposed lending expansion, may be materially adversely affected. PSB's ability to obtain additional capital may be restricted by a number of factors, including: PSB's future financial condition, results of operations and cash flows; any necessary government regulatory approvals; and general market conditions for capital-raising activities by commercial banks and other financial institutions.

In addition, the risk-adjusted capital guidelines promulgated by the Basel Accord, which forms the basis for the capital adequacy guidelines of the National Research Centre (together, “**Basel II**”), are being implemented in certain jurisdictions including member states of the EU. The implementation of Basel II in Russia has not occurred to date, and the effect that these revised guidelines will have on the capital requirements of PSB and on its capital position is uncertain. If any future alterations to the capital adequacy standards under Basel II (or CBR regulations implementing Basel II) with regard to limits on the deployment and use of capital require PSB to maintain higher capital levels or limit the use of significant portions of their capital, this could have a material adverse effect on the Group’s business, financial condition, results of operations or prospects.

In December 2010, the Basel Committee published a revised set of guidelines (“**Basel III**”), the implementation of which will begin on January 1, 2013. Although the minimum risk-based capital ratio under Basel III remains at 8%, the minimum common equity ratio will increase from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments) and the total Tier 1 capital requirement, which includes common equity and other qualifying financial instruments, will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (after the application of deductions), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity requirements to 7%, and, if there is excess credit growth in any given country resulting in a system-wide build-up of risk, a countercyclical buffer within a range of 0% to 2.5% of common equity (or possibly other fully loss-absorbing capital) is to be applied as an extension of the conservation buffer. The implementation of Basel III in Russia has not occurred to date, and the effect that these revised guidelines will have on the capital requirements of PSB and on its capital position is uncertain.

PSB may face counterparty risk

While the unprecedented lack of liquidity and high cost of funds that characterised the interbank lending market in 2008 and 2009 has currently been replaced with more favourable market conditions, PSB remains subject to the risk of deterioration of the commercial soundness of other financial service institutions within and outside Russia. Financial service institutions that transact with each other are interrelated as a result of trading, investment, clearing, counterparty and other relationships. This risk is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom PSB interacts on a daily basis, all of which could have an adverse effect on PSB’s ability to raise new funding.

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

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

PSB faces currency and interest rate risks arising from its money market operations including foreign exchange and arbitrage operations for its own account and on behalf of its customers. In the course of such money market operations, and due to differing denominations of its assets and liabilities, PSB maintains open currency positions that are subject to exchange rate fluctuations. Although PSB has established limits on such positions in order to mitigate such currency risk, volatility in the money market and significant exchange rate fluctuations may have a material adverse effect on PSB’s business and financial condition.

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

PSB faces securities portfolio risk arising from investment and trading in securities, which is an important source of revenue for PSB. PSB’s securities portfolio consists of sovereign and municipal debt securities, corporate bonds and promissory notes. PSB has established various limits on operations with securities, including instrument-specific limits and limits on the activities of individual traders, in order to balance profit and risk in its portfolio. However, interest rate and price movements on both the domestic and international markets may have a

material adverse effect on the value of PSB's securities portfolio, which in turn may have a material adverse effect on PSB's overall business and financial condition.

Risks Relating to PSB's Operations of Business

PSB may fail to manage its growth properly

PSB's current goal is to become a leading privately-owned universal bank in Russia by asset-size within the next three to five years. The growth of PSB's business will require continued investment in its financial and information management systems, employee recruiting and training, marketing and the monitoring of the consistency of customer service. Furthermore, the optimisation of PSB's branch network will also require sufficient allocation of capital and management resources. See "Business — *Distribution Network*".

Notwithstanding expenditures to this end, PSB may not be able to achieve projected results on any investment it makes in its business or any expansion of its regional network. Moreover, although PSB expects expansion of business in its regional network to contribute to the expansion of its overall customer base, the financial condition, credit histories and transparency of regional Russian companies are typically weaker than those in Moscow and the Moscow region, which may increase the credit risk of PSB's loan portfolio. See "— Risks Relating to PSB and the Group's Business and Industry — *PSB may be unable to assess adequately the credit risk of potential borrowers*".

PSB may fail to effectively integrate acquisitions or mergers

Between 2008 and 2010, PSB acquired control over OAO "Volgoprombank" ("**Volgoprombank**"), OAO Nizhny Novgorod Bank ("**Nizhny Novgorod Bank**") and OAO "Yarsotsbank" ("**Yarsotsbank**"), which were reorganised in 2010 in accordance with Russian law by accession to, and merger with, PSB (*reorganisatsia v forme prisоеdineniya*). The aggregate value of total assets of Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank as at 31 December 2010 was less than 5% of the total assets of PSB as at the same date. PSB's form of incorporation, correspondence account, location, license number, primary state registration number, charter capital, number and par value of shares remain unchanged as a result of such accessions. An amendment to PSB's charter related to this reorganisation has duly been registered, as at 4 October 2010.

In the future, PSB may engage in additional mergers and acquisitions in the Russian banking sector. Any such mergers or acquisitions may require significant allocation of capital and management resources, further development of the Group's financial, internal controls and information technology systems, upgrading and streamlining of its risk management systems and additional training and recruitment of management and other key personnel. There can be no assurance that the Group will be able to fully or effectively integrate any entities acquired in the future. Failure to successfully integrate acquired entities may have a material adverse effect on PSB's business, financial condition, results of operations or prospects.

PSB may lack sufficient insurance cover

While Russian banking and other laws do not require banks to maintain a variety of insurance on their material assets or liabilities, other than the mandatory insurance of retail deposits, PSB voluntarily insures its property and operating assets at levels that exceed the standard in the Russian market. For example, PSB's insurance includes protection against unlawful acts of employees, loss of property, loss from fraud transaction with payments, securities and false banknotes. However such insurance does not cover all of PSB's assets and liabilities. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on its operations and financial position. Furthermore, the Russian insurance industry is poorly developed, and many forms of insurance offered in economically developed countries are unavailable to PSB on the terms common in such countries, including insurance coverage for business interruption. Although PSB holds BBB-rated insurance with international providers, it may incur uninsured losses of assets and face claims not covered or inadequately covered by such insurance. Any such loss or claim may have a material adverse effect on PSB's business and financial condition.

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

PSB's financial results and ability to meet its strategic objectives depend significantly on the proper functioning of its IT systems and the ability to increase their capacity sufficiently to support PSB's operations. While PSB has been actively developing its IT systems, these systems are currently significantly less developed in certain respects than those of certain banks in the United States or Western Europe. The current IT systems do not provide full automated processing of data for some products and services. PSB may encounter difficulties in the ongoing process of developing and integrating modern IT systems, as well as expanding its IT systems in line with the expansion of its operations.

The extent to which PSB's current IT systems fail to fulfil PSB's short-term capacity or operational needs or any inability of PSB to maintain or further expand its IT systems may have a material adverse effect on its business, financial condition, results of operations or prospects.

During 2009, PSB began and completed the process of harmonising and integrating the IT systems of the three banks which it had acquired, namely, Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank. As part of these arrangements, the IT infrastructure of the acquired banks was conformed to PSB's standards. However, it is uncertain whether the integrated systems will be adequate or successful, particularly in case of potential downturns through the business cycle, and whether they will increase the ability of the Group to achieve its strategic objectives. Any failure by the Group to implement the integrate IT systems successfully could have a material adverse effect on the Group's business, financial condition and results of operations.

PSB may be unable to recruit and retain experienced personnel

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

In addition, PSB's current senior management team includes a number of executives that were formerly employed by major Russian and international financial institutions and who contribute significant experience in areas such as corporate banking, banking operations relating to foreign trade and risk management. Whilst PSB carefully monitors its human resource requirements as well as the training and support needed by its senior managers and it is not currently aware of any problems in its senior management relating to training, stress or workload, PSB can give no assurances that the consolidation of PSB's business will not put considerable pressure and strain on its senior managers such that, without sufficient support, may lead to a reduction in their reliability, availability and effectiveness. If any member of the Group's senior management leaves the Group, or if PSB fails adequately to monitor and support its senior managers, the Group's business may be materially adversely affected.

PSB may be unable to maintain its existing banking licences or obtain such licences in the future

Banking operations in Russia require licences from the CBR. Operations in securities require licences from the Federal Service for Financial Markets (the "FSFM"). PSB has obtained such licences in connection with its banking operations and operations in securities. See "Business — Overview". However, PSB may be unable to obtain, maintain or renew any licences required for its activities in the future. Applying for licences is a burdensome and time-consuming process. Regulatory agencies may impose additional requirements for a licence or deny licence applications. The loss of a licence, a breach of the terms of any licence or PSB's failure to obtain such licences could result in PSB's inability to continue some or all of its banking activities or in the imposition of fines by the CBR or other licensor. Any such loss, breach or failure could, in turn, affect PSB's ability to fulfil payment obligations, either generally or under specific transactions, and could have a material adverse effect on PSB's business or financial condition.

For example, following a CBR audit of PSB's operations in 2006 and 2009, the CBR ordered PSB to increase the amount of loss provisions in respect of loans in its portfolio because, in the CBR's opinion, PSB did not adequately provide for impairment losses. PSB immediately fulfilled this order, and the CBR did not impose any administrative fines on PSB. However, any violation by PSB of the CBR's mandatory economic ratios or any failure by PSB to fulfil CBR orders may result in the imposition of administrative fines on PSB or, in the event of repeated violations or failure to fulfil orders, the revocation of PSB's banking licence. Either scenario may have a material adverse effect on PSB's business, financial condition, results of operations or prospects.

PSB's banking business entails operational risks

PSB is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorised transactions by employees or operational errors, including clerical or record-keeping errors and errors resulting from faulty computer or telecommunications systems. Given PSB's high transaction volume and developing IT systems, errors may be repeated or compounded before they are discovered and rectified, however PSB considers IT an integral part of its operations and is committed to continued investment in IT to reduce operational risks. Indeed PSB has

developed a centralised core information and data processing system, which allows it to synchronise the management of PSB's operational, lending and risk management processes. PSB intends to continue to invest in further automation of banking processes, thus improving risk management. PSB has completed the integration of its own IT systems with those of the newly assimilated Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank, which has enabled PSB to reduce operational risks through the standardisation of processes and applications. See “— *PSB may fail to effectively integrate acquisitions or mergers*”.

PSB maintains a system of controls designed to keep operational risk at appropriate levels. See “Risk Management — *Operational Risk*”. However, there can be no assurance that it will not suffer losses from failure of these controls to detect or contain operational risk in the future. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Risks Relating to the Russian Legal System and Legislation

Legal risks could affect the value of investments in Russia

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

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

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

Many Russian laws are structured in a way that provides for significant administrative discretion in application and enforcement. Furthermore, reliable texts of regional and local laws and regulations may be unavailable and are rarely updated or catalogued. As a result, the applicable law may be difficult to ascertain and apply, even after reasonable effort. In addition, the laws are subject to different and changing interpretations and administrative applications. As a result of these factors, even the best efforts to comply with the laws may not always result in full compliance. In addition, breaches of Russian law may involve severe penalties and consequences that could be considered as disproportionate to the violation committed.

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

These uncertainties also extend to property rights. During its transition from a centrally-planned to a market economy, Russia has enacted laws to protect private property against expropriation and nationalisation. However, due to lack of experience in enforcing these provisions and to political pressure, courts might not enforce these protections in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of PSB's entities, their

assets or portions thereof, potentially without adequate compensation, would have a material adverse effect on PSB's business and financial condition.

Russian banking and financial regulation has been undergoing significant changes

Like most of Russia's legislation on business activities, Russia's laws on banks and banking activity were adopted in the early 2000s. In addition to Federal Law No. 86-FZ of 10 July 2002 "On the Central Bank of the Russian Federation (Bank of Russia)", as amended (the "**CBR Law**") and Federal Law No. 395-I of 2 December 1990 "On Banks and Banking Activity", as amended (the "**Banking Law**"), Russia has adopted and continues to develop new banking legislation. As a result, current Russian banking regulation remains untested and subject to different interpretations. Although PSB believes that it conducts its business in compliance with the applicable laws and regulations, no assurance can be given that certain actions will not be challenged by the respective authorities and held illegal and, if so, may have a material adverse effect on its business, financial condition, results of operations and prospects.

In December 2003, President Putin signed into law Federal Law No. 177-FZ of 23 December 2003 "On Insuring the Deposits of Natural Persons Made with Banks of the Russian Federation", as amended (the "**Deposit Insurance Law**"), which mandates the protection of bank deposits of individuals. The Deposit Insurance Law establishes a deposit insurance scheme in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals. In 2010, PSB's contribution of RUB384 million to the scheme was recognised in the category "Other income or expense". The enactment of the Deposit Insurance Law strengthens competition in the retail deposit market as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits. The majority of banks that filed participation requests, including PSB, were admitted to the deposit insurance scheme.

The CBR has also been developing regulations on bank capital and bringing them into line with international standards. Currently, CBR regulations on bank regulatory capital are relatively new, and untested, which could lead to uncertainty in their application and interpretation. The recent changes in the Russian banking and financial regulation are aimed at bringing the regime more in line with that of more developed countries. However, because of these changes, banks operate in a new and relatively unclear regulatory environment. It is difficult to forecast how the changes in the banking and financial regulation will affect the Russian banking system, and no assurance can be given that the regulatory system will not change in a way that will impair PSB's ability to provide a full range of banking services or to compete effectively, thus adversely affecting PSB's business, financial condition, results of operations and prospects.

As at 20 March 2010, amendments were introduced into the Banking Law, for the purposes of protecting the retail banking segment in particular, where all credit organisations are now prohibited from: (i) increasing interest rates, shortening the tenures of loan agreements or charging additional fees and commissions with respect to retail loans, and (ii) decreasing interest rates, shortening the tenure of deposit agreements or charging additional fees and commissions in respect to retail term deposits.

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, PSB is relying on letters issued by the CBR in response to PSB's requests to confirm, *inter alia*, that the CBR agrees with the structural aspects of the issue of the Notes. In addition, PSB 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 PSB, 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 disappplied.

Usually, following the CBR's preliminary approval and conclusion (*zakluchenie*) on the regulatory capital treatment of the Subordinated Loan Agreement and on the basis of the discussion in the paragraph above, the CBR delivers its final approval and conclusion (*zakluchenie*) on the eligibility of the Subordinated Loan for inclusion as Tier 2 Capital between 30 and 60 days after the issue date of the Notes. There can, however, be no guarantee that such approval and conclusion in respect of the Subordinated Loan will be granted. If the CBR does not initially grant such approval or conclusion in respect of the Subordinated Loan within 60 days after the date of the Subordinated Loan Agreement, PSB will have the right to prepay the Subordinated Loan pursuant to the 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, PSB could lose

the eligibility for inclusion as Tier 2 Capital granted to each Subordinated Loan and, therefore, exercise the right (described below) to prepay the Subordinated Loan which would result in the early repayment of the Notes.

The Subordinated Loan Agreement may provide that PSB will, *inter alia*, have the right, following the CBR's delivery of the Final Conclusion (as defined in each Subordinated Loan Agreement) as being eligible for inclusion as Tier 2 Capital, to prepay the 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), Regulation No. 215-P or other applicable requirements of the CBR, the Subordinated Loan would cease to be eligible for inclusion as Tier 2 Capital. If the Subordinated Loan is prepaid pursuant to this provision, the Notes will become due and repayable at their principal amount plus interest and the Make Whole Premium (as defined in the Subordinated Loan Agreement), if any.

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

On 10 September 2004, the CBR issued Letter No. 106-T, which recommends that Russian banks implement an exposure limit for economically related borrowers. Under this regulation, borrowers are considered "economically related" if the decline in the financial condition of one borrower affects or may affect the financial condition of another borrower and may result in such other borrower's inability to perform its obligations to PSB. In its Letter No. 04-15-1/3693 dated 3 September 2007, the CBR confirmed that given the Letter No. 106-T provides for only a recommendation, the CBR will not take any actions against the banks in case of a breach of such recommendation. Further, in its Letter No 15-1-12/1476, dated April 1, 2010, the CBR stated that no separate limit for economically related borrowers will be introduced, but that the CBR will initiate amendments to Russian banking legislation which will clarify the definition of "related borrowers", such definition to include both legally and economically related borrowers.

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

Foreign court judgments and arbitral awards may not be enforceable

Russia is not a party to multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments. Consequently, it is highly unlikely that a successful plaintiff would be able to enforce a judgment of a court in any such jurisdiction in the Russian courts. However, Russia, as successor to the Union of Soviet Socialist Republics (the "USSR"), is a party to the New York Convention, and the Notes, the Facility Agreement and any Loan Agreement and other issue documents may contain a provision allowing for the arbitration of disputes. A Russian court should generally recognise and enforce a foreign arbitral award obtained in a state that is party to the New York Convention (subject to the qualifications provided for in the New York Convention and compliance with Russian law). The 2002 Arbitration Procedural Code of Russia generally conforms with the New York Convention. It has not introduced any substantial changes in the grounds for refusal of recognition of foreign arbitral awards and court judgments which may be issued in relation to payments under the Facility Agreement or the relevant Loan Agreement. However, in the event that Russian procedural legislation is further changed, it could introduce new grounds preventing the recognition and enforcement of foreign court judgments and arbitral awards in Russia. Procedures introduced by the Arbitration Procedural Code are still to be tested in the courts. 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 into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

Changes in the Russian tax system could adversely affect the Group's business

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

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

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

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

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

The Russian tax system is, therefore, impeded by the fact that, at times, it continues to be characterised by inconsistent judgment of local tax authorities and the failure by tax authorities to address many of the existing problems. It is, therefore, possible that transactions and activities of PSB and the Group that have not been challenged in the past may be challenged in the future.

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

On 12 October 2006, the Plenum of the Supreme Arbitration Court of the Russian Federation issued Ruling No. 53, which ruling introduced a concept of an "unjustified tax benefit". This concept is defined mainly by reference to specific examples of tax benefits (*e.g.*, tax benefits received in connection with the transactions that have no reasonable business purpose) which may lead to the disallowance of the application of that specific benefit for tax purposes. To date, there has been little guidance or interpretation of this concept by the tax authorities or by the courts, but it is apparent that the tax authorities actively seek to apply this concept when challenging tax positions taken by taxpayers. Although the explicit intention of Ruling No. 53 was to combat the abuse of tax law, it can be seen from the cases relating to Ruling No. 53 that have hitherto been brought to courts that the tax authorities have started applying the "unjustified tax benefit" concept in a broader manner than may have been intended by the Supreme Arbitration Court. Importantly, the Group is aware of cases where this concept has been applied by the tax authorities in order to disallow benefits granted by double tax treaties. To date the courts have ruled in favour of the taxpayers in the majority of cases where this concept was applied, but there is no assurance that the courts will follow these precedents in the future. Furthermore, Resolution No.64 of the Plenum of the Supreme Court of the Russian Federation of 28 December 2006 "Concerning the Practical Application by Courts of Criminal Legislation Concerning Liability for Tax Crimes" is indicative of the trend to broaden the application of criminal sanctions for tax violations.

Tax returns together with related documents are subject to review and investigation by the tax authorities, which are enabled by Russian law to impose severe fines and interest charges on taxpayers. Generally, tax returns remain open and subject to inspection by the tax authorities for the period of three calendar years immediately preceding the year in which the decision to conduct a tax inspection is taken. The fact that a year has been reviewed by the tax authorities does not entirely close that year, or any tax returns applicable to that year, from further review during the three-year limitation period. In particular, a repeat tax audit may be conducted (i) by a higher-level tax authority as a measure of control over the activities of lower-level tax authorities, or (ii) in connection with the reorganisation/liquidation of a taxpayer, or (iii) as a result of the filing by such taxpayer of an amended tax return decreasing the tax payable to the revenue. However, on 17 March 2009 the Russian Constitutional Court issued a decision which deems provisions of the Tax Code unconstitutional allowing the tax authorities to issue decisions in the course of repeat tax audits for the same tax period as an initial audit if the court decision which was taken in respect of the tax dispute between the relevant taxpayer and the relevant tax authority and covered taxation matters raised during the initial tax audit has not been revised or abolished. On 11 November 2009 and 28 January 2010 the Russian Constitutional Court issued two more decisions confirming this position. Nevertheless, currently it is unclear how these decisions will be applied and followed in practice by the Russian

tax authorities and courts in the future. In particular, the Supreme Arbitration Court of the Russian Federation recently clarified that a repeat tax audit can be conducted if the decision on the initial audit was invalidated by the court due to procedural reasons without analysis of evidence and actual circumstances, and that the question of whether a repeat audit can come in contradiction with existing court decisions should be analyzed based on all circumstances in each specific case. In addition, the Supreme Arbitration Court of the Russian Federation confirmed that the tax authorities have the right to conduct repeat tax audits in connection with filing by the taxpayer of amended tax returns decreasing the amount of tax payable.

The statute of limitations for tax liabilities and penalties for a tax offence is three years from the date on which it was committed or from the next date following the date of the end of the tax period during which the tax offence was committed (depending on the nature of the tax offence).

On 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities and penalties to be extended beyond the three years term set out in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, the Tax Code provides for the possibility of an extension of the three-year statute of limitations for tax offences if the taxpayer obstructed the performance of the tax review and this has become an insurmountable obstacle for the tax audit. Because the terms “obstructed”, “hindered” and “insurmountable obstacles” are not specifically defined in Russian law, the tax authorities may attempt to interpret these terms broadly, effectively linking any difficulty experienced by them in the course of their tax reviews with obstruction by the taxpayer and use that as a basis to seek additional tax adjustments and penalties beyond the three-year limitation term. Therefore, the statute of limitations is not entirely effective with respect to liability for payment of tax in Russia. Such review, if it is concluded that PSB had significant tax underpayments for respective tax periods, may have a material adverse effect on PSB’s business, financial condition and results of operations.

In May 2009, the Russian President included in his budget message regarding the Budget Policy for 2010 to 2012 the proposal for legislative change relating to an anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant double tax treaty country. The Russian Ministry of Finance in its Main Directions of Russian Tax Policy for 2011 and planned period of 2012-2013 has proposed the introduction of these changes into the Russian Tax Code. In December 2009, a draft law became publicly available envisaging the introduction of the concept of an “actual recipient of income” into the Russian Tax Code. Although the draft law neither uses the term “beneficial owner” nor defines the term “actual recipient of income” (which is used in the Russian language versions of all double taxation treaties entered into by Russia), it is possible that the intent of the proposed amendments is to introduce a concept of beneficial ownership into the Russian tax legislation and to combat the abuse of double taxation treaties where the beneficiary of income resides in a jurisdiction which does not have a double taxation treaty with Russia. The draft law has not been enacted and there is no indication if and when it might become a law. Nonetheless, it would add to the existing uncertainty and instability in the application of tax treaties in Russia. If this law is ever introduced, it is uncertain how it will be interpreted and applied by the tax authorities and/or courts in practice and what effect it may have on taxpayers, including PSB.

Recently, representatives of the Russian Government have made statements indicating that the Government is expecting to increase the overall tax burden on business in the near future as a part of the strategy to increase budget revenues. Furthermore, the Russian Government has recently issued a resolution that introduces a new model tax treaty that gives more taxing rights to Russia compared to the OECD model tax treaty, typically used as a basis for the negotiation of Russia’s existing double tax treaties. These developments may influence the treaty negotiation process in the future, and have already resulted in changes to the Protocol to the Russian tax treaty with Cyprus to give more taxing rights to Russia. Press reports suggest that the Russian Government has plans to introduce similar changes to the treaties with several other countries including Luxembourg. It is impossible to predict at this stage if and when these changes are introduced and to what extent they might affect PSB and the Programme. Any such amendments could have a material adverse effect on PSB’s business, prospects, financial condition and results of operations.

These changing conditions create tax risks in Russia that are more significant than those typically found in jurisdictions with more developed tax systems and complicate tax planning and related business decisions of the Group. In addition, there can be no assurance that the current tax rates will not be increased, that new taxes will not be introduced or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. In addition, PSB is subject to periodic tax inspections that may result in additional tax assessments both in respect of the current and prior tax periods. Any additional tax liability, including liabilities related to PSB’s past operations, as well as any unforeseen changes in Russian tax laws or in the interpretation or enforcement of such laws, including the more vigorous enforcement of existing laws, could have a material adverse effect on PSB’s future results of operations or cash flows. PSB’s tax burden may become greater than the estimated amount that it has paid or accrued on its balance sheet. There also can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. In general, it is expected that Russian tax legislation will progressively become more sophisticated. Introduction of new taxes or amendments to current rules of

taxation may affect PSB's overall tax efficiency and may result in significant additional tax liabilities. The Group cannot provide prospective investors with any assurance that additional Russian tax exposures will not arise whilst the Notes of any Series are outstanding. Additional tax exposures could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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

Russian transfer pricing legislation that became effective on 1 January 1999 give Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs) where the transaction price differs upwards or downwards from the market price by more than 20%. "Controlled" transactions include domestic and international transactions with related parties and certain other types of transactions between independent parties, such as barter transactions, foreign trade transactions or transactions with significant price fluctuations (i.e., if the price of such transactions differs from prices applied under similar transactions carried out within a short period of time by more than 20%). Special transfer pricing rules apply to transactions with securities and derivatives. The Russian transfer pricing rules are broad in scope and vaguely drafted, generally leaving wide scope for interpretation at the discretion of the Russian tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by the Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the relevant transaction that is subject to adjustment.

In 2009, a number of draft amendments to the transfer pricing law were announced which, if implemented, would considerably toughen the existing law and bring it more in line with international transfer pricing rules. The proposed transfer pricing rules have been approved by the Russian Parliament in the first reading on 19 February 2010 (the second and third readings are expected to take place in 2011). It is currently difficult to evaluate what effect these provisions may have on the Group. However, it is still unclear if and when these amendments will be enacted and what exact effect these provisions may have on taxpayers, including PSB. Should these amendments be enacted, they may have a considerable impact on the Group's tax position.

Accordingly, due to the uncertainties in the interpretation of transfer pricing legislation, no assurance can be given that the tax authorities will not challenge the Group's prices and make adjustments which could affect the Group's tax position. Imposition of additional tax liabilities under the Russian transfer pricing legislation may have a material adverse effect on the Group's business, financial condition and results of operations, and the value of the Notes.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of the United States and Western European countries

Russian bankruptcy laws often differ from comparable laws in the United States and Western European countries and may be subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders or the Issuer against PSB would be resolved in the case of PSB's bankruptcy. In addition, under Russian law, PSB's obligations under the relevant Loan Agreement would be subordinated in the event of its insolvency to the following obligations: claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utility bills, legal expenses and other payments; first priority claims (including claims in tort for damages in respect of physical persons' life or health, as well as moral damages; claims of retail depositors and individuals holding current accounts (except for individual entrepreneurs); claims of the DIA in respect of deposits and current accounts transferred to it pursuant to the Deposit Insurance Law; claims under employment contracts and other social benefits and copyright claims; and 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.

In the event of PSB's insolvency, the subordination of obligations under each Loan Agreement, as described above, may substantially decrease the amounts, if any, available for repayment of any Loan and, as a result, the corresponding Series of Notes. In addition, under Russian law, PSB's obligations under any Subordinated Loan Agreement, and as a result, the corresponding Series of Notes would be subordinated to the claims of its unsubordinated creditors. See "— Risks Relating to the Issuer, the Loans, the Notes and the Trading Market — *Noteholders' claims in respect of a Subordinated Loan may be subordinated to those of other creditors under Russian insolvency law*". See also "The Banking Sector and Banking Regulation in Russia — *Regulation of Insolvency*".

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

Notwithstanding significant recent liberalisation of the Russian currency control regime, the current Russian currency control laws and regulations still impose a number of limitations on currency operations, including banking transactions. In particular, foreign currency operations between Russian residents are generally prohibited (except for certain specified in Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003, as amended (the "**Currency Law**") operations, including transactions between Russian authorised banks listed in the CBR Regulation No. 1425-U of 28 April, 2004). Moreover, certain limitations not applicable to PSB apply to PSB's clients, such as the requirement to notify the Russian tax authorities regarding opening of a bank account abroad. These currency control restrictions may restrict PSB's and its clients' operational flexibility, which could have a material adverse effect on PSB's business, financial condition, results of operations or prospects.

In addition, because of the limited development of the foreign currency market in Russia, PSB may experience difficulty converting roubles into other currencies. Any delay or other difficulty in converting roubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit PSB's ability to meet its payment and debt obligations, which could result in the acceleration of debt obligations and cross defaults.

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

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

PSB has implemented comprehensive internal measures to prevent it from being used as a conduit for money laundering or terrorist financing. PSB also complies with applicable anti-money laundering and anti-terrorist financing laws and regulations. However, such measures and compliance may not be completely effective in preventing third parties from using PSB as a conduit for money laundering or terrorist financing without PSB's knowledge. If PSB is associated with money laundering or terrorist financing, its reputation could suffer, materially adversely affecting its business and financial condition. See "Risk Management — *Procedures for Prevention of Money Laundering and Terrorist Financing*".

Corporate governance standards in Russia are less developed than in the United States or Western Europe

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

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

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

Despite recent initiatives to improve corporate transparency in Russia and recent amendments to modify PSB's corporate documents, there is still relatively less publicly available information about PSB than there is available for comparable banks in, for example, the United States or Western Europe. The relatively less transparent nature of corporate governance in Russia as well as violations of disclosure and reporting requirements or breaches of fiduciary duties could have a material adverse effect on PSB's business, prospects, financial condition and results of operations and/or on the value of the Notes.

Risks Relating to the Russian Federation

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

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

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

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

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

The sudden decrease in prices for natural resources in 2008 resulted in a significant decrease of governmental revenues, which had a negative effect on the Russian economy. Although commodity prices stabilised from the second half of 2009, future fluctuations in the global markets could substantially limit the Group's access to capital and could adversely affect the financial condition of PSB's customers, which could result in increased loan losses to PSB as a consequence of, among other things, decreased corporate deposits from these customers, a reduction in the volume of foreign currency held and/or foreign trade operations engaged in by these customers, decreases in the value of collateral (including immovable property, land, equipment, intangibles and machinery) underlying the obligations of these customers and defaults by these customers on their obligations.

Political risks could adversely affect the value of investments in Russia

Since 1991, Russia has been undergoing a substantial political transformation from a centrally-controlled economy to one that is based on free-market principles. Although a significant number of reforms were undertaken during those years, certain political and economic reforms have yet to be implemented. During this transformation, legislation has been enacted to protect private property against expropriation and nationalisation. However, due to the lack of experience in enforcing these provisions and due to potential political changes in the future, such provisions might not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any substantial assets of PSB, potentially without adequate compensation, would have a material adverse effect on PSB's business and financial condition.

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial branches of government, which negatively impacted Russia's business and investment climate. Former President Vladimir Putin generally increased governmental stability and presided over a period of high oil prices, which made the political situation in Russia appear more stable while large oil revenues boosted the image of the Russian economy.

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

In addition, any change in the Government or the Government's programme of reform in Russia or lack of consensus between the President, the Prime Minister, the Government, Russia's Parliament and powerful economic groups could lead to political instability and a deterioration in Russia's investment climate that might limit the ability of PSB to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition or results of operations.

Beginning in June 2003, representatives of the Government conducted tax investigations of what was at the time one of Russia's largest oil companies, the Yukos Oil Company ("**Yukos**") and its subsidiaries, which culminated in the arrest on criminal charges of some of Yukos' key shareholders, including Yukos' CEO Mikhail Khodorkovsky, and in significant tax charges imposed on Yukos. Some political analysts have interpreted these steps as part of a political struggle in the context of the 2003 and 2004 Duma and presidential elections. In November 2007 upon completion of bankruptcy proceedings, Yukos was liquidated.

According to some commentators, these events have called into question the security of property and contractual rights and the independence of the judiciary in Russia, as well as raising concerns about the revision of tax and mineral resources legislation, the re-examination of Russia's past privatisations and the re-distribution of the assets involved. The Russian stock market has experienced considerable volatility in the context of these events, and several Russian issuers have reconsidered and even suspended their debt issue programmes. Some experts have noted a negative impact of the Yukos affair on the size of investments in the Russian economy, especially in the oil sector.

Claims brought by the Russian authorities against several other major Russian companies have raised questions regarding the progress of the market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investment in the Russian economy, over and above the general market turmoil recently. Any similar actions by the Russian authorities which result in a further negative effect on investor confidence in Russia's business and legal environment could have a further material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities including the Notes.

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

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

Economic risks could adversely affect the value of investments in Russia

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

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

In the summer of 2004, the Russian banking sector experienced its first significant disruption since the financial crisis of August 1998, following the revocation by the CBR of the banking licences of several Russian banks. These unexpected revocations led to many banks refusing to lend to each other and the severe contraction of the Russian interbank market and sudden withdrawals of deposits by some retail and corporate customers from certain banks, which further reduced liquidity.

The Financial Crisis negatively affected the growth of GDP in Russia and led to severe liquidity problems in the Russian banking sector, rouble depreciation against the US dollar and Euro, and a decline in foreign currency and gold reserves. Furthermore, there have been periodic suspensions of trading in the Russian stock markets as well as extreme volatility in Russian equity markets generally and sharp declines in the share prices of Russian financial institutions.

In February 2009, Fitch downgraded its long-term sovereign rating for the Russian Federation from "BBB+" to "BBB" and downgraded Russia's country ceiling rating to "BBB+" from "A-". In addition to anticipated slower asset growth on the Russian banking market, the Russian Federation is facing slow GDP growth and low levels of industrial production. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, including liquidity, asset quality, and profitability.

The physical infrastructure in Russia largely dates back to Soviet times and has not been adequately funded and maintained over the past 15 years. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. For example, in May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity and in August 2009, an accident occurred at the Sayano Shushenskaya hydroelectric power plant, killing more than 70 people, causing billions of roubles in damage and leading to severe power shortages for both residential and industrial consumers. The deterioration of Russia's physical infrastructure negatively affects its national economy, disrupts the transportation of goods and supplies, imposes additional costs on businesses and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the value of investments in Russia.

Social risks could adversely affect the value of investments in Russia

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Since the dissolution of the USSR, significant criminal activity, including organised crime, has arisen, particularly in large metropolitan centres. Property crime in large cities has increased substantially. In addition, high levels of official corruption reportedly exist in locations where PSB conducts its business, including the bribing of officials for the purpose of initiating investigations by Government agencies. Press reports have also described instances in which Government officials engaged in selective investigations and prosecutions to further the commercial interests of Government officials or certain individuals. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in return for payment. Corruption and other illegal activities could disrupt PSB's ability to conduct its business effectively, and claims that PSB was involved in such corruption or illegal activities could generate negative publicity, either of which could harm PSB's business and financial position.

In addition, rising unemployment, forced unpaid leave, wages in arrears, and weakening economies, especially in single-industry cities, could lead to labour and social unrest, a mood of protest, and a rise in nationalism against migrant workers. For example, in 2008 and 2009 automobile owners in the Russian Far East organised several protests against measures taken by the Government to support the Russian automobile industry, including raised import duties on imported autos. Furthermore, in 2009, workers in the city of Pikalevo protested against non-payment of salaries, and in

February and March 2010 there were anti-Government protests in Kaliningrad and Arkhangelsk, respectively. Such labour and social unrest may have consequences such as restrictions on foreign investment in Russian companies or large-scale nationalisation or expropriation of foreign owned assets or businesses, or troubled businesses being forced to sell their assets to the state in exchange for financial support or guarantees. Because courts have little experience in enforcing the protection of private property against nationalisation and expropriation, PSB might be unable to obtain judicial redress and might not receive adequate compensation, if the Government were to nationalise or expropriate some or all of PSB's assets. Such unrest could also disrupt normal business operations, which also could materially adversely affect PSB's business and financial condition.

The Russian banking sector may be subject to continued instability

From April through July 2004, the Russian banking sector experienced its first serious period of turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity shortfalls and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations.

The Financial Crisis that began in 2008 has been a much more serious test for the Russian banking system. The disruptions in the global markets have had a severe impact on liquidity as well as the availability of funding and the terms and cost of such funding in Russia. Russian banks 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. They also faced large withdrawals of deposits by both retail and corporate customers. In the autumn of 2008, several Russian financial institutions suffered severe liquidity problems and had to sell their shares to state-controlled or private institutions in exchange for financial support. Some banks had their licences revoked by the CBR. In October 2008 the CBR provided PSB with financing to support the financial stability of Yarsotsbank. As part of the financial stabilisation programme of the Russian banking sector, the DIA provided financing to PSB to support the financial stability of Nizhny Novgorod Bank in November 2008.

As with the majority of Russian banks, PSB faced an outflow of both corporate and retail deposits during the turmoil, while many of PSB's counterparties in the Russian interbank market ceased operations. Any further banking sector turmoil in the future could materially adversely affect PSB's business and financial condition.

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

During the period 2001-2006 the consumer price index in the Russian Federation measured by the Federal State Statistics Service was approximately 19% in 2001, 15% in 2002, 12% in 2003, 12% in 2004, 11% in 2005, and 9% in 2006. During the second half of 2007 and 2008, however, price growth accelerated to 12% and 13%, respectively. As a result of the overall reduction of business activity, rising unemployment and a fall in consumption and investment during the Financial Crisis, the consumer price index in the years ended 31 December 2009 and 2010 was 8.8%, its lowest value in 15 years.

Despite this recent reduction, inflation is returning and a return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any one of these events could lead to decreased demand for PSB's products and services.

Banking activity risks could affect the value of investments in Russia

Russian companies often face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, relatively high taxes, limited lending by the banking sector to the industrial sector and other factors. Some Russian companies cannot make timely payments for goods or services and owe large amounts of overdue federal, regional and local taxes, as well as wages. A re-emergence of liquidity problems that have disrupted the Russian banking sector in the past, or a deterioration of the Russian banking system generally, could have a material adverse effect on PSB's business, financial condition, results of operations and prospects.

The Russian banking sector remains nascent compared to its Western counterparts. It is unclear how legal and regulatory developments will affect the competitive banking landscape in Russia. The regulatory environment in which PSB operates could change in a manner that has a material adverse effect on the Group's ability to compete and thus on its business and financial condition.

PSB trades derivative instruments, including foreign currency forward and swaps, and plans to continue to manage its risks in part by utilising derivative instruments. However, the Russian regulatory and legal framework relating to derivative instruments remains rudimentary, and despite the fact that PSB has the right to apply to a court for protection of its rights under derivative contracts, judicial experience in respect of such instruments is limited. In addition, there are some doubts as to the enforceability of certain derivative arrangements under Russian law. A Russian court's refusal to enforce the terms of PSB's derivative instruments could have a material adverse effect on PSB's business and results of operations.

In addition, factors such as the limited liquidity in the Russian corporate securities market, unfavourable press coverage, market making and the use of practices forbidden in more developed securities markets could all negatively affect PSB's investment banking business.

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

While the rouble appreciated against the U.S. dollar in real terms each year between 2000 and 2007, it experienced significant depreciation against the U.S. dollar in 2008 and in the beginning of 2009, largely as a result of the Financial Crisis and the significant fall in prices in oil and commodities that are the principal generators of Russia's export earnings. This process of depreciation was significantly influenced by the CBR as part of its policy to maintain low volatility. Between 1 August 2008 and 1 March 2009, the rouble depreciated by 53% against the U.S. dollar (from RUB23.42 per U.S. \$1.00 to RUB35.72, according to the CBR), however the exchange rate has fluctuated dramatically over the past two years — ranging from RUB23.13 per U.S.\$ 1.00 as at 16 July 2008 to RUB36.43 per U.S.\$ 1.00 as at 19 February 2009, RUB29.15 per U.S.\$ 1.00 as at 1 May 2010 and RUB28.90 per U.S.\$ 1.00 as at 1 March 2011.

The ability of the Government and the CBR to prevent further depreciation of the rouble depends on many political and economic factors, including their ability to control inflation and the availability of foreign currency. While, as at the date of this Base Prospectus, the rouble has stabilised against the U.S. dollar and the Euro — as at 15 March 2011, the Russian rouble had gained 5.9%% against the U.S. dollar since 31 December 2010 — it is uncertain whether this stability will be maintained in the medium term.

The rouble remains largely non-convertible outside of the Russian Federation. A market exists within the Russian Federation for the conversion of roubles into other currencies, but it is limited in size and is subject to rules limiting such conversion. According to the CBR, foreign currency and gold reserves fell from approximately U.S.\$597.0 billion on 1 August 2008 to U.S.\$384.1 billion on 1 March 2009. By December 2009 reserves had increased to U.S.\$440.6 billion and to U.S.\$493.8 billion by March 2011, but are still likely to fluctuate going forward. Although Russia's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term due to the lack of foreign currency funding available in the global markets. Volatility in the Russian currency market or considerable depreciation of the rouble in the medium or long term may adversely affect PSB's business, financial condition and results of operation.

Official data may be unreliable

PSB and the Issuer have derived substantially all of the information contained in this Base Prospectus concerning PSB's competitors from publicly available information, and they have relied on the accuracy of this information without independent verification. In addition, some of the information contained in this Base Prospectus is derived from official data of Government agencies, including the CBR. The official data published by Russian federal, regional and local governments is substantially less complete or researched than those of Western countries. Official statistics, including those produced by the CBR, may also be produced on different bases than those used in Western countries. Any discussion of matters relating to Russia in this Base Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Due to the unavailability of alternative, reliable sources of country-specific data, Russian companies necessarily rely to some extent on this statistical data in their business planning. As a result, 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 PSB's corporate and SME customers, which would have a material adverse effect on its business, financial condition, results of operations and prospects. Prospective investors should be aware that the information contained in this Base Prospectus may become outdated relatively quickly. Incomplete, unreliable or unavailable information, potentially including some of the information in this Base Prospectus, may compound the risks set forth in this Base Prospectus.

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

The Issuer is an SPV and payments under the corresponding Series of Notes are limited to the amount of certain payments received under the relevant Loan Agreement

The Issuer is an SPV with no business other than issuing notes and advancing loans under the Loan Agreement and has no assets other than such loans. The Issuer is only obliged to make payments under a Series of Notes to the Noteholders in an amount equal to, and in the same currency as, sums of principal, interest and additional amounts (if any) actually received and retained (net of tax) by or for the account of the Issuer from PSB pursuant to the relevant Loan Agreement. Consequently, if PSB fails to meet its payment obligations under the Loan Agreement in full, this will result in the Noteholders of a Series of Notes receiving less than the scheduled amount of principal, interest and additional amounts (if any) on the relevant due date.

PSB's ability to make scheduled payments on the Notes and to meet its other debt service obligations depends on the future operating and financial performance of the Group and its ability to generate cash. This will be affected by PSB's ability to implement successfully its business strategy, as well as general economic, financial, competitive, regulatory and other factors beyond its control. If PSB cannot generate sufficient cash to meet its debt service obligations PSB may, among other things, need to refinance all or a portion of its debts, including the Notes, obtain additional financing, delay capital expenditures or sell assets. PSB cannot be certain that it will be able to generate sufficient cash through any of the foregoing. If PSB is not able to refinance its debt, obtain additional financing or sell assets on commercially favourable terms or at all, PSB may not be able to satisfy its obligations with respect to its debt, including the Notes.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as a company with securities admitted to the Official List.

There is no direct recourse by the Noteholders to PSB

Except as otherwise expressly provided in the "Terms and Conditions of the Notes" and in the Trust Deed, the Noteholders will not have any proprietary or other direct interest in the Issuer's rights under or in respect of the relevant Loan Agreement. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the relevant Loan Agreement or have direct recourse to PSB except through action by the Trustee under the Charge (as defined in the "Terms and Conditions of the Notes") or any assignment of rights, including any rights under a Loan Assignment. In addition, Noteholders should be aware that neither the Issuer nor the Trustee accepts any responsibility for the performance by PSB of its obligations under the relevant Loan Agreement. See "Terms and Conditions of the Notes — 1. Status".

The Notes may not be a suitable investment for all investors

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

Any downgrade in the rating of the Group and/or its related debt obligations may adversely affect the price that a subsequent purchaser would be willing to pay for the Notes and could make it more expensive for the Group to raise capital in the future

As at the date of the Base Prospectus, outstanding Eurobonds of PSB were rated "BB-" (senior) "B+" (sub) by Fitch and "Ba2" (senior) "Ba3" (sub) by Moody's.

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

Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment and credit ratings assigned to the Group or to other instruments issued by or to fund the Group do not necessarily mean that an investment in the Group or such instruments is suitable. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Group could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

Credit ratings may not reflect all risks

PSB's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed in this Base Prospectus, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Devaluation of the rouble against the U.S. dollar may have a material adverse effect on PSB's business, financial condition, results of operations and prospects and on the value of the Notes

While the rouble appreciated against the U.S. dollar in real terms each year between 2000 and 2007, it experienced significant depreciation against the U.S. dollar in 2008 and in the beginning of 2009, largely as a result of the Financial Crisis and the significant fall in prices of oil and commodities that are the principal generators of Russia's export earnings. Between 1 August 2008 and 1 March 2009, the rouble depreciated by 53% against the U.S. dollar (from RUB23.42 to RUB35.72, according to the CBR). The exchange rate continued to fluctuate dramatically over the past two years. Since the second quarter of 2009, however, the rouble has been fluctuating against the U.S. dollar, driven by fluctuations in oil prices and the condition of the world economy. As at 1 May 2010, the rouble to U.S. dollar exchange rate was 29.15, an increase of 18% on 1 March 2009 and as at 1 March 2011, it was 28.9. It is uncertain, however, whether this level will be maintained.

Any depreciation of the rouble against the U.S. dollar could negatively affect PSB in a number of ways, including, among other things, by increasing the actual cost to PSB of financing its U.S. dollar-based liabilities and by making it more difficult for Russian borrowers to service their U.S. dollar loans. Any depreciation of the rouble against

the U.S. dollar or volatility in the Russian currency market may have a material adverse effect on PSB's business, financial condition, results of operations and prospects and on the value of the Notes.

Upon the occurrence of certain events described in the relevant Loan Agreement, PSB may prepay the relevant Loan

Under the terms of the relevant Loan Agreement, PSB may, subject to certain conditions, prepay the relevant Loan if, among others, PSB is required to increase its payments for tax reasons regardless of whether the increased payment obligation results from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the Notes. 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.

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

There may not be an existing market for the Notes at the time they are issued. Further there can be no guarantee that a Series of the Notes will be listed or traded on any exchange. Further, if a Series of the Notes is listed or traded on an exchange, there can be no assurance that a liquid market will develop for the Notes, that the holders of the Notes will be able to sell their Notes for a price that reflects their value or at all.

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

PSB's payments under Loans may be subject to Russian withholding tax

In general, interest payments on borrowed funds made by a Russian entity to a non-resident legal entity or organisation having no registered presence and/or no permanent establishment in Russia are subject to Russian withholding tax at the rate of 20%, unless such tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on professional advice PSB has received, it believes that interest payments to the Issuer on each Loan should not be subject to withholding tax under the terms of the Convention between the Russian Federation and the Grand Duchy of Luxembourg for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital signed on 28 June 1993 (the "**Convention**"). However, there can be no assurance that such relief will be available in practice or will continue to be available throughout the term of any Loan. In particular, there is at least one instance when the tax authorities tried to challenge application of double tax treaty benefits under similar structure. Eventually the tax authorities had withdrawn their claim, however at this stage it is difficult to predict whether this would remain an isolated case.

In circumstances where interest or other payments under any Loan Agreement become payable to the Trustee pursuant to the security arrangements described herein, benefits of the Convention will cease, and payments of interest under such Loan Agreement to the Trustee should be made subject to Russian income tax withholding at a rate of 20% or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under the relevant double tax treaty with Russia under such circumstances. In addition, while some Noteholders might be eligible for an exemption from or reduction of Russian withholding tax under applicable double tax treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable, there is no assurance that such exemption or reduction will be available in practice under such circumstances.

If the interest payments under any Loan become subject to Russian withholding tax or interest payments on the Notes become subject to any withholding or deduction for the account of Luxembourg tax (as a result of which the Issuer would reduce payments under the corresponding Series of the Notes by the amount of such withholding tax), PSB will be obliged under the terms of the relevant Loan Agreement to increase interest payments (pay additional amounts) as may be necessary so that the net amount of payments received by the Issuer and Noteholders, as the case may be, will be equal to the amounts they would have received in the absence of such withholding. The Ministry of Finance issued the clarification with a view that gross-up provisions do not contradict Russian tax legislation; nevertheless, some uncertainties still exist as to whether the provisions obligating PSB to gross-up interest payments will be enforceable under Russian law. There is a risk that gross-up for withholding tax will not take place and that interest payments made by PSB under the relevant Loan Agreement will be reduced by any such Russian income tax withheld by PSB at the rate of 20% or such other rate as may be in force at the time of payment. See Section "Taxation — Russian Taxation — Taxation of Interest on the Loan". If PSB is obliged to increase payments (pay additional amounts), it may (without premium or penalty), subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes of the

corresponding Series and the corresponding Loan would each be redeemable at the principal amount outstanding together with accrued but unpaid interest and additional amounts, if any, to the date of the redemption. See Section “Terms and Conditions of the Notes. — 6. *Redemption and Purchase*”.

Issuer’s payments under the Notes may be subject to withholding tax

Payments in respect of any Series of Notes will be made, except in certain limited circumstances, without a deduction or withholding for or on account of Luxembourg taxes. However, interest on the Notes paid for the benefit of individuals resident in European Union member states (and certain EU dependent or associated territories) and certain non European Union countries or to certain residual entities may become subject to withholding tax (pursuant to the European Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”). For further information on the Savings Directive and the applicability of withholding tax to interest payments, see “Taxation — *Luxembourg Taxation*”. If any payments in respect of the Notes become subject to deduction or withholding for or on account of Luxembourg taxes (other than pursuant to the Savings Directive), PSB will, subject to certain limitations, be obliged under the terms of the relevant Loan Agreement to increase interest payments (pay additional amounts) as may be necessary so that the net payments received by the Noteholders will not be less than the amounts they would have received in the absence of such withholding. For further information regarding the circumstances in which the payment of such additional amounts will be required and the limitations thereon, see “Terms and Conditions of the Notes — 8. Taxation”.

Tax might be withheld on dispositions of the Notes in Russia, reducing their value

If a non-resident Noteholder, that is a legal entity or organisation that holds and disposes of any Notes other than through its permanent establishment in Russia, sells any Notes and receives proceeds from a source within Russia, there is a risk that the part of the payment, if any, representing accrued interest may be subject to 20% Russian withholding tax (even if a disposal resulted in a capital loss), although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities.

Where proceeds from a disposition of the Notes of any Series are received from a source within Russia by a non-resident Noteholder that is an individual, withholding tax would be charged at a rate of 30% on the gross amount of proceeds from such disposal of the Notes of corresponding Series less any available documented cost deductions (including the acquisition cost of the Notes). Furthermore, proceeds attributable to accrued interest, if deemed to be Russian source income, can be subject to withholding tax at the rate of 30%, even if the disposal results in a capital loss. Although such tax may be reduced or eliminated under provisions of an applicable double tax treaty subject to compliance with the treaty clearance formalities, in practice individuals would not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia, and obtaining a refund of the taxes withheld can be extremely difficult, if not impossible. Furthermore, even though the Tax Code requires only an asset manager or broker, or other party that is a Russian legal entity or an organisation, or any other person (including an economically autonomous subdivision of a foreign company in Russia or an individual entrepreneur located in Russia) acting under an asset management agreement, a brokerage service agreement, an agency agreement, a commission agreement or a commercial mandate agreement to withhold the tax associated with disposition of securities from payment made to a non-resident Noteholder that is an individual, there is no guarantee that other Russian companies or foreign companies operating in Russia or an individual entrepreneur located in Russia would not seek to withhold the tax.

The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation — Russian Taxation — *Taxation of the Notes*”.

In addition, while some Noteholders might be eligible for an exemption from or a reduction in Russian withholding tax under applicable double tax treaties, there is no assurance that such exemption or reduction will be available in practice.

Noteholders’ claims in respect of a Subordinated Loan may be subordinated to those of other creditors under Russian insolvency law

PSB’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 PSB, PSB’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 “The Banking Sector and Banking Regulation in Russia — Russian Banking Regulations — *Regulation of Insolvency*”. Such remaining assets may not be sufficient to satisfy PSB’s obligations under the relevant Subordinated Loan Agreement. Any Subordinated Loan Agreement may not prohibit or limit the incurrence by PSB of unsubordinated

indebtedness, other subordinated indebtedness that ranks equally with the indebtedness under Subordinated Loans or other liabilities by PSB. Incurrence of such additional indebtedness or other liabilities could adversely affect PSB's ability to make payments under any Subordinated Loans. As at 31 December 2010, PSB had RUB27 billion of long-term debt (which included domestic bonds issued and borrowings under loan agreements funded by issuances of loan participation notes gross of accrued interest with remaining contractual maturity of over one year). PSB 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 2 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.

The terms of any Loan may not constrain PSB's subsidiaries from entering into agreements restricting their ability to make upstream payments to PSB

PSB's cash flow and ability to service its debt depend partially upon receipt of upstream payments from its subsidiaries in the form of dividends, repayment of intercompany loans or otherwise. The terms of the Loans may not constrain PSB's subsidiaries from entering into agreements restricting their ability to make such upstream payments to PSB. If, in the future, any of PSB's subsidiaries were to enter into an agreement restricting its ability to make such upstream payments to PSB, PSB might not be able to generate sufficient cash flow to maintain its operations or to service its debt, materially adversely affecting its business and financial condition.

PSB may not be able to monitor its capital adequacy position under the BIS Guidelines (as defined in the Facility Agreement) on an everyday basis

PSB's accounting systems are based on RAS, and it is required to monitor its capital adequacy position in accordance with the capital adequacy requirements of the CBR which are based on the recommendations of the Basel Committee and therefore closely linked to the BIS Guidelines on Basel I pronouncements. PSB performs calculations of its capital adequacy position under the CBR requirements on a monthly basis and monitors its capital adequacy position under the CBR requirements on a daily basis. However, due to the differences in standards it is possible that PSB may not be able to monitor its compliance in accordance with the capital adequacy covenant in the Facility Agreement, which is to be calculated under the BIS Guidelines, on an everyday basis. See "Amended and Restated Facility Agreement — Covenants — *Maintenance of Capital Adequacy*". PSB may, therefore, be unable to quickly detect when its capital adequacy ratio, as calculated in accordance with the BIS Guidelines, has declined close to, or no longer complies with, the requirements as set out in the Facility Agreement before such an event occurs and prevent such a breach before it occurs.

USE OF PROCEEDS

The Issuer will use the net proceeds of the issue of each Series of Notes for the sole purpose of financing the corresponding Loan to PSB. PSB will use the proceeds from such Loan for general corporate purposes (unless otherwise specified in the relevant Loan Agreement and the relevant Final Terms). In connection with the receipt of such Loan, PSB will pay the Issuer an arrangement fee, as reflected in the relevant Final Terms.

CAPITALISATION

The following table sets forth the Group's consolidated capitalisation as at 31 December 2010 and should be read in conjunction with "Selected Consolidated Financial Information", "Use of Proceeds," "Management Discussion and Analysis of Financial Condition and Results of Operations", "Business" and the Financial Statements included elsewhere in this Base Prospectus.

	As at 31 December 2010 (RUB thousands)
Equity	
Share capital	11,511,052
Share premium	17,303,093
Additional paid-in-capital	81,919
Revaluation reserve for property and equipment	2,717,232
Revaluation reserve for investments available for sale	(80,230)
Retained earnings	13,242,167
Total equity attributable to owners of the parent	44,775,233
Total equity	44,775,233
Senior long-term debt	
Domestic bonds issued	2,781,695
Borrowings under senior loan agreements funded by issuances of loan participation notes	8,650,527
Subordinated debt net of accrued interest ⁽¹⁾	15,847,988
Total long-term debt⁽²⁾	27,280,210
Total long-term debt and equity	72,055,443

(1) The amount of subordinated debt net of accrued interest is calculated in accordance with the Basel Accord I.

(2) "Long-term debt" includes secure long-term financing net of accrued interest (with remaining contractual maturity of over one year) incurred in the ordinary course of banking business.

There has been no material change in the Group's consolidated capitalisation since 31 December 2010.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables present selected consolidated financial information, which has been derived from the Group's Financial Statements. The financial information as of and for the year ended 31 December 2010 has been extracted from the 2010 Annual Financial Statements and the financial information as of and for the years ended 31 December 2009 and 2008 has been extracted from 2009 and 2008 Annual Financial Statements, respectively. The following data should be read in conjunction with the Financial Statements included elsewhere in this Base Prospectus, as well as with "Presentation of Financial and Other Information" and "Management Discussion and Analysis of Financial Condition and Results of Operations".

Selected Group Income Statement Data

	Year ended 31 December		
	2010	2009	2008
	(RUB thousands)		
Interest income	46,321,190	54,599,926	42,781,988
Interest expense ⁽¹⁾	(25,712,013)	(28,998,318)	(20,812,220)
Net interest income	20,609,177	25,601,608	21,969,768
Fee and commission income	7,559,980	7,012,078	5,780,146
Fee and commission expense	(1,522,700)	(1,406,846)	(1,055,809)
Net fee and commission income	6,037,280	5,605,232	4,724,337
Net (loss)/gain on financial instruments at fair value through profit or loss and (loss)/gain on early redemption of senior loan participation notes	(350,153)	1,114,182	(1,842,840)
Net foreign exchange gain	614,460	375,892	2,142,569
Net loss on sale of minority interest in subsidiaries ⁽¹⁾	—	—	(21,942)
Net gain on purchase of interest in subsidiaries ⁽¹⁾	—	149,023	456,625
Income on early redemption of other financial liabilities ⁽¹⁾	—	127,358	177,098
Other income and expense ⁽¹⁾	1,309,893	1,096,694	643,805
Operating income	28,220,657	34,069,989	28,249,420
Loan impairment charge	(10,335,714)	(20,841,815)	(13,245,407)
Other impairment charge	(82,578)	(93,531)	(20,754)
Net loss on revaluation of property	(68,021)	(457,918)	(456,100)
General and administrative expenses ⁽¹⁾	(14,854,862)	(13,302,330)	(12,384,855)
Profit/(loss) before tax	2,879,482	(625,605)	2,142,304
Income tax expense	(402,333)	(248)	(580,649)
Profit/(loss) after tax	2,477,149	(625,853)	1,561,655
Attributable to:			
Owners of the parent	2,477,149	(625,853)	1,561,655

(1) In connection with the preparation of the Group's 2010 Annual Financial Statements, the Group changed the presentation of certain line items compared to previous years, thus the presentation of these line items for the years ended 31 December 2009 and 2008 is different as compared with the presentation for the year ended 31 December 2010. See "Presentation of Financial and Other Information — Impact of Changes in Presentation".

Selected Group Statement of Financial Position Data

	As at 31 December		
	2010	2009	2008
	(RUB thousands)		
Assets			
Cash and cash equivalents	45,182,249	108,322,648	105,723,210
Obligatory reserves with central banks	3,015,876	3,149,729	992,510
Placements with banks and other financial institutions	12,122,032	5,075,800	2,426,852
Financial instruments at fair value through profit or loss	46,004,572	41,751,838	14,408,817
Amounts receivable under reverse repurchase agreements	15,949,846	10,080,301	4,574,084
Loans to customers	310,947,643	266,421,579	300,413,049
Investments available for sale	2,203,213	35,083	158,714
Investment held to maturity	3,966,911	7,204,938	8,880,051
Assets held for sale	5,944,765	2,600,001	—
Other assets	2,513,778	2,100,315	1,517,540
Current income tax prepayments	612,254	660,877	1,292,982
Deferred tax asset	1,065,008	600,326	—

Property and equipment.....	25,598,772	23,207,942	21,413,219
Total assets	475,126,919	471,211,377	461,801,028
Liabilities			
Financial liabilities at fair value through profit or loss.....	1,593,384	1,252,225	614,859
Deposits and balances from banks and other financial institutions.....	59,677,877	64,780,390	111,275,357
Amounts payable under repurchase agreements.....	2,790,016	60,697	855,837
Current accounts and deposits from customers.....	297,046,845	289,548,839	229,610,958
Own securities issued.....	32,127,497	43,654,712	39,368,440
Other borrowed funds.....	12,802,195	13,819,410	24,010,262
Other liabilities.....	2,439,590	1,800,988	2,672,979
Current income tax payable.....	948	27,341	48,002
Deferred tax liability.....	55,645	313,033	776,151
Subordinated borrowings.....	21,817,689	17,748,361	12,593,599
Total liabilities	430,351,686	433,005,996	421,826,444
Equity			
Share capital.....	11,511,052	10,062,544	10,062,544
Share premium.....	17,303,093	13,319,695	13,319,695
Additional paid-in-capital.....	81,919	1,056,102	1,167,515
Revaluation reserve for property and equipment.....	2,717,232	2,353,907	3,192,346
Revaluation reserve for investments available for sale.....	(80,230)	160	(66,641)
Retained earnings.....	13,242,167	11,147,632	11,773,411
Total equity attributable to owners of the parent	44,775,233	37,940,040	39,448,870
Non-controlling interest	—	265,341	525,714
Total equity	44,775,233	38,205,381	39,974,584
Total liabilities and equity	475,126,919	471,211,377	461,801,028

Selected Group Financial Ratios and Other Information

	As at or for the year ended 31 December		
	2010	2009	2008
Profitability			
Return on total assets ^{(1),(2)}	0.53%	(0.14%)	0.42%
Return on equity attributable to owners of the parent ^{(1),(2)}	5.85%	(1.61%)	4.63%
Operating expenses/average total assets ^{(1),(3)}	3.21%	3.03%	3.32%
Average equity/average total assets ⁽¹⁾	9.15%	8.84%	9.03%
Net fee and commission income/operating income.....	21.39%	16.45%	16.72%
Liquidity			
Loans to customers/current accounts and deposits from customers.....	104.68%	92.01%	130.84%
Total liquid assets ⁽⁴⁾ /total assets.....	20.4%	32.6%	27.6%
Capital Adequacy⁽⁵⁾			
Total capital.....	14.38%	14.32%	13.14%
Credit Quality			
Gross overdue loans to customers/gross loans to customers.....	12.0%	15.6%	7.0%
Impairment allowance for loans to customers/gross loans to customers.....	10.8%	12.7%	5.80%
Loan impairment charge/average gross loans ⁽¹⁾	3.2%	6.6%	4.8%
Interest and fee and commission income/interest and fee and commission received.....	3.8%	16.6%	4.6%

(1) Calculation is based on the simple average of the opening and closing balances for each quarter of 2008, 2009 and 2010.

(2) “Return” means net profit attributable to owners of the parent.

(3) “Operating expenses” means general and administrative expenses.

(4) Defined as cash and cash equivalents, placements with banks and other financial institutions with remaining maturity of less than one month, financial assets at fair value through profit or loss which are included in the up to one month category, amounts receivable under reverse repurchase agreements with remaining maturity of less than one month and investments held to maturity with remaining maturity of less than one month.

(5) Calculated in accordance with the Basel Accord I, as currently in effect.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Group's financial condition and results of operations as of the dates and for the periods indicated should be read, unless otherwise indicated, in conjunction with the Group's audited historical Financial Statements, "Presentation of Financial and Other Information" and "Selected Consolidated Financial Information".

Overview

The Group is one of the leading universal banks in Russia. As at 1 January 2011, the Group was ranked tenth largest bank by assets size and the second largest among the banks not controlled by the Russian state-controlled entities or financial institutions, according to the information published by the CBR. PSB was established in 1995 and originally focused on providing corporate banking services to the Russian telecommunications sector. The Group now offers an extensive range of services to diverse clientele located predominantly in Moscow, the Moscow region and other Russian regions. The Group's four principal business lines are: (i) corporate banking services (excluding SMEs), including corporate lending, international settlements, international trade finance, ECA-backed financing, factoring, corporate deposit taking, and transactions with precious metals; (ii) SME banking services, including commercial lending, deposit taking, issuance of promissory notes, money transfers, guarantees, brokerage in securities and foreign exchange services; (iii) retail banking services, including retail loans to and deposit taking from individuals (excluding VIP clients), banking card products, settlement and cash services and foreign exchange services; and (iv) investment banking and financial markets services focused on private banking services for VIP clients, capital markets transactions, sales and trading, including the origination, underwriting and trading of municipal and corporate domestic bonds, brokerage, M&A advisory services and asset management. See "Business". PSB has prepared financial statements in accordance with IFRS since 1997. The Group's operating income increased from RUB28.2 billion for the year ended 31 December 2008 to RUB34.1 billion for the year ended 31 December 2009 and decreased to RUB28.2 billion for the year ended 31 December 2010. The Group's total assets increased from RUB461.8 billion as at 31 December 2008 to RUB471.2 billion as at 31 December 2009, and to RUB475.1 billion as at 31 December 2010, and total equity slightly decreased from RUB40.0 billion as at 31 December 2008 to RUB38.2 billion as at 31 December 2009 and increased to RUB44.8 billion as at 31 December 2010.

Significant Factors Affecting Results of Operations

Russia's Economic Condition

The majority of the Group's assets and customers are located in, or have businesses related to, Russia. As a result, Russian macroeconomic trends significantly influence the Group's results of operations. See "Risk Factors — Risks Relating to the Russian Federation". According to the International Monetary Fund's World Economic Outlook Database of October 2010, for the year 2009, Russia was the world's 12th largest economy with GDP of US\$1,231 billion and a population of 141 million.

Until the latter half of 2008, Russia was one of the fastest growing large economies in the world with annual GDP growth rates of 7.7%, 8.1% and 5.6% for the years 2006, 2007 and 2008, respectively, and more significantly, GDP per capita growth rates of 25.0%, 23.6% and 26.0% for the same period, each as according to the Rosstat. In the second half of 2007 however, and more particularly through to the latter half of 2008, global markets saw the effects of the sub-prime mortgage crisis originating in the United States, which triggered a global financial crisis and contraction in the international capital markets, the Financial Crisis. See "Risk Factors — Risks Relating to the Global and Russian Banking Sectors — *Instability of global credit markets*". The pace and volume of borrowings from the international capital markets slowed down significantly, for both financial and non-financial sectors, and Russian banking sector saw a marked decrease in the availability of long-term financing and an increased cost of funding. The crisis placed downward pressure on economic growth in Russia, because fewer and more expensive loans decreased investment by businesses, as well as consumer spending, both of which are key economic drivers. In addition, the widespread dispersion of credit risk and the uncertain effect on financial institutions caused lenders to reduce their lending activity and to make loans at higher interest rates. In such circumstances, Russian banks experienced significant difficulties in raising funds on the international markets, and focused on attracting funds from the domestic, Russian capital markets and from depositors. The following table shows Russian GDP, the fall in GDP for 2010, inflation, total gross domestic product and GDP per capita for the periods indicated.

	For the year ended 31 December		
	2010	2009	2008
Real GDP growth/(decrease).....	4.0%	(7.9%)	5.6%
Inflation.....	8.8%	8.8%	13.3%
Total GDP (RUB in billions).....	44,491	39,064	41,668
GDP per capita (RUB).....	311,313	275,290	293,436

Source: Rosstat.

Accordingly, 2009 was an extremely challenging year for banks operating in Russia. The economic downturn drove down corporate profitability, and the population's living standards, which, in turn, negatively affected borrowers' ability to service their debt. Higher unemployment and lower household disposable incomes depressed domestic demand. As result, the Russian banking sector faced the following challenges: a sharp increase in corporate overdue debt and defaults, as well as reduced solvency of retail borrowers; escalated competition for funding in the domestic market and the resulting increase in the cost of capital, where interest rates on deposits offered by many banks for the first time in many years exceeded the expected inflation level; and a lack of quality borrowers considerably limiting opportunities for lending activity expansion and interest income growth. Nevertheless, the global and domestic recession proved to be less pervasive than had been expected in the last quarter of 2008. By mid-2009, recovery trends emerged in the Russian economy and the banking sector, including positive GDP and disposable income dynamics, increases in the industrial production index, stabilisation of the rouble, a slowdown in the growth of inflation and signs of stock market recovery. Recovery in the global commodity market was an important driver behind the positive trends in the Russian economy. In addition, the Russian government undertook a number of measures to counteract the negative impact of the Financial Crisis on the banking system through lowering the base rate, providing loans, softening regulatory requirements and bailing out troubled banks. See "The Banking Sector and Banking Regulation in Russia — Russian Banking Sector — *Anti-Crisis Legislation*".

Impact of International Financial Markets

While the majority of the Group's assets and customers are in Russia, the Group is also affected by the international financial markets. The Financial Crisis, which commenced in July 2007, escalated towards the end of 2008 and early 2009. From mid-September 2008 to the end of the first half of 2009, the normal functioning of Russian and international capital markets was severely curtailed and interbank lending rates increased significantly.

While the Group's business focuses on the Russian and the Commonwealth of Independent States ("CIS") markets, investors' lack of confidence in the banking industry globally has adversely affected wholesale funding markets, leading to higher borrowing costs and restricting access to liquidity for banks, including members of the Group. The cost of Government funding as well as the cost of the more limited amounts of funding available from international banks increased in 2008. Furthermore, increased competition in Russia has made customer deposits a more expensive funding source. For further details see "—Interest Rate Environment and Funding".

Loan Portfolio

Until the second half of 2008, where the effects of the Financial Crisis were felt globally, the main driver of the Group's interest income growth was the expansion of its loan portfolio, particularly driven by a strategy of expanding PSB's business in the retail and SME segments. Following the peak of the Financial Crisis through 2008, while the global and domestic economy demonstrated signs of recovery in 2009, lending activity, in particular in respect of privately-owned banks, remained slow due to a lack of funding, high cost of capital and tighter lending criteria driven by higher credit risks and a deterioration of the quality of credit portfolios.

PSB's net retail loan portfolio in particular in 2010 decreased by 25.8%, from RUB29,652 million as at 31 December 2009 to RUB22,003 million as at 31 December 2010, primarily reflecting a suspension of PSB's retail lending programme in 2009, and an increased tightening of lending criteria. PSB's corporate and SME loan portfolios, however, expanded in 2010 compared to 2009. PSB's net corporate loan portfolio (loans to corporate clients and factoring loans) increased from RUB218,314 million as at 31 December 2009 to RUB266,515 million as at 31 December 2010, and PSB's net SME loan portfolio increased from RUB18,455 million as at 31 December 2009 to RUB22,430 million as at 31 December 2010.

Interest Rate Environment and Funding

Over the periods under review, movements in short- and long-term interest rates affected both PSB's interest income and interest expense. During 2010, interest rates on PSB's loan portfolio declined due to increased competition for quality borrowers and resulting pressure on the margins of credit products. As a result, PSB's net interest income

decreased by 19.5% to RUB20,609 million for the year ended 31 December 2010 as compared with RUB25,602 million for the year ended 31 December 2009, which was an increase of 16.5% from RUB21,970 million for the year ended 31 December 2008. Further, PSB's net interest margin (calculated on a quarterly basis) for the year ended 31 December 2010 declined to 4.7% as compared with 6.6% for each of the years ended 31 December 2009 and 2008. However, due to efficient asset and liability management, including reduction in excess liquidity and funding costs, PSB's net interest margin improved in the second half of 2010, after a sharp decrease in the first quarter of 2010. In 2010, the Group stopped accruing interest income on loans overdue for more than 365 days due to the low probability of recovery of such loans whereas in 2009, the Group accrued interest income on loans overdue for more than 365 days. The Group continues accruing interest income on loans overdue for more than 180 days but less than 365 days as the Group believes that such loans are likely to be recovered.

Loan Impairment and Provisioning

During the last three months of 2008 and in 2009, the volume of "overdue" loans (being those contractually overdue by one day or more) grew significantly as the effects of the Financial Crisis were felt on Russian markets. The level of NPLs (comprising loans with principal and/or interest overdue by more than 90 days (except for loans to individuals and SMEs for which partial repayment of overdue principal and/or interest took place during the last quarter of the year ended 31 December 2009) and loans renegotiated as a result of the borrower's inability to repay) and the level of loans in respect of which any impairment is shown ("**impaired loans**") (see "*— Impairment*") to the loan portfolio increased significantly, as the creditworthiness of borrowers was tested during 2009. The level of NPLs as at 31 December 2009 amounted to RUB37,556 million or 12.3% of the total gross loan portfolio, compared with RUB8,880 million as at 31 December 2008 or 2.8% of the total gross loan portfolio. The Group responded to these circumstances by increasing its loan impairment allowances to RUB38,846 million as at 31 December 2009, an increase of 110% from RUB18,510 million as at 31 December 2008. Loan impairment charges made up to 61% of operating income for the year 2009, compared with 47% in 2008. The increase in loan impairment charges on the income statement of the 2009 Annual Financial Statements contributed to the net loss (after tax) of PSB for the year ended 31 December 2009, which amounted to RUB626 million, down from a net profit (after tax) of PSB of RUB1,562 million for the year ended 31 December 2008.

As a result of the partial recovery of the Russian economy during 2010 and sales and write-off of loans during this period and because of the policy changes of the Group with respect to retail lending, (see "*— Results of Operations for the Years Ended 31 December 2010, 2009 and 2008 — Loan Impairment*"), the quality of the loan portfolio improved significantly in 2010. As at 31 December 2010, the level of NPLs decreased to RUB32,084 million or 9.2% of the total gross loan portfolio, as compared to RUB37,556 million or 12.3% of the total gross loan portfolio as at 31 December 2009. All business segments experienced a decline in the level of NPLs during the second half of 2010 as a result of reduction in NPLs in absolute terms (due to sales of NPLs and write-offs) and growth of the loan portfolio. In addition, the gap between accrued income (i.e., interest and commission) and income actually received reduced from 17% to 4% during 2010 because the Group stopped accruing interest income on loans overdue for more than 365 days due to the low probability of recovery of such loans. In response to these circumstances, the Group decreased its loan impairment allowances to RUB37,673 million as at 31 December 2010, a decrease of 3.0% from RUB38,846 million as at 31 December 2009. Loan impairment charges made up to 36.6% of operating income for the year 2010, compared with 61% in 2009. The decrease in loan impairment charges in 2010 contributed to the net profit (after tax) for the year ended 31 December 2010, which amounted to RUB2,477 million, up from a net loss (after tax) of RUB626 million for the year ended 31 December 2009. Operating income decreased by 17.2% to RUB28,221 million for the year ended 31 December 2010 as compared with RUB34,070 million for the year ended 31 December 2009 due to decrease in the net interest margin. Going forward the Group intends to maintain its more conservative approach to retail and other lending. Further, NPLs will be managed through the Group's debt management policy, whereby long-term bad loans will be outsourced to external collectors.

Central Bank of Russia Funding and Total Assets

In the last quarter of 2008, during the peak of the Financial Crisis, PSB received significant state funding from the CBR, receiving term deposits in the total amount of RUB51,528 million as at 31 December 2008. PSB repaid this funding in the first quarter of 2009, which contributed to a drop in total assets of PSB, as liquidity concerns ceased and in fact PSB experienced a period of excess liquidity. In the fourth quarter of 2009, however, PSB registered a significant deposit inflow, driven by an improved level of liquidity in the Russian economy, resulting in a net increase in total assets by the end of 2009, with total assets of the Group increasing from RUB461,801 million as at 31 December 2008, to RUB471,211 million as at 31 December 2009, and RUB475,127 million as at 31 December 2010.

Equity

Total equity attributable to owners of the parent decreased by 3.8% to RUB37,940 million as at 31 December 2009 as compared with RUB39,449 million as at 31 December 2008, which was attributable to an overall net loss of the Group (arising primarily from a sharp increase in loan impairment charge for 2009) and a negative revaluation of certain real estate assets. Of note however, the 2009 Annual Financial Statements do not reflect EBRD's investment in PSB (see "Business — Corporate Organisation — *Holding Structure*"). In 2010, total equity attributable to owners of the parent increased by 18.0% to RUB44,775 million as at 31 December 2010 as compared with RUB37,940 million as at 31 December 2009, which was attributable to increase in share capital, revaluation of certain real estate assets and increase in retained earnings. As at 31 December 2010 Tier 1 and total capital adequacy ratios were 10.0% and 14.4%, respectively.

Significant Accounting Policies

Detailed description of the main accounting policies used in preparing the 2010 Annual Financial Statements is set forth in the Note 3 to the 2010 Annual Financial Statements included elsewhere in this Base Prospectus. Similarly, detailed descriptions of the main accounting policies used in preparing the 2009 and 2008 Annual Financial Statements are set forth in the Notes 3 to the 2009 and 2008 Annual Financial Statements, respectively included elsewhere in this Base Prospectus.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Although these estimates are based on Group's management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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

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

Consolidated companies

The 2010 Annual Financial Statements include the following principal subsidiaries of PSB:

Name of Subsidiary	Country of Incorporation	Principal Activities	Consolidated as at 31 December 2010	Consolidated as at 31 December 2009
PSB Finance S.A.....	Luxembourg	Financial Activity	100%	100%
OO “UK Promsvyaz”	Russian Federation	Financial Activity	100%	100%
OOO “Open Leasing Company”	Russian Federation	Leasing	100%	100%
OOO “Promsvyazfactoring”	Russian Federation	Factoring	100%	100%
OOO “Saint-Petersburg International Banking Conference”	Russian Federation	Services Financial	100%	—
Promsvyaz Finance PLC	Ireland	Activity	—	100%
Volgoprombank.....	Russian Federation	Banking	—	100%
Nizhny Novgorod Bank	Russian Federation	Banking	—	100%
Yarsotsbank	Russian Federation	Banking	—	61.9%

- *Promsvyaz Finance Plc and PSB Finance S.A.* These entities are special purpose entities established to facilitate issues of debt securities. The entities are not owned by the Group and the control arises through the predetermination of the entities’ activities.
- *OOO “UK Promsvyaz”.* The principal activity of OOO “UK Promsvyaz” is asset management. The Group directly controls 100% of this entity.
- *OOO “Open Leasing Company”.* This entity was established by the Group in July 2007. The Group controls 100% of OOO “Open Leasing Company”.
- *OOO “Promsvyazfactoring”.* In December 2009 the Group acquired control over OOO “Promsvyazfactoring” (OOO “PSF”) through an option agreement dated 31 December 2009 with its owner which is a related party of the Group’s shareholders. Under the terms of this agreement the Group has the unconditional right to buy 100% of the share capital in OOO “PSF” for cash of RUB5,500 thousand for a period of 5 years starting from the date of the option agreement.
- *OOO “Saint-Petersburg International Banking Conference”.* It was established by the Group in December 2010 and is 100% controlled by the Group.
- *Volgoprombank.* The Group obtained control over Volgoprombank on 23 June 2008 through the granting of a call option by Promsvyaz Capital B.V. (parent company of the Bank). This call option gave the Bank the right to acquire 95.5% of the share in Volgoprombank from 23 June 2008 for a year. Also, from this date more than half of the members of the Board of Directors of Volgoprombank were nominated by the Bank. In April 2009 Promsvyaz Capital B.V. sold 9.8% of Volgoprombank shares to third parties. The conditions of the option agreement were amended accordingly and furthermore the option period prolonged until the end of 2010. In September 2009 the Group acquired from third parties 14.3% of the share capital in Volgoprombank in addition to the 85.7% share held under the option agreement. On 11 February 2010 the Group exercised the option and in May 2010 the Group was reorganised by way of accession of Volgoprombank to PSB.
- *Yarsotsbank and Nizhny Novgorod Bank.* At the end of December 2008 the Group purchased 51.3% of the share capital of Yarsotsbank from OAO “Rybinsky Bread-Baking Complex” and 85.1% of the share capital of Nizhny Novgorod Bank. The acquisitions were made to assist in the stabilisation of the banking sector in Russia and to expand the Group’s regional network. During the year ended 31 December 2009 the Group purchased an additional 10.6% of the share capital of Yarsotsbank. In June 2009 the Group purchased an additional 14.1% of the share capital of Nizhny Novgorod Bank and in August 2009 the Group purchased the remaining 0.8% share. In May 2010 Nizhny Novgorod Bank was merged with PSB and in November 2010 Yarsotsbank was merged with PSB.

Impact of New Accounting Standards

Certain new IFRS became effective for the Group from 1 January 2008. All such changes in accounting policies were applied retrospectively. The nature of the adjustments made due to application of new IFRS and its effect on corresponding information for the year ended 31 December 2008 is set out in Note 3 to the 2008 Annual Financial Statements.

In October 2008, the International Accounting Standards Board (the “IASB”) issued a new amendment to IAS 39 and IFRS 7, which permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (*i.e.*, trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, would have met the definition of loans and receivables at initial recognition, and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in “rare circumstances”. The amendment was effective retrospectively from 1 July 2008. Pursuant to this amendment, the Group reclassified certain non-derivative financial assets from trading assets into held to maturity assets. The nature of this reclassification is set out in Note 11 to the 2008 Annual Financial Statements.

From 1 January 2009, the Group adopted the revised version of IAS 1 “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 January 2009). As a result, in addition to the consolidated income statement the Group discloses a statement of comprehensive income that includes all non-owner changes in equity, such as the revaluation of available for sale assets and revaluation of property and equipment. The balance sheet is renamed the statement of financial position and the cash flow statement is renamed the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or correction of errors. In addition, starting from 1 January 2009, the Group adopted IFRS 8 “Operating Segments” (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision-maker in order to assess each segment’s performance and to allocate resources to them.

As at the date of the 2010 Annual Financial Statements, all new standards and amendments that are relevant to the Group’s operations and are effective for accounting periods beginning on January 1, 2010 have been adopted. In addition, the Group has adopted the amendment to IFRS 7 “Financial instruments: Disclosures”, before its effective date. Details of these new standards, amendments and interpretations are set out in Note 3 to the 2010 Annual Financial Statements.

Impact of Changes in Presentation

In connection with the preparation of the Group’s 2010 Annual Financial Statements, the Group changed the presentation of certain line items as compared to the presentation for the years ended 31 December 2009 and 2008, restating the 2009 comparative figures included in the 2010 Annual Financial Statements. The financial statements for prior periods, including the 2009 and 2008 Annual Financial Statements were not required to be, and were not restated, for these changes in presentation. Accordingly, the 2010 Annual Financial Statements are not presented on a directly comparable basis in the 2009 and 2008 Annual Financial Statements for the items below. The Group’s management believes that the effect of these changes in presentation is not material and does not affect the comparability of the financial information for the years ended 31 December 2010, 2009 and 2008. Accordingly, the financial information for the years ended 31 December 2009 and 2008 presented in this Base Prospectus has been extracted from the 2009 and 2008 Annual Financial Statements, respectively.

The presentation of the following items of the consolidated income statement has been changed in the 2010 Annual Financial Statements to better present the nature of the underlying transactions:

- Income on early redemption of other financial liabilities was included in the category “Interest expense”, as it represents decrease of interest expense, whereas in the 2009 and 2008 Annual Financial Statements it was presented as a separate line item;
- Contributions under obligatory deposit insurance were included in the category “Other income and expense”, as they represent operating expenses incurred whereas they were presented as separate line items in the 2009 and 2008 Annual Financial Statements;

- The category “Net gain on purchase of interest in subsidiaries” was combined with the category “Other income and expense” in the 2010 Annual Financial Statements;
- The categories “Administrative expenses” and “General expenses” were combined in the category “General and administrative expenses” in the 2010 Annual Financial Statements; and
- The category “Other income” was renamed “Other income and expense” in the 2010 Annual Financial Statements.

Additionally, the presentation of certain captions of the disclosures on loans to customers was changed as at 31 December 2010 as compared to the presentation as at 31 December 2009 and 2008 to better present the nature of the underlying transactions. The industry classification of loans to customers was revised in the 2010 Annual Financial Statements to reflect a more precise classification of borrowers.

The presentation of segment assets and liabilities was changed as at 31 December 2010 as compared to the presentation as at 31 December 2009 and 2008 to better reflect the way the Group’s management analyses the business. In the 2010 Annual Financial Statements assets and liabilities related to management operations performed by PSB’s Treasury Department were included in the category “Reconciling items”, whereas in the 2009 and 2008 Annual Financial Statements they were included in the category “International business, investments and financial markets”.

Results of Operations for the Years Ended 31 December 2010, 2009 and 2008

The Group recorded a profit (after tax) of RUB2,477 million for the year ended 31 December 2010 from a loss (after tax) of RUB626 million for the year ended 31 December 2009 and a profit (after tax) of RUB1,562 million for the year ended 31 December 2008. The profit for 2010 was mainly due to decrease in loan impairment charges compared to 2009, which more than offset the reduction in net interest income in 2010 compared to 2009. The loss for 2009 was due to a RUB20,842 million loan impairment charge in 2009 following deterioration of its loan portfolio as a result of the Financial Crisis. For the years ended 31 December 2008 and 2009, the cost-to-income ratio (calculated as general and administrative expenses divided by operating income) decreased from 43.8% to 39.0% as a result of strict monitoring of the Group’s budget compliance and increase in operating income in 2009 but increased to 52.6% for the year ended 31 December 2010 as a result of decline in operating revenues driven by considerably narrower net interest margins as compared to 2009.

The following table sets forth the Group’s consolidated income statement for the years under review.

	Year ended 31 December		
	2010	2009	2008
	(RUB thousands)		
Interest income.....	46,321,190	54,599,926	42,781,988
Interest expense ⁽¹⁾	(25,712,013)	(28,998,318)	(20,812,220)
Net interest income	20,609,177	25,601,608	21,969,768
Fee and commission income.....	7,559,980	7,012,078	5,780,146
Fee and commission expense.....	(1,522,700)	(1,406,846)	(1,055,809)
Net fee and commission income	6,037,280	5,605,232	4,724,337
Net (loss)/gain on financial instruments at fair value through profit or loss			
and (loss)/gain on early redemption of senior loan participation notes.....	(350,153)	1,114,182	(1,842,840)
Net foreign exchange gain.....	614,460	375,892	2,142,569
Net loss on sale of minority interest in subsidiaries ⁽¹⁾	—	—	(21,942)
Net gain on purchase of interest in subsidiaries ⁽¹⁾	—	149,023	456,625
Income on early redemption of other financial liabilities ⁽¹⁾	—	127,358	177,098
Other income and expense ⁽¹⁾	1,309,893	1,096,694	643,805
Operating income	28,220,657	34,069,989	28,249,420
Loan impairment charge.....	(10,335,714)	(20,841,815)	(13,245,407)
Other impairment charge.....	(82,578)	(93,531)	(20,754)
Net loss on revaluation of property.....	(68,021)	(457,918)	(456,100)
General and administrative expenses ⁽¹⁾	(14,854,862)	(13,302,330)	(12,384,855)
Profit/(loss) before tax	2,879,482	(625,605)	2,142,304
Income tax expense.....	(402,333)	(248)	(580,649)
Profit/(loss) for the year	2,477,149	(625,853)	1,561,655
Profit/(loss) attributable to:			
Owners of the parent.....	2,477,149	(625,853)	1,561,655

- (1) In connection with the preparation of the Group's 2010 Annual Financial Statements, the Group changed the presentation of certain line items compared to previous years, thus the presentation of these line items for the years ended 31 December 2009 and 2008 is different as compared with the presentation for the year ended 31 December 2010. See "— Impact of Changes in Presentation".

The following table sets forth the average balances of the Group's assets and liabilities, the related interest income or expense and average rates for the periods indicated. For the purposes of this table, the consolidated average balances of assets and liabilities were calculated as the average of opening, quarter-end and closing balances for 2008, 2009 and 2010. Calculation of these average balances on monthly, weekly or daily basis could result in materially different average results.

	For the year ended 31 December								
	2010			2009			2008		
	Average balance	Average rate ⁽¹⁾	Interest income/expense	Average balance	Average rate ⁽¹⁾	Interest income/expense	Average balance	Average rate ⁽¹⁾	Interest income/expense
(RUB thousands, except percentages)									
Assets									
Placements with banks and other financial institutions ^{(2),(3)}	53,036,855	2.6%	1,377,981	40,223,366	1.3%	541,021	23,271,385	3.7%	870,826
Financial assets at fair value through profit or loss ⁽⁴⁾	35,829,519	9.0%	3,229,142	19,574,103	12.7%	2,481,705	16,893,154	8.5%	1,440,239
Amounts receivable under reverse repurchase agreements	16,486,178	4.4%	719,663	6,065,437	8.6%	519,270	8,175,760	7.6%	619,655
Loans to customers ⁽³⁾	324,332,431	12.5%	40,651,403	314,824,566	16.0%	50,401,496	278,530,866	14.2%	39,557,566
Investments held to maturity	5,241,453	6.5%	343,001	8,101,495	8.1%	656,434	3,541,129	8.3%	293,702
Total interest-earning assets	434,926,436	10.7%	46,321,190	388,788,967	14.0%	54,599,926	330,412,294	12.9%	42,781,988
Non-interest earning assets	68,287,342	—	—	79,777,218	0.0%	—	53,215,049	0.0%	—
Impairment allowance	(40,067,560)	—	—	(29,678,945)	0.0%	—	(10,158,612)	0.0%	—
Total assets	463,146,218	10.0%	46,321,190	438,887,240	12.4%	54,599,926	373,468,731	11.5%	42,781,988
Liabilities and equity									
Deposits and balances from banks and other financial institutions	57,450,199	4.3%	2,489,136	77,459,292	7.0%	5,442,845	75,840,734	6.9%	5,227,360
Amounts payable under repurchase agreements	3,257,350	4.2%	135,606	1,845,352	11.3%	209,000	1,323,989	12.0%	158,250
Current accounts and deposits from customers	286,783,570	5.9%	16,983,882	244,659,991	6.8%	16,572,417	184,162,479	5.3%	9,733,398
Own securities issued	38,209,172	8.6%	3,283,850	40,469,065	10.5%	4,264,295	41,308,229	7.8%	3,222,197
Other borrowed funds	12,795,588	5.5%	708,163	18,226,145	4.9%	884,046	23,583,206	5.4%	1,273,804
Subordinated borrowings	18,628,050	11.3%	2,111,376	14,188,733	11.5%	1,625,715	10,204,854	11.7%	1,197,211
Total interest bearing liabilities	417,123,929	6.2%	25,712,013	396,848,578	7.3%	28,998,318	336,423,491	6.2%	20,812,220
Non-interest bearing liabilities	3,657,444	—	—	3,252,926	0.0%	—	3,332,080	0.0%	—
Total equity attributable to owners of the parent	42,256,909	—	—	38,342,126	0.0%	—	33,585,769	0.0%	—
Non-controlling interest	107,936	—	—	443,610	0.0%	—	127,391	0.0%	—
Total liabilities and equity	463,146,218	5.6%	25,712,013	438,887,240	6.6%	28,998,318	373,468,731	5.6%	20,812,220
Net interest income	—	—	20,609,280	—	—	25,601,608	—	—	21,969,768
Net interest spread ⁽⁵⁾	—	4.5%	—	—	6.7%	—	—	6.7%	—
Net interest margin ⁽⁶⁾	—	4.7%	—	—	6.6%	—	—	6.6%	—

(1) Represents interest income or interest expense divided by the average balance of respective item.

(2) Includes term placements with banks, balances on correspondent accounts with other banks recorded under the “Cash and cash equivalents” caption in the Financial Statements, except for nostro account with the CBR and including the minimum reserve deposit with the Central Bank of Cyprus.

(3) Before loan impairment allowance.

(4) Excludes equity securities, derivative financial instruments and promissory notes, as these securities are not interest earning. Income on promissory notes is reflected in net gain on financial instruments at fair value through profit or loss.

(5) Represents the difference between the average interest rate on interest-earning assets and the average interest rate on interest-bearing liabilities.

(6) Represents the ratio of net interest income before loan impairment allowance expressed as a percentage of average interest-earning assets.

The following table sets forth the allocation of changes in the Group's interest income, interest expense and net interest income due to changes in volume and interest rates calculated as interest income/expense for the period divided by the relevant average balance of interest earning assets/interest bearing liabilities for the periods indicated. The effect of changes in volume is calculated as the change in average balances multiplied by the interest rate in the previous period, while the effect of changes in rate is calculated as the change in the average rate multiplied by the current period's average balance. Changes caused by both volume and rate (change in the average rate multiplied by change in average balances) are allocated between volume change and rate change at the ratio each component bears to the absolute value of their total.

	For the year ended 31 December					
	2010 vs 2009			2009 vs 2008		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
	(RUB thousands)					
Interest income						
Placements with banks and other financial institutions ⁽¹⁾	172,347	664,613	836,960	634,351	(964,156)	(329,805)
Financial assets at fair value through profit or loss.....	2,060,945	(1,313,508)	747,437	228,566	812,900	1,041,466
Amounts receivable under reverse repurchase agreements	892,133	(691,740)	200,393	(159,945)	59,560	(100,385)
Loans to customers.....	1,522,151	(11,272,244)	(9,750,093)	5,154,511	5,689,419	10,843,930
Investments held to maturity.....	(231,739)	(81,694)	(313,433)	378,238	(15,506)	362,732
Total interest income.....	4,415,837	(12,694,573)	(8,278,736)	6,235,721	5,582,217	11,817,938
Interest expense						
Deposits and balances from banks and other financial institutions.....	(1,405,982)	(1,547,727)	(2,953,709)	111,560	103,925	215,485
Amounts payable under repurchase agreements.....	159,919	(233,313)	(73,394)	62,316	(11,566)	50,750
Current accounts and deposits from customers	2,853,304	(2,441,839)	411,465	3,197,429	3,641,590	6,839,019
Own securities issued.....	(238,129)	(742,316)	(980,445)	(65,458)	1,107,556	1,042,098
Other borrowed funds.....	(263,405)	87,522	(175,883)	(289,352)	(100,406)	(389,758)
Subordinated borrowings	508,648	(22,987)	485,661	467,380	(38,876)	428,504
Total interest expense.....	1,614,355	(4,900,660)	(3,286,305)	3,483,875	4,702,223	8,186,098
Net change in net interest income.....	2,801,482	(7,793,913)	(4,992,431)	2,751,846	879,994	3,631,840

(1) Includes interest income of term placements with banks and balances on correspondent accounts with other banks recorded under the "Cash and cash equivalents" caption in the Financial Statements, except for nostro account with the CBR and including the minimum reserve deposit with the Central Bank of Cyprus.

Net Interest Income

Interest income is the Group's primary source of revenue. The following table sets forth the principal components of the Group's interest income and expense.

	For the year ended 31 December		
	2010	2009	2008
	(RUB thousands)		
Interest income			
Loans to customers.....	40,651,403	50,401,496	39,557,566
Financial assets at fair value through profit or loss.....	3,229,142	2,481,705	1,440,239
Placements with banks and other financial institutions and cash and cash equivalents.....	1,377,981	541,021	870,826
Reverse repurchase agreements.....	719,663	519,270	619,655
Investments held to maturity.....	343,001	656,434	293,702
Total interest income.....	46,321,190	54,599,926	42,781,988
Interest expense			
Current accounts and deposits from customers ⁽¹⁾	16,983,882	16,572,417	9,733,398
Own securities issued ⁽¹⁾	3,283,850	4,264,295	3,222,197
Deposits and balances from banks and other financial institutions ⁽¹⁾	2,489,136	5,442,845	5,227,360
Subordinated borrowings.....	2,111,376	1,625,715	1,197,211
Other borrowed funds.....	708,163	884,046	1,273,804
Repurchase agreements.....	135,606	209,000	158,250
Total interest expense.....	25,712,013	28,998,318	20,812,220
Net interest income.....	20,609,177	25,601,608	21,969,768

(1) In connection with the preparation of the Group's 2010 Annual Financial Statements, the Group changed the presentation of certain line items compared to previous years, thus the presentation of these line items for the years ended 31 December 2009 and 2008 is different as compared with the presentation for the year ended 31 December 2010. See "— Impact of Changes in Presentation".

Primarily for the reasons set forth below, net interest income decreased by 19.5% to RUB20,609 million for the year ended 31 December 2010 as compared with RUB25,602 million for the year ended 31 December 2009, which itself represented an increase of 16.5% on RUB21,970 million for the year ended 31 December 2008. The Group's annualised interest margin, defined as net interest income, expressed as a percentage of average interest-earning assets decreased to 4.7% for the year ended 31 December 2010, remained stable at 6.6% for the year ended 31 December 2009 and 6.6% for the year ended 31 December 2008. The 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, decreased to 4.5% for the year ended 31 December 2010, remained stable at 6.7% for the year ended 31 December 2009 and 6.7% for the year ended 31 December 2008.

Interest Income

Interest income from loans to customers

Interest income from loans to customers decreased by 19.3% to RUB40,651 million for the year ended 31 December 2010 as compared with RUB50,401 million for the year ended 31 December 2009 despite the increase in PSB's average loan portfolio. The Group attributes this change to decrease in interest rates (as the average balance of loans to customers increased in 2010 compared to 2009) and the policy to accrue interest income only on the recoverable amount of loans which resulted in discontinuance of interest accrual on loans overdue by more than one year for the year ended 31 December 2010. Interest income from loans to customers increased by 27.4% to RUB50,401 million for the year ended 31 December 2009 as compared with RUB39,558 million for the year ended 31 December 2008. The Group attributes this increase both to rising interest rates and an increase in the average balance of PSB's loans to customers in 2009 as compared to 2008. See "Risk Factors — Risks Relating to the Global and Russian Banking Sectors — *There is significant competition in the Russian banking market, particularly from state-owned banks*".

The average interest rate on gross loans to customers was 12.5% for the year ended 31 December 2010, 16.0% for the year ended 31 December 2009, and 14.2% for the year ended 31 December 2008. The decrease during the year ended 31 December 2010 was primarily due to significant market-wide tightening of margins. The increase in the year ended 31 December 2009 compared to 2008 was driven by increases in the interest rates offered to borrowers, the Financial Crisis and consequent increases in costs of funding and associated risk premiums attributed to the Group's loan operations.

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

Interest income from financial assets at fair value through profit or loss increased by 30.1% to RUB3,229 million for the year ended 31 December 2010, from RUB2,482 million for the year ended 31 December 2009. The increase from 2009 to 2010 was primarily due to the growth in the size of PSB's portfolio of interest-bearing financial instruments, though a large part of the growth was offset by an overall decline in the interest rates of securities. Interest income from financial assets at fair value through profit or loss increased by 72.4% to RUB2,482 million for the year ended 31 December 2009, as compared with RUB1,440 million for the year ended 31 December 2008. The increase during this period was primarily due to increased volumes of transactions with financial assets at fair value through profit or loss and increased interest rates because of the high risk environment combined with a lack of solvent borrowers pushing up both risk premiums and interest rates.

The average interest rate on financial assets at fair value through profit or loss was 9.0%, 12.7% and 8.5% for the years ended 31 December 2010, 2009 and 2008, respectively. The decline from 2009 to 2010 was primarily due to the significant market-wide tightening of margins. The increase from 2008 to 2009 was primarily due to a growth in interest rates on new issues of debt securities following the revival of the debt capital markets.

Interest income from investments held to maturity

Interest income from investments held to maturity decreased by 47.7% to RUB343 million for the year ended 31 December 2010 as compared with RUB656 million for the year ended 31 December 2009. The decrease during this period was primarily due to decrease in the size of the portfolio and a decrease in average rates earned. Interest income from investments held to maturity increased by 123.1% to RUB656 million for the year ended 31 December 2009 as compared with RUB294 million for the year ended 31 December 2008 and there was a significant increase in the average balance from RUB3,541 million for the year ended 31 December 2008 to RUB8,101 million for the year ended 31 December 2009. The increase during this period was primarily due to earning of interest on investments held to maturity through 2009, while in 2008 interest income from investments held to maturity included interest only for such period after reclassification. Investments held to maturity represent a reclassification in the 2008 Annual Financial Statements of certain non-derivative financial assets which were previously classified as trading assets for the purposes of the 2008 Annual Financial Statements. This reclassification is a result of a change in accounting policy adopted in 2008. See "— Significant Factors Affecting Results of Operations — *Impact of New Accounting Standards*".

The average interest rate on investments held to maturity was 6.5% for the year ended 31 December 2010, and 8.1% and 8.3% for the years ended 31 December 2009 and 2008, respectively. The decline from 2009 to 2010 was primarily due to the significant market-wide tightening of margins. The decline from 2008 to 2009 was insignificant.

Interest income from placements with banks and other financial institutions

Interest income from placements with banks and other financial institutions increased by 154.7% to RUB1,378 million for the year ended 31 December 2010 as compared with RUB541 million for the year ended 31 December 2009. The Group attributes this increase to increases in interest rates on placements in the Russian market, as well as to growth in the average volume of such placements. Interest income from placements with banks and other financial institutions decreased by 37.9% to RUB541 million for the year ended 31 December 2009 as compared with RUB871 million for the year ended 31 December 2008. The Group attributes this decrease primarily to falling applicable interest rates despite increased volumes of placements.

The average interest rate on placements with banks and other financial institutions was 2.6%, 1.3% and 3.7% for the years ended 31 December 2010, 2009 and 2008, respectively. The increase from 2009 to 2010 was driven by the increase in average maturity of placements with banks and other financial institutions. The decline from 2008 to 2009 was driven by a decrease in interest rates for inter-bank lending (and primarily of the London Interbank Offered Rate ("LIBOR"), which is the reference interest rate for most borrowed funds).

*Interest income from reverse repurchase ("**reverse repo**") agreements*

Interest income from reverse repo agreements increased by 38.7% to RUB720 million for the year ended 31 December 2010 as compared with RUB519 million for the year ended 31 December 2009. The Group attributes this increase primarily to a growth in the average volume of reverse repo agreements (partly offset by the decline in interest rates during this period). Interest income from reverse repo agreements decreased by 16.3% to RUB519 million for the year ended 31 December 2009 as compared with RUB620 million for the year ended 31 December 2008. The Group attributes these changes primarily to decrease in the average volume of such reverse repo agreements.

The average interest rate on reverse repo agreements was 4.4%, 8.6% and 7.6% for the years ended 31 December 2010, 2009 and 31 December 2008, respectively. The decrease from 2009 to 2010 was driven by significant market-wide tightening of margins. The increase from 2008 to 2009 was driven by short-term fluctuations of repo balances as at the end of each quarter and an increase in interest rates.

Total interest income

Primarily for the reasons set forth above, total interest income decreased by 15.2% to RUB46,321 million for the year ended 31 December 2010 as compared with RUB54,600 million for the year ended 31 December 2009, in itself an increase of 27.6% from RUB42,782 million for the year ended 31 December 2008. The average interest rate on interest earning assets was 10.7%, 14.0% and 12.9% for the years ended 31 December 2010, 2009 and 2008, respectively. The decrease in average interest rate over the year ended 31 December 2010 compared to year ended 31 December 2009 was primarily due to significant market-wide tightening of margins. The increase in average interest rate over the year ended 31 December 2009 compared to year ended 31 December 2008 was primarily due to an overall increase in interest rates in those years as a consequence of the high risk environment combined with a lack of solvent borrowers pushing up both risk premiums and interest rates.

Interest Expense

Interest expense on current accounts and deposits from customers

Interest expense on current accounts and deposits from customers increased slightly by 2.5% to RUB16,984 million for the year ended 31 December 2010, as compared with RUB16,572 million for the year ended 31 December 2009. The increase from 2009 to 2010 was primarily due to an overall increase in current accounts and deposits by individuals though such growth was almost completely offset by an overall decline in interest rates. Interest expense on current accounts and deposits from customers increased by 70.3% to RUB16,572 million for the year ended 31 December 2009 as compared with RUB9,733 million for the year ended 31 December 2008. This increase from 2008 to 2009 was primarily due to increasing interest rates and an overall increase in current accounts and deposits especially in the fourth quarter of 2009.

The average rate on interest expense on current accounts and deposits from customers was 5.9%, 6.8% and 5.3% for the years ended 31 December 2010, 2009 and 2008, respectively. The decrease in average interest rate over 2010 was due to the overall significant market-wide tightening of margins. The increase in average interest rate over 2009 was driven by higher costs of funding of the Group's customer base combined with increase competition among banks to attract customers which led to overall growth in the interest rates offered to customers.

Interest expense on own securities issued

Interest expense on own securities issued decreased by 23.0% to RUB3,284 million for the year ended 31 December 2010 as compared with RUB4,264 million for the year ended 31 December 2009. The Group attributes the decrease from 2009 to 2010 primarily to decrease in average volumes of own securities issued, as well as decrease in interest rates. Interest expense on own securities issued increased by 32.3% to RUB4,264 million for the year ended 31 December 2009 as compared with RUB3,222 million for the year ended 31 December 2008. The Group primarily attributes the increase from 2008 to 2009 to the growth in interest rates for new issues of securities as a consequence of the high risk environment combined with a lack of solvent borrowers pushing up both risk premiums and interest rates.

The average rate on interest expense on own securities issued was 8.6%, 10.5% and 7.8% for the years ended 31 December 2010, 2009 and 2008, respectively. The decline from 2009 to 2010 was driven by the overall significant market-wide tightening of margins. The increase from 2008 to 2009 was driven by new issuances of securities with higher rates of interest offered because of the increased cost of funding as a result of the Financial Crisis.

Interest expense on deposits and balances from banks and other financial institutions

Interest expense on deposits and balances from banks and other financial institutions decreased by 54.3% to RUB2,489 million for the year ended 31 December 2010 as compared with RUB5,443 million for the year ended 31 December 2009. The Group attributes the decrease from 2009 to 2010 primarily to a decrease in interest rates. Interest expense on deposits and balances from banks and other financial institutions slightly increased by 4.1% to RUB5,443 million for the year ended 31 December 2009 as compared with RUB5,227 million for the year ended 31 December 2008. The Group primarily attributes the increase from 2008 to 2009 to increasing interest rates as a result of the high risk environment combined with a lack of solvent borrowers pushing up both risk premiums and interest rates.

The Group also attributes the increase during this period to the growth in the volume of deposits from banks and other financial institutions since these were the most stable sources of funding during 2008 and 2009.

The average interest rate on deposits and balances from banks and other financial institutions was 4.3%, 7.0% and 6.9% for the years ended 31 December 2010, 2009 and 2008, respectively. The decrease in average interest rate over the year ended 31 December 2010 compared to the year ended 31 December 2009 was primarily due to the overall significant market-wide tightening of margins. The increase in average interest rate over the year ended 31 December 2009 compared to the year ended 31 December 2008 was mainly due to increases in short-term inter-bank borrowing rates.

Interest expense on other borrowed funds

Interest expense on other borrowed funds decreased by 19.9% to RUB708 million for the year ended 31 December 2010 as compared with RUB884 million for the year ended 31 December 2009. The Group attributes these changes from 2009 to 2010 primarily to partial repayments of certain syndicated borrowings in 2010 resulting in lower average balances in 2010 compared to 2009. Interest expense on other borrowed funds decreased by 30.6% to RUB884 million for the year ended 31 December 2009 from RUB1,274 million for the year ended 31 December 2008. The Group attributes this decrease from 2008 to 2009 primarily to a fall in borrowing rates and repayments of part of syndicated borrowings in 2009.

The average interest rate on other borrowed funds was 5.5%, 4.9% and 5.4% for the years ended 31 December 2010, 2009 and 2008, respectively. The increase over the year ended 31 December 2010 as compared to the year ended 31 December 2009 was driven by the increase in the average maturity of other borrowed funds. The decrease to the year ended 31 December 2009 from the year ended 31 December 2008 was primarily due to a decline in LIBOR, which is the reference interest rate for most of these other borrowed funds.

Total interest expense

Primarily for the reasons set forth above, total interest expense decreased by 11.3% to RUB25,712 million for the year ended 31 December 2010 as compared to RUB28,998 million for the year ended 31 December 2009, itself an increase of 39.3% from RUB20,812 million for the year ended 31 December 2008. The average interest rate on interest bearing liabilities was 6.2%, 7.3% and 6.2% for the years ended 31 December 2010, 2009 and 2008, respectively. The decrease in average interest rate over the year ended 31 December 2010 compared to the year ended 31 December 2009 was primarily due to the overall significant market-wide tightening of margins. The increase to the year ended 31 December 2009 from the year ended 31 December 2008 was primarily due to an increase in average interest rates on deposits and balances from banks and other financial institutions, current accounts and deposits from customers and own securities issued, reflecting the increased cost of funding in these years primarily as a result of the Financial Crisis.

Net Fee and Commission Income

The following table sets forth the principal components of the Group's total fee and commission income and expense for the periods indicated.

	For the year ended 31 December		
	2010	2009	2008
	(RUB thousands)		
Fee and commission income			
Commission on documentary operations.....	2,306,537	2,037,213	1,331,953
Money transfer fees.....	1,576,281	1,235,835	1,080,417
Commission for servicing plastic cards.....	1,344,236	1,182,891	945,511
Commission for operations with cash.....	819,649	756,987	651,601
Commission on foreign currency operations.....	775,188	1,019,587	674,521
Commission on undrawn loan commitments.....	212,635	104,115	215,758
Investment banking fees.....	121,584	100,848	211,975
Commission on banknote operations.....	103,311	220,729	337,312
Securities trading fees.....	99,883	137,212	63,512
Cash collection fees.....	90,213	97,541	82,875
Agent fees.....	11,583	48,415	113,385
Other.....	98,880	70,705	71,326
Total fee and commission income.....	7,559,980	7,012,078	5,780,146
Fee and commission expense			
Commission for servicing plastic cards.....	446,932	309,125	248,488
Commission on foreign currency operations.....	267,120	154,812	30,096

Commission on documentary operations.....	247,780	386,762	259,449
Money transfer fees.....	240,865	236,457	233,445
Agent fees.....	147,221	124,694	75,086
Cash collection fees.....	95,891	71,547	102,898
Commission on banknote operations.....	48,939	94,371	72,642
Securities trading fees.....	25,427	26,725	32,187
Other.....	2,525	2,353	1,518
Total fee and commission expense.....	1,522,700	1,406,846	1,055,809
Net fee and commission income.....	6,037,280	5,605,232	4,724,337

Primarily for the reasons set forth below, net fee and commission income increased by 7.7% to RUB6,037 million for the year ended 31 December 2010 as compared with RUB5,605 million for the year ended 31 December 2009 itself an increase of 18.6% from RUB4,724 million for the year ended 31 December 2008.

Fee and Commission Income

Commission on documentary operations

Commission on documentary operations increased by 13.3% to RUB2,307 million for the year ended 31 December 2010 as compared with RUB2,037 million for the year ended 31 December 2009. The Group attributes this increase primarily to growth in the volume of these operations due to recovery of the market in 2010. Commission on documentary operations, which are generated in the course of the Group's trade finance activities, increased by 52.9% to RUB2,037 million for the year ended 31 December 2009 as compared with RUB1,332 million for the year ended 31 December 2008. The Group attributes this increase primarily to the growth in the number of clients, in the volume of documentary operations, as well as in the rates on documentary transactions. The Group is focusing on the growth of commission income through promotion of its lower-risk, high commission products such as retail credit cards and corporate guarantees.

Money transfer fees

Money transfer fees increased by 27.5% to RUB1,576 million for the year ended 31 December 2010 as compared with RUB1,236 million for the year ended 31 December 2009. The Group attributes these increases primarily to the growth in the volume of money transfers processed as a result of the expansion of its business. Money transfer fees increased by 14.4% to RUB1,236 million for the year ended 31 December 2009 as compared with RUB1,080 million for the year ended 31 December 2008. The Group attributes this increase primarily to the growth in the number of clients and in the number of transactions.

Commission for servicing plastic cards

Commission for servicing plastic cards increased by 13.6% to RUB1,344 million for the year ended 31 December 2010 as compared with RUB1,183 million for the year ended 31 December 2009. The increase from 2009 to 2010 was due to an increase in the number of cards issued, as well as to the growth in the number of customer transactions with such cards due to revival of the retail market in 2010. Commission for servicing plastic cards increased by 25.1% to RUB1,183 million for the year ended 31 December 2009 as compared with RUB946 million for the year ended 31 December 2008. The Group attributes this increase primarily to an increase in the number of cards issued following the launch of a new plastic cards programme in 2009 (see "Business — Principal Business Activities — Retail Lending — Cards").

Commission for operations with cash

Commission for operation with cash increased by 8.3% to RUB820 million for the year ended 31 December 2010 as compared with RUB757 million for the year ended 31 December 2009. The Group attributes these increases primarily to the growth in the volume of these operations as a result of the growth in the number of customers, which was a consequence of recovery of the market in 2010. Commission for operations with cash increased by 16.1% to RUB757 million for the year ended 31 December 2009 as compared with RUB652 million for the year ended 31 December 2008. The Group attributes this increase primarily to the growth in the number of PSB's clients.

Commission on foreign currency operations

Commission on foreign currency operations decreased by 24.0% to RUB775 million for the year ended 31 December 2010 as compared with RUB1,020 million for the year ended 31 December 2009. The Group attributes this

decrease primarily to a decrease in the number of foreign exchange transactions executed by retail customers. Commission on foreign currency operations increased by 51.1% to RUB1,020 million for the year ended 31 December 2009 as compared with RUB675 million for the year ended 31 December 2008. The Group attributes this increase primarily to the growth in foreign exchange transactions of retail customers.

Commission on undrawn loan commitments

Commission on undrawn loan commitments increased by 104.8% to RUB213 million for the year ended 31 December 2010, as compared with RUB104 million for the year ended 31 December 2009. The Group primarily attributes the increase from 2009 to 2010 to the growth in corporate and SME lending during 2010. Commission on undrawn loan commitments decreased by 51.9% to RUB104 million for the year ended 31 December 2009 from RUB216 million for the year ended 31 December 2008. The Group attributes this decrease primarily to changes in the procedure of collecting such commissions. Since the end of 2008, these commissions are no longer periodic and are included in the effective interest rate of such loans therefore generating interest income.

Investment banking fees

Commission on investment banking fees increased by 20.8% to RUB122 million for the year ended 31 December 2010, as compared with RUB101 million for the year ended 31 December 2009. The Group attributes this increase primarily to securities issuances by Russian companies (for which the Group acted as underwriter) as the markets began to recover from the Financial Crisis. Commission on investment banking fees decreased by 52.4% to RUB101 million for the year ended 31 December 2009 from RUB212 million for the year ended 31 December 2008. The Group attributes this decrease primarily to an absence of new issuances of securities by Russian companies following the Financial Crisis, except in fourth quarter 2009, where such offerings started to re-emerge.

Commission on banknote operations

Commission on banknote operations decreased by 53.4% to RUB103 million for the year ended 31 December 2010 as compared with RUB221 million for the year ended 31 December 2009. The Group attributes this decrease primarily to a decrease in the rates for such operations as well as an overall decrease in the volume of such operations. Commission on banknote operations decreased by 34.4% to RUB221 million for the year ended 31 December 2009 from RUB337 million for the year ended 31 December 2008. The Group attributes this decrease primarily to a decline in the rates for such transactions driven by a greatly increased number of competitors.

Securities trading fees

Securities trading fees decreased by 27.0% to RUB100 million for the year ended 31 December 2010 as compared with RUB137 million for the year ended 31 December 2009. The Group attributes this decrease primarily to a decrease in the volume of such operations and lower fees charged for these services, as compared to 2009. Securities trading fees increased by 114.1% to RUB137 million for the year ended 31 December 2009 as compared with RUB64 million for the year ended 31 December 2008. The Group attributes this increase primarily to the growth in the number of PSB's clients actively using these services.

Total fee and commission income

Primarily for the reasons set forth above, total fee and commission income increased by 7.8% to RUB7,560 million for the year ended 31 December 2010 as compared with RUB7,012 million for the year ended 31 December 2009, itself an increase of 21.3% from RUB5,780 million for the year ended 31 December 2008.

Fee and Commission Expense

Commission on documentary operations

Expenses related to documentary operations decreased by 35.9% to RUB248 million for the year ended 31 December 2010 as compared with RUB387 million for the year ended 31 December 2009. The Group attributes this decrease primarily to a decrease in the number of letters of credit issued by the Group in 2009 despite a slight increase in such operations in 2010. Expenses related to documentary operations increased by 49.4% to RUB387 million for the year ended 31 December 2009 as compared with RUB259 million for the year ended 31 December 2008. The Group attributes this increase primarily to associated administrative costs related to the growth in the number of international guarantees and letters of credit issued by the Group.

Other fee and commission expenses

Various other fee and commission expenses, including commission for servicing plastic cards, commission on banknote operations, cash collection, agency fees, money transfer and securities trading fees, and other fees and commissions increased by 25.0% to RUB1,275 million for the year ended 31 December 2010 as compared with RUB1,020 million for the year ended 31 December 2009, itself an increase of 28.1% from RUB796 million for the year ended 31 December 2008. The Group attributes these increases primarily to the growth in the volume of the relevant operations.

Total fee and commission expense

Primarily for the reasons set forth above, total fee and commission expense increased by 8.2% to RUB1,523 million for the year ended 31 December 2010, as compared with RUB1,407 million for the year ended 31 December 2009, itself an increase of 33.2% from RUB1,056 million for the year ended 31 December 2008.

Other Operating Income

The following table sets forth the principal components of the Group's other operating income for the periods indicated.

	Year ended 31 December		
	2010	2009	2008
	(RUB thousands)		
Net (loss)/gain on financial assets at fair value through profit or loss and (loss)/gain on early redemption of senior loan participation notes.....	(350,153)	1,114,182	(1,842,840)
Net foreign exchange gain	614,460	375,892	2,142,569
Net loss on sale of minority interest in subsidiaries ⁽¹⁾	—	—	(21,942)
Net gain on purchase of interest in subsidiaries ⁽¹⁾	—	149,023	456,625
Income on early redemption of other financial liabilities ⁽¹⁾	—	127,358	177,098
Other income and expense ⁽¹⁾	1,309,893	1,096,694	643,805
Total other operating income	1,574,200	2,863,149	1,555,315

(1) In connection with the preparation of the Group's 2010 Annual Financial Statements, the Group changed the presentation of certain line items compared to previous years, thus the presentation of these line items for the years ended 31 December 2009 and 2008 is different as compared with the presentation for the year ended 31 December 2010. See "— Impact of Changes in Presentation".

Net (Loss)/Gain on Financial Assets at Fair Value through Profit or Loss and (Loss)/Gain on Early Redemption of Senior Loan Participation Notes

	Year ended 31 December		
	2010	2009	2008
	(RUB thousands)		
Net (loss)/gain on early redemption of senior loan participation notes	(183,862)	755,417	—
Net (loss)/gain on debt securities – trading	(282,900)	368,436	(1,481,344)
Net (loss)/gain on equity securities – trading	(21)	19,787	(39,413)
Net gain on equity instruments – designated upon initial recognition as at fair value through profit or loss	119,091	113,140	(141,301)
Net loss on interest rate swaps	(2,461)	(142,598)	(180,782)
Net (loss)/gain on financial instruments at fair value through profit or loss and (loss)/gain on early redemption of senior loan participation notes	(350,153)	1,114,182	(1,842,840)

Net loss on financial assets at fair value through profit or loss was RUB350 million for the year ended 31 December 2010 compared with a net gain of RUB1,114 million for the year ended 31 December 2009. There was a net loss on financial assets at fair value through profit or loss of RUB1,843 million for the year ended 31 December 2008. The Group attributes the loss in 2010 primarily to losses incurred in the second quarter of 2010 due to volatility in the global financial markets. The Group attributes the gain in 2009 primarily to the revival of debt capital markets and a significant gain on the early repurchase of certain senior loan participation notes of the Group, a portion of which was subsequently sold in the market.

Net Foreign Exchange Gain

Net foreign exchange gain increased by 63.3% to RUB614 million for the year ended 31 December 2010 as compared with RUB376 million for the year ended 31 December 2009. The Group attributes this increase primarily to positive revaluation of the open currency position of the Group in the fourth quarter of 2010 as a result of a decline in the RUB to U.S.\$ and Euro exchange rates. Net foreign exchange gain decreased by 82.5% to RUB376 million for the year ended 31 December 2009 from RUB2,143 million for the year ended 31 December 2008. The Group attributes this decrease primarily to negative movements in foreign currency exchange rates occurring primarily in November and December 2009.

Total Operating Income

Primarily for the reasons set forth above, total operating income decreased by 17.2% to RUB28,221 million for the year ended 31 December 2010 as compared with RUB34,070 million for the year ended 31 December 2009, itself an increase of 20.6% from RUB28,249 million for the year ended 31 December 2008.

Loan and Other Impairment Charges

Loan and other impairment charges decreased by 50.2% to RUB10,418 million for the year ended 31 December 2010 as compared with RUB20,935 million for the year ended 31 December 2009. The Group attributes these decreases primarily to the significant improvement in the quality of the loan portfolio, decrease in the of NPLs over 2010 compared to 2009 and the policy to accrue interest income only on the recoverable amount of loans which resulted in discontinuance of interest accrual on loans overdue by more than one year, together with a related decrease in impairment charges, for the year ended 31 December 2010. Impairment charges increased by 57.8% to RUB20,935 million for the year ended 31 December 2009 as compared with RUB13,266 million for the year ended 31 December 2008. The Group attributes these increases to an increased number of impaired loans both in its corporate and retail portfolios which led to higher provisioning rates in respect of such impaired loans. See also “— Significant Factors Affecting Results of Operations — *Loan Impairment and Provisioning*”.

Loan Impairment

The loan impairment represents allowances made for loans to customers. The following table sets forth the loan impairment and relevant ratios as at the period ends indicated.

	31 December		
	2010	2009	2008
	(RUB thousands)		
Loan impairment allowance on commercial loans	27,140,181	27,794,943	12,301,438
Loan impairment allowance on loans to individuals	10,532,352	11,050,860	6,208,702
Total loan impairment allowance	37,672,533	38,845,803	18,510,140
Gross overdue loans/gross loans to customers	12.0%	15.6%	7.0%
Impairment allowance for loans to customers/Gross overdue loans	89.9%	81.8%	83.4%
Impairment allowance for loans to customers/Gross loans to customers	10.8%	12.7%	5.80%
Impairment allowance for loans to customers/Average gross customer loans of opening and closing balances for the relevant period	11.5%	12.4%	6.95%

The following table sets forth the segment wise loan impairment allowance and the ratio of loan impairment allowance to the segment loan portfolio as at the dates indicated.

	As at 31 December					
	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
	(RUB thousands, except percentages)					
Loan impairment allowance on loans to corporate clients	22,865,151	7.9	23,715,869	9.8	10,918,224	4.4
Loan impairment allowance on loans to small and medium enterprises	4,275,030	16.0	4,079,074	18.1	1,383,214	7.3
Loan impairment allowance on loans to individuals	10,532,352	32.4	11,050,860	27.1	6,208,702	12.5
Total loan impairment allowance	37,672,533	10.8	38,845,803	12.7	18,510,140	5.8

The following table sets forth the movements in the Group's loan impairment allowances relating to customer loans as at the dates indicated.

	Amount (RUB thousands)	% of gross customer loans
Loan impairment allowance as at 31 December 2008	18,510,140	5.80%
Net charge for 2009.....	20,841,815	—
Acquisition of subsidiaries.....	117,745	—
Write-offs (including sale) for 2009.....	(623,897)	—
Loan impairment allowance as at 31 December 2009	38,845,803	12.73%
Net charge for 2010.....	10,335,714	—
Reclassification from promissory notes.....	277,865	—
Sale of loans.....	(8,710,053)	—
Write-offs for 2010.....	(3,076,796)	—
Loan impairment allowance as at 31 December 2010	37,672,533	10.81%

The Group's impairment allowance for loans to customers decreased by 3.0% to RUB37,673 million as at 31 December 2010 as compared with RUB38,846 million as at 31 December 2009. The effective provision rate for loans to customers (calculated as the ratio of impairment allowance for loans to customers to gross loans to customers) decreased to 10.8% as at 31 December 2010 compared with 12.7% as at 31 December 2009. The decrease in the absolute amount of the impairment allowance was a result of significant improvement in the quality of the loan portfolio, decrease in NPLs and increase in write-offs over 2010. The Group's impairment allowance for loans to customers increased by 109.9% to RUB38,846 million as at 31 December 2009 as compared with RUB18,510 million as at 31 December 2008. The effective provision rate for loans to customers increased to 12.7% as at 31 December 2009 compared with 5.8% as at 31 December 2008. The increase in the absolute amount of the provision was a result of the worsening quality of the Group's loans due to the deterioration of the Russian economy and the financial condition of borrowers. The Group maintains NPL coverage over 100% as conservative provisioning in crisis times may result in potential recoveries when the economy improves.

The following table sets forth the segment wise distribution of NPLs and the ratio of NPLs to the gross loans for the particular segment as at the dates indicated.

	As at 31 December					
	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
	(RUB thousands, except percentages)					
Non-performing loans to corporate clients.....	20,303,056	7.0	23,249,326	9.6	3,238,613	1.3
Non-performing loans to small and medium enterprises ..	3,704,520	13.9	3028,160	13.4	357,131	1.9
Non-performing loans to individuals.....	8,076,613	24.8	11,278,485	27.7	5,283,805	10.6
Total non-performing loans.....	32,084,189	9.2	37,555,971	12.3	8,879,549	2.8

As at 31 December 2010, the level of NPLs decreased to RUB32,084 million or 9.2% of the total gross loan portfolio, as compared to RUB37,556 million or 12.3% of the total gross loan portfolio as at 31 December 2009 and RUB8,880 million or 2.8% of the total gross loan portfolio as at 31 December 2008 due to partial recovery of the Russian economy during 2010, which resulted in an the quality of the loan portfolio improved significantly in 2010.

The impairment allowance for commercial loans represented 8.6% of the total commercial loan portfolio as at 31 December 2010, compared to 10.5% as at 31 December 2009 and 4.57% as at 31 December 2008.

The Group has estimated loan impairment allowance for the commercial portfolio for which no impairment has been identified based on past loss experience factoring in the current economic conditions. It should be noted that the credit quality of commercial loans for which no impairment has been identified is not homogenous due to the variety of distinct industry risks and financial conditions associated with each commercial loan's respective borrower. The credit quality of the Group's largest borrowers is regularly assessed for impairment using standard credit risk policies and procedures. The largest borrowers or groups of related borrowers that do not exhibit signs of impairment are examined using industry risk considerations. The provision rate of impairment for borrowers within an industry is based on the historic loss experience within each segment of commercial loan portfolio. Borrowers operating within industry sectors

deemed at any given time to be particularly risky, are subjected to an individual analysis of the Credit Department in addition to standard credit risk procedures.

The Group estimates loan impairment allowance for corporate loans (loans to corporate clients and factoring loans) for which impairment is identified based on the cash flows from sale of different types of collateral or projected cash flows from operating activities of the borrower discounted at the loan original effective interest rate. Principal types of collateral accepted for corporate loans are pledges over real estate, securities, property rights, motor vehicles, equipment, debt claims and inventories or guarantees and sureties.

The Group estimates loan impairment allowance for SME loans based on its historic loss migration pattern for the past 12 months. The Group does not adjust provisioning rates for SME loans for the fair value of collateral.

The impairment allowance for loans to individuals represents 32.4% of the total individual loan portfolio as at 31 December 2010, compared to 27.15% as at 31 December 2009 and 12.5% as at 31 December 2008.

The Group estimates loan impairment allowance for retail loans based on its historic loss migration pattern for the past 18 months and adjusts such statistics to reflect the current market environment. The Group's migration matrix is based on Group's retail portfolio historic loss statistics such as ageing analysis for the relevant period, and is used to determine the possible recategorisation of a borrower's overdue status. The impairment allowance for auto loans is adjusted for the fair value of collateral discounted at the average market discount rates for cars with similar term of use after purchase. The impairment allowance for mortgage loans is adjusted for the fair value of collateral less transaction costs.

The Group believes it is impracticable to estimate the fair value of collateral held in respect of impaired loans to individuals.

Write-offs and sales of loans increased to RUB11,787 million in 2010 from RUB624 million in 2009 and RUB529 million in 2008. The main increase in 2010 and 2009 was due to the effective management of NPLs and overdue loans which resulted in the sale of bad loans of certain commercial customers and of certain individuals to external collectors' agencies. The significant increase in 2010 was due to the Group's adoption of a debt management policy, whereby long-term bad loans were outsourced to external collectors. As at 31 December 2010, gain from sale of loans to customers was RUB1,216 million.

General and Administrative Expenses

The following table sets forth the principal components of the Group's general and administrative expenses for the periods indicated.

	Year ended 31 December					
	2010		2009		2008	
	Amount	% of total	Amount	% of total	Amount	% of total
(RUB thousands except for percentages)						
General and administrative expenses						
Employee compensation	8,771,795	59.0	7,577,385	57.0	6,512,920	52.6
Depreciation	1,119,621	7.5	1,019,371	7.7	753,393	6.1
Occupancy	702,831	4.7	796,951	6.0	769,425	6.2
Taxes other than income tax	700,414	4.7	689,394	5.2	732,615	5.9
Office repairs, maintenance and supply ⁽¹⁾	656,758	4.4	461,270	3.5	534,606	4.3
Communications and information services	626,555	4.2	570,848	4.3	563,744	4.6
Insurance	491,454	3.3	503,975	3.8	401,586	3.2
Security	389,984	2.6	335,231	2.5	262,768	2.1
Advertising and marketing	375,115	2.5	392,408	2.9	710,459	5.7
Transportation	193,355	1.3	179,147	1.3	206,119	1.7
Charity and sponsorship	132,429	0.9	134,657	1.0	229,513	1.9
Professional services	52,020	0.4	64,154	0.5	114,952	0.9
Buildings repairs and maintenance ⁽¹⁾	—	—	132,029	1.0	215,468	1.7
Contributions under obligatory deposit insurance ⁽¹⁾	—	—	239,651	1.8	202,484	1.6
Other	642,531	4.3	205,859	1.5	174,803	1.4
Total general and administrative expenses	14,854,862	100.0	13,302,330	100.0	12,384,855	100.0

(1) In connection with the preparation of the Group's 2010 Annual Financial Statements, the Group changed the presentation of certain line items compared to previous years, thus the presentation of these line items for the years ended 31 December 2009 and 2008 is different as compared with the presentation for the year ended 31 December 2010. See "— Impact of Changes in Presentation".

Employee Compensation

Employee compensation expense increased by 15.8% to RUB8,772 million for the year ended 31 December 2010 as compared with RUB7,577 million for the year ended 31 December 2009. The Group attributes this increase primarily to the growth in the number of its employees and an increase in average employee compensation as well as bonus accrued for the year ended 31 December 2010. Employee compensation expense increased by 16.3% to RUB7,577 million for the year ended 31 December 2009 as compared with RUB6,513 million for the year ended 31 December 2008. The Group attributes this increase primarily to the growth in the number of its employees. The average number of the Group's employees was 9,460, 9,190 and 8,559 for the years ended 31 December 2010, 2009 and 2008, respectively.

Depreciation

Depreciation expense increased by 9.9% to RUB1,120 million for the year ended 31 December 2010 as compared with RUB1,019 million for the year ended 31 December 2009. The Group attributes these increases primarily to the growth of fixed assets. Depreciation expense increased by 35.3% to RUB1,019 million for the year ended 31 December 2009 as compared with RUB753 million for the year ended 31 December 2008. The Group attributes this increase primarily to the growth of fixed assets.

Occupancy

Occupancy expense decreased by 11.8% to RUB703 million for the year ended 31 December 2010 as compared with RUB797 million for the year ended 31 December 2009. The Group attributes this decrease primarily to decrease in rent payable. Occupancy expense increased by 3.6% to RUB797 million for the year ended 31 December 2009 as compared with RUB769 million for the year ended 31 December 2008. The Group attributes this increase primarily to increases in rent on existing properties.

Taxes Other than Income Tax

Taxes other than income tax increased by 1.6% to RUB700 million for the year ended 31 December 2010 as compared with RUB689 million for the year ended 31 December 2009. The Group attributes this increase primarily to the increase in the amount of value added tax payable by the Group. Taxes other than income tax decreased by 6.0% to RUB689 million for the year ended 31 December 2009 as compared with RUB733 million for the year ended 31 December 2008. The Group attributes these changes primarily to the decrease in value added tax payable as a result of a decrease in certain administrative expenses driven by a strict monitoring of the Group's budget compliance.

Office repairs, maintenance and supply

Office repairs, maintenance and supply costs increased by 10.7% to RUB657 million for the year ended 31 December 2010 as compared with RUB593 million (which comprised RUB461 million for office repairs, maintenance and supply and RUB132 million for building repairs and maintenance) for the year ended 31 December 2009. The increase was primarily due to additional administrative expenses related to the development of the Group's business, such as new full-service sub-branches. Office repairs, maintenance and supply costs decreased by 20.9% to RUB593 million (which comprised costs for office repairs, maintenance and supply and for building repairs and maintenance, as described above) for the year ended 31 December 2009 as compared with RUB750 million (which comprised RUB535 million for office repairs, maintenance and supply and RUB215 million for building repairs and maintenance) for the year ended 31 December 2008. The Group attributes this decrease primarily to the decision of the Group to cut such expenses and strict monitoring of the Group's budget compliance.

Communications and Information Services

Expenses related to communications and information services increased by 9.8% to RUB627 million for the year ended 31 December 2010 as compared with RUB571 million for the year ended 31 December 2009, itself an increase of 1.2% as compared with RUB564 million for the year ended 31 December 2008. The Group attributes these increases primarily to further investment in the development of its IT systems.

Insurance

Insurance expense decreased by 2.6% to RUB491 million for the year ended 31 December 2010 as compared with RUB504 million for the year ended 31 December 2009. The Group attributes this decrease primarily to continued strict monitoring of general and administrative expenses and utilisation of tenders in order to minimise costs. Insurance expense increased by 25.4% to RUB504 million for the year ended 31 December 2009 as compared with RUB402 million for the year ended 31 December 2008. The Group attributes this increase primarily to increase in insurance premiums payable by the Group.

Security

Security expense increased by 16.4% to RUB390 million for the year ended 31 December 2010 as compared with RUB335 million for the year ended 31 December 2009, itself an increase of 27.4% as compared with RUB263 million for the year ended 31 December 2008. The Group attributes these increases primarily to the introduction of new security equipment and the growth in the number of security personnel.

Advertising and Marketing

Advertising and marketing expense decreased by 4.3% to RUB375 million for the year ended 31 December 2010 as compared with RUB392 million for the year ended 31 December 2009. The Group attributes this decrease primarily to continued strict monitoring of general and administrative expenses and utilisation of tenders in order to minimise costs. Advertising and marketing expense decreased by 44.8% to RUB392 million for the year ended 31 December 2009 as compared with RUB710 million for the year ended 31 December 2008. The Group attributes this decrease primarily to the decision of the Group to cut such expenses and strict monitoring of the Group's budget compliance.

Total General and Administrative Expenses

Primarily for the reasons set forth above, total general and administrative expenses increased by 11.7% to RUB14,855 million for the year ended 31 December 2010 as compared with RUB13,302 million for the year ended 31 December 2009, itself an increase of 7.4% from RUB12,385 million for the year ended 31 December 2008.

Income Tax Expense

Income tax expense increased to RUB402 million for the year ended 31 December 2010 as compared with RUB248 thousand for the year ended 31 December 2009. The Group attributes the 2010 increase primarily to the increase in profit before tax. Income tax expense decreased to RUB248 thousand for the year ended 31 December 2009 as compared with RUB581 million for the year ended 31 December 2008. The Group attributes the 2009 decrease primarily to the decrease in profit before tax due.

Analysis of Consolidated Financial Condition as at 31 December 2010, 2009 and 2008

Assets

The Group's assets consist primarily of cash and cash equivalents, obligatory reserves with central banks, placements with banks and other financial institutions, financial assets at fair value through profit or loss, loans to customers, investments held to maturity, amounts receivable under reverse repurchase agreements and property and equipment. Primarily for the reasons set forth below, as at 31 December 2010, the Group's total assets increased by 0.8% to RUB475,127 million as compared with RUB471,211 million as at 31 December 2009, itself an increase of 2.0% from RUB461,801 million as at 31 December 2008. The following table sets forth the principal components of the Group's total assets as at the dates indicated.

	As at 31 December					
	2010		2009		2008	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Assets						
Cash and cash equivalents.....	45,182,249	9.5	108,322,648	23.0	105,723,210	22.9
Obligatory reserves with central banks.....	3,015,876	0.6	3,149,729	0.7	992,510	0.2
Placements with banks and other financial institutions.....	12,122,032	2.6	5,075,800	1.1	2,426,852	0.5
Financial assets at fair value through profit or loss.....	46,004,572	9.7	41,751,838	8.9	14,408,817	3.1
Amounts receivable under reverse repurchase agreements	15,949,846	3.4	10,080,301	2.1	4,574,084	1.0
Loans to customers.....	310,947,643	65.4	266,421,579	56.5	300,413,049	65.2
Investments available for sale.....	2,203,213	0.5	35,083	0.0	158,714	0.0
Investments held to maturity.....	3,966,911	0.8	7,204,938	1.5	8,880,051	1.9
Asset held for sale	5,944,765	1.3	2,600,001	0.6	—	—
Other assets	2,513,778	0.5	2,100,315	0.4	1,517,540	0.3
Current income tax prepayments	612,254	0.1	660,877	0.2	1,292,982	0.3
Deferred tax asset	1,065,008	0.2	600,326	0.1	—	—
Property and equipment	25,598,772	5.4	23,207,942	4.9	21,413,219	4.6
Total assets	475,126,919	100.0	471,211,377	100.0	461,801,028	100.0

Cash and Cash Equivalents

Cash and cash equivalents decreased by 58.3% to RUB45,182 million as at 31 December 2010 as compared with RUB108,323 million as at 31 December 2009. The decline was primarily due to spending related to the growth in the Group's operations. Cash and cash equivalents increased by 2.5% to RUB108,323 million as at 31 December 2009 as compared with RUB105,723 million as at 31 December 2008. The Group attributes this increase primarily to increased level of liquidity in the Russian economy which resulted in the growth of PSB's deposit base in the fourth quarter of 2009, supplemented by limited lending opportunities and increased competition amongst banks for loan customers. The Group increased its liquidity position at the end of 2008 in order to minimise the risk of liquidity issues arising in light of the Financial Crisis. See "Risk Factors — Risks Relating to PSB and the Group's Business and Industry — *PSB has been experiencing excess liquidity since the fourth quarter of 2009, however the Financial Crisis had, and may again in future have, adverse consequences on PSB's liquidity position*".

Obligatory Reserves with Central Banks

Obligatory reserves with central banks decreased by 4.3% to RUB3,016 million as at 31 December 2010 as compared with RUB3,150 million as at 31 December 2009. The Group attributes this decrease primarily to the decrease in the amount of own securities issued. Obligatory reserves with central banks increased by 217.2% to RUB3,150 million as at 31 December 2009 as compared with RUB993 million as at 31 December 2008. The Group attributes this increase primarily to an increase in the obligatory reserve rates.

Placements with Banks and Other Financial Institutions

Placements with banks and other financial institutions increased by 138.8% to RUB12,122 million as at 31 December 2010 as compared with RUB5,076 million as at 31 December 2009. The Group attributes this increase primarily to utilisation of funds received from depositors and redemption of own securities issued. Placements with banks and other financial institutions increased by 109.1% to RUB5,076 million as at 31 December 2009 as compared with RUB2,427 million as at 31 December 2008. The Group attributes this increase primarily to increased levels of liquidity in the Russian economy as a result of the growth of PSB's deposit base in the fourth quarter of 2009, supplemented by limited lending opportunities.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss, which include Russian federal and local government-issued securities, corporate debt and equity securities of Russian companies, commercial paper and Eurobonds among others, increased by 10.2% to RUB46,005 million as at 31 December 2010 as compared with RUB41,752 million as at 31 December 2009. The Group attributes this slight increase to the overall growth of PSB's business and changes in liquidity requirements. Financial assets at fair value through profit or loss increased by 189.8% to RUB41,752 million as at 31 December 2009 as compared with RUB14,409 million as at 31 December 2008. The Group attributes this increase primarily to increased levels of liquidity in the Russian economy as a result of the growth of PSB's deposit base in the fourth quarter of 2009, supplemented by limited lending opportunities, and the revival of debt capital markets.

Loans to Customers

Loans to customers represents the largest component of the Group's assets, accounting for 65.4%, 56.5% and 65.1% of total assets as at 31 December 2010, 2009 and 2008, respectively. Loans to customers net of loan impairment allowance increased by 16.7% to RUB310,948 million as at 31 December 2010 as compared with RUB266,422 million as at 31 December 2009. The Group attributes this increase to a growth in the loan portfolio due to addition of new borrowers across all business segments. Loans to customers net of loan impairment allowance decreased by 11.3% to RUB266,422 million as at 31 December 2009 as compared with RUB300,413 million as at 31 December 2008. The Group attributes this decrease primarily to the discontinuation of its retail lending programmes during the year ended 31 December 2009 and the growth of impairment allowance as a result of the worsening quality of the Group's loans caused by the deterioration of the Russian economy and the financial condition of borrowers.

Net Loans to Customers

The following table sets forth loans to customers net of loan impairment allowance as at 31 December 2010, 2009 and 2008, respectively.

	As at 31 December		
	2010	2009	2008
	(RUB thousands)		
Gross loans to customers	348,620,176	305,267,382	318,923,189
Impairment allowance	(37,672,533)	(38,845,803)	(18,510,140)
Net loans to customers	310,947,643	266,421,579	300,413,049

Individual vs Commercial Loans and Distribution of Loans to Customers by Industry

The following table sets forth the industry concentration of loans to customers as at 31 December 2010, 2009 and 2008 (gross of impairment allowance).

Industry	As at 31 December	
	2010	
	(RUB thousands)	(%)
Loans to individuals	32,535,333	9.33
Commercial loans		
Food production and food trade	41,839,408	12.00
Durables trade	29,828,249	8.56
Real estate management	25,268,664	7.25
Other non-food trade	24,625,054	7.06
Metallurgy	17,547,390	5.03
Wood processing	17,003,255	4.88
Finance, leasing and insurance	14,856,701	4.26
Residential real estate construction	14,393,654	4.13
Construction materials	13,636,347	3.91
Transport	11,102,278	3.18
Industrial real estate construction	10,271,321	2.95
Commercial real estate construction	9,848,081	2.82
Car trade	8,873,737	2.55
Services	8,656,766	2.48
Agriculture	7,399,895	2.12
Chemical production	7,209,486	2.07
Information technology	5,765,990	1.65
Pharmaceutical	5,155,879	1.48
Energy	4,810,261	1.38
Machinery	4,660,964	1.34
Luxury industry	3,895,770	1.12
Oil industry	3,494,014	1.00
Telecommunications	3,309,792	0.95
Defence industry	2,913,027	0.84
Media	2,534,753	0.73
State and Local Authorities	2,321,202	0.67
Other	14,862,905	4.26
	348,620,176	100.00

Industry	As at 31 December			
	2009		2008	
	(RUB thousands)	(%)	(RUB thousands)	(%)
Loans to individuals	40,703,314	13.33	49,794,774	15.61
Commercial loans				
Wholesale trade	37,050,255	12.14	42,472,388	13.32
Real estate investment and development	26,069,566	8.54	29,727,241	9.32
Food production	22,639,651	7.42	21,601,883	6.77
Finance and leasing	18,787,534	6.15	15,739,153	4.94
Retail trade	16,572,447	5.43	15,597,357	4.89
Wood processing	15,128,070	4.95	9,975,322	3.13
Agriculture	14,131,045	4.63	15,520,858	4.87
Construction	13,661,905	4.48	20,251,845	6.35
Services	11,545,671	3.78	11,983,575	3.76
Information technology	8,845,936	2.90	6,002,662	1.88
Construction materials	8,725,239	2.86	6,274,517	1.97
Transport	8,574,388	2.81	12,838,179	4.03
Automobile trading and production	8,531,897	2.79	11,095,210	3.48
Chemical production	7,267,218	2.38	7,730,051	2.42
Metallurgy	6,673,931	2.19	8,107,508	2.54
Machinery	6,531,133	2.14	6,833,484	2.14
Energy	6,388,759	2.09	7,335,291	2.30
Telecommunications	5,172,721	1.69	3,671,450	1.15
Pharmaceutical	4,328,171	1.42	3,372,384	1.06
Light industry	3,081,466	1.01	1,354,512	0.42
Media	2,779,999	0.91	2,621,801	0.82
State and local authorities	2,205,077	0.72	393,176	0.12
Mineral resources	1,467,835	0.48	1,048,884	0.33
Aircraft industry	387,012	0.13	387,765	0.12
Other	8,017,142	2.63	7,191,919	2.26
	305,267,382	100.0	318,923,189	100.0

In 2010 and 2009, the Group decreased the percentage of loans made to individuals. As at 31 December 2010, the five largest commercial sectors accounted for 39.9% of the loan portfolio, compared to 39.7% and 40.7% as at 31 December 2009 and 2008. Loans to individuals decreased to 9.3% of the loan portfolio as at 31 December 2010 compared to 13.3% and 15.6% as at 31 December 2009 and 2008.

Distribution of Loans to Customers by Segment

The following table sets forth the segment wise concentration of loans to customers as at 31 December 2010, 2009 and 2008 (gross of impairment allowance).

	As at 31 December					
	2010		2009		2008	
	Amount	%	Amount	%	Amount	%
	(RUB thousands, except percentages)					
Loans to corporate clients	289,380,054	83.0	242,030,071	79.3	250,242,107	78.5
Loans to corporate clients not involved in international business	223,967,823	64.2	183,239,909	60.0	177,713,858	55.7
Loans to corporate clients involved in international business	36,309,270	10.4	31,944,501	10.5	50,091,131	15.7
Factoring loans	29,102,961	8.4	26,845,661	8.8	22,437,118	7.1
Loans to small and medium enterprises	26,704,789	7.7	22,533,997	7.4	18,886,308	5.9
Loans to individuals	32,535,333	9.3	40,703,314	13.3	49,794,774	15.6
Gross loans to customers	348,620,176	100.0	305,267,382	100.0	318,923,189	100.0

Distribution of Loans to Customers by Currency

The majority of the Group's loan portfolio is denominated in roubles and U.S. dollars. The following table sets forth the Group's loans to customers, net of loan impairment allowance, by currency as at the dates indicated.

	As at 31 December		
	2010	2009	2008
	(RUB thousands)		
Rouble	180,809,109	135,845,198	149,052,984
U.S. dollar	107,291,732	106,729,949	125,026,071
Euro	22,198,615	23,324,690	25,285,639
Other currencies	648,187	521,742	1,048,355
Total loans to customers	310,947,643	266,421,579	300,413,049

Rouble denominated loans are the largest component of loans to customers by currency representing 58.1% of the total loan portfolio as at 31 December 2010. Rouble denominated loans increased by 33.1% to RUB180,809 million as at 31 December 2010 as compared with RUB135,845 million as at 31 December 2009. The Group attributes this increase primarily to growth of the total loan portfolio. Rouble denominated loans decreased by 8.9% to RUB135,845 million as at 31 December 2009 as compared with RUB149,053 million as at 31 December 2008. The Group attributes this decrease primarily to the decrease in the size of the total loan portfolio.

Distribution of Loans to Customers by Maturity

The Group classifies loans to customers by maturity based on the following categories: “On Demand and Up To One Month and Overdue”; “From One Month to Six Months”; “From Six Months to One Year”; “From One Year to Five Years and more than Five Years”. Based on these categories, as at 31 December 2010, 2009 and 2008, the majority of loans to customers mature in one to six months and in one to five years. As at 31 December 2010, 2009 and 2008, loans with maturities of up to one year constituted the largest part of the Group’s loan portfolio, which was customary in the Russian domestic lending market. See Note 34 to the 2010 Annual Financial Statements, Note 33 to the 2009 Annual Financial Statements and Note 32 to the 2008 Annual Financial Statements.

Distribution of Loans to Customers by Status

The following table sets forth the composition of the Group’s gross loans to customers as at the dates indicated.

	As at 31 December		
	2010	2009	2008
	(RUB thousands, except percentages)		
Current loans to customers	306,708,266	257,782,029	296,735,649
Overdue loans to customers ⁽¹⁾	41,911,910	47,485,353	22,187,540
Total loans to customers	348,620,176	305,267,382	318,923,189
Gross overdue loans to customers/Gross loans to customers	12.0%	15.6%	7.0%
Impairment allowance/Overdue loans to customers	89.9%	81.8%	83.4%

(1) Represents loans to customers where repayment is overdue by one day or more.

The majority of the Group’s loan portfolio consisted of current loans, representing 88.0%, 84.4% and 93.0% of total gross loans to customers as at 31 December 2010, 2009 and 2008, respectively. The increase in current loans reflected the growth of the Group’s loan portfolio for the periods under review other than 2009. The portion of the Group’s gross overdue loans to customers, representing 12.0%, 15.6% and 7.0% of gross loans as at 31 December 2010, 2009 and 2008, respectively, increased significantly over 2009 due to the Financial Crisis (namely, the devaluation of the Russian rouble, the instability on the markets for raw materials, outflows of capital, and the increase in unemployment) but further decreased in 2010 due to the improvement of the quality of the loan portfolio resulting from the overall recovery in the Russian economy.

Property and Equipment

Property and equipment increased by 10.3% to RUB25,599 million as at 31 December 2010 as compared with RUB23,208 million as at 31 December 2009, itself an increase of 8.4% as compared with RUB21,413 million as at 31 December 2008. The Group attributes this increase primarily to the acquisition of property and equipment in connection with the continuing expansion of its branch network and the development of new real estate for its head office.

Liabilities

The Group’s liabilities consist primarily of deposits and balances from banks and other financial institutions, current accounts and deposits from customers, own securities issued and other borrowed funds. As at 31 December 2010,

the Group's total liabilities decreased by 0.6% to RUB430,352 as compared with RUB433,006 million as at 31 December 2009, itself an increase of 2.7% from RUB421,826 million as at 31 December 2008. The following table sets forth the Group's liabilities as at the dates indicated.

	2010		2009		2008	
	Amount	% of total	Amount	% of total	Amount	% of total
(RUB thousands, except percentages)						
Liabilities						
Financial liabilities at fair value through profit or loss	1,593,384	0.4	1,252,225	0.3	614,859	0.1
Deposits and balances from banks and other financial institutions.....	59,677,877	13.9	64,780,390	15.0	111,275,357	26.4
Amounts payable under repurchase agreements	2,790,016	0.6	60,697	0.0	855,837	0.2
Current accounts and deposits from customers	297,046,845	69.0	289,548,839	66.9	229,610,958	54.4
Own securities issued.....	32,127,497	7.5	43,654,712	10.1	39,368,440	9.3
Other borrowed funds	12,802,195	3.0	13,819,410	3.2	24,010,262	5.7
Other liabilities.....	2,439,590	0.6	1,800,988	0.4	2,672,979	0.6
Current income tax payable	948	0.0	27,341	0.0	48,002	0.0
Deferred tax liability	55,645	0.0	313,033	0.1	776,151	0.2
Subordinated borrowings	21,817,689	5.0	17,748,361	4.0	12,593,599	3.1
Total liabilities	430,351,686	100.0	433,005,996	100.0	421,826,444	100.0

Deposits and Balances from Banks and Other Financial Institutions

Deposits and balances from banks and other financial institutions decreased by 7.9% to RUB59,678 million as at 31 December 2010 as compared with RUB64,780 million as at 31 December 2009. The Group attributes this decrease primarily to the continuing process of managing its excess liquidity cushion. Deposits and balances from banks and other financial institutions decreased by 41.8% to RUB64,780 million as at 31 December 2009 as compared with RUB111,275 million as at 31 December 2008. The Group attributes this decrease primarily to the repayment of term deposits from the CBR which the Group had attracted at the end of 2008 as it had concerns over liquidity.

Current Accounts and Deposits from Customers

Current accounts and deposits from customers increased by 2.6% to RUB297,047 million as at 31 December 2010 as compared with RUB289,549 million as at 31 December 2009, itself an increase of 26.1% from RUB229,611 million as at 31 December 2008. The Group attributes the increases in 2010 primarily to the growth in current accounts and term deposits of retail customers due to revival of the retail deposits market. The Group attributes the increases in 2009 primarily to the growth in current accounts and demand deposits from retail customers and term deposits of both corporate and retail customers. Total retail deposits and current accounts increased by 12.1% to RUB107,669 million as at 31 December 2010 as compared with RUB96,030 million as at 31 December 2009. This increase is attributed to the recovery of Russian economy which led to restoration of the credibility of private Russian banks. Total retail deposits increased by 79.9% to RUB96,030 million as at 31 December 2009 as compared with RUB53,391 million as at 31 December 2008. This increase is attributed to the significant growth of interest rates.

Deposits by Customer

The following table sets forth the Group's deposits by type of customer and product as at the dates indicated.

	As at 31 December					
	2010		2009		2008	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RUB thousands, except percentages)					
Corporate						
Current accounts and demands deposits	68,413,408	23.1	55,365,566	19.1	59,566,765	25.9
Term deposits (including state and local authorities and public organisations).....	120,964,334	40.7	138,153,403	47.7	116,653,303	50.9
Total corporate	189,377,742	63.8	193,518,969	66.8	176,220,068	76.8
Retail						
Current accounts and demands deposits	20,854,482	7.0	11,029,832	3.8	8,304,238	3.6
Term deposits	86,814,621	29.2	85,000,038	29.4	45,086,652	19.6
Total retail	107,669,103	36.2	96,029,870	33.2	53,390,890	23.2
Total current accounts and deposits from customers ..	297,046,845	100.0	289,548,839	100.0	229,610,958	100.0

Current Accounts and Deposits from Customers by Remaining Contractual Maturity

The Group accepts a broad range of deposits with different maturities, which are classified in the categories “On Demand and Less than One Month”; “One to Six Months”; “Six Months to One Year” and “More than One Year”. The Group includes certain of its current accounts and demand deposits in the category “One to Six Months” based on historical experience of stable customer current amounts. As at 31 December 2010, 2009 and 2008, the majority of deposits fell in the “One to Six Months” category. See Note 34 to the 2010 Annual Financial Statements, Note 33 to the 2009 Annual Financial Statements and Note 32 to the 2008 Annual Financial Statements.

Own Securities Issued

Own securities issued decreased by 26.4% to RUB32,127 million as at 31 December 2010 as compared with RUB43,655 million as at 31 December 2009. The Group attributes this decrease primarily to the purchase from the market of its senior loan participation notes and domestic bonds. Own securities issued increased by 10.9% to RUB43,655 million as at 31 December 2009 as compared with RUB39,368 million as at 31 December 2008. The Group attributes this increase primarily to the issuance of promissory notes.

Other Borrowed Funds

Other borrowed funds decreased by 7.4% to RUB12,802 million as at 31 December 2010 as compared with RUB13,819 million as at 31 December 2009. The Group attributes this decrease primarily to repayment of certain syndicated borrowings. Other borrowed funds decreased by 42.4% to RUB13,819 million as at 31 December 2009 as compared with RUB24,010 million as at 31 December 2008. The Group attributes this decrease primarily to repayment of certain syndicated borrowings.

Current Income Tax Payable

Current income tax payable decreased by 96.3% to RUB948 thousand as at 31 December 2010, as compared with RUB27 million as at 31 December 2009, itself a decrease of 43.8% from RUB48 million as at 31 December 2008. These balances represent the difference between tax due per the income tax return and income tax paid during the year.

Equity

The following table sets forth the Group’s equity as at the dates indicated.

	As at 31 December		
	2010	2009	2008
	(RUB thousands)		
Equity			
Share capital	11,511,052	10,062,544	10,062,544
Share premium	17,303,093	13,319,695	13,319,695
Additional paid-in-capital	81,919	1,056,102	1,167,515
Revaluation reserve for property	2,717,232	2,353,907	3,192,346
Revaluation reserve for investments available for sale	(80,230)	160	(66,641)
Retained earnings	13,242,167	11,147,632	11,773,411
Total equity attributable to owners of the parent	44,775,233	37,940,040	39,448,870
Non-controlling interest	—	265,341	525,714
Total equity	44,775,233	38,205,381	39,974,584

Additional paid-in capital decreased by 92.2% to RUB82 million as at 31 December 2010 as compared with RUB1,056 million as at 31 December 2009. The Group attributes this decrease to the exercise of its right to acquire shares in Volgoprombank. Additional paid-in capital decreased by 9.6% to RUB1,056 as at 31 December 2009 as compared with RUB1,168 million as at 31 December 2008. The Group attributes this decrease to the sale of its non-controlling interest in its subsidiary Volgoprombank.

In February 2010, EBRD became a new shareholder of PSB following an increase in PSB's charter capital and EBRD acquired an 11.8% ownership interest in PSB for RUB1,449 million. In connection with the acquisition by EBRD, Commerzbank AG exercised its pre-emptive rights by acquiring new shares in PSB in the additional share issue and thereby retained its shareholding at 15.3%. Promsvyaz Capital's shareholding was reduced to 72.9%.

Total equity attributable to owners of the parent increased by 18.0% to RUB44,775 million as at 31 December 2010 as compared with RUB37,940 million as at 31 December 2009. The Group attributes this increase primarily to new shares issued, an increase in retained earnings and revaluation of certain real estate assets. Total equity attributable to owners of the parent decreased by 3.8% to RUB37,940 million as at 31 December 2009 as compared with RUB39,449 million as at 31 December 2008. The Group attributes this decrease primarily to overall losses incurred for the year ended 31 December 2009.

Capital Adequacy

The following table sets forth the composition of the capital position of the Group as at 31 December 2010, 2009 and 2008 calculated in accordance with the requirements of Basel Accord I.

	As at 31 December		
	2010	2009	2008
	(RUB thousands, except percentages)		
Tier 1 capital			
Share capital	11,511,052	10,062,544	10,062,544
Share premium	17,303,093	13,319,695	13,319,695
Additional paid-in capital	81,919	1,056,102	1,167,515
Retained earnings	13,242,167	11,147,632	11,773,411
Non-controlling interest	—	265,341	525,714
Total Tier 1 capital	42,138,231	35,851,314	36,848,879
Tier 2 capital			
Asset revaluation reserves	2,717,232	2,353,907	3,192,346
Revaluation reserve of investments available for sale	(80,230)	160	(66,641)
Subordinated debt excluding accrued interest	15,847,988	13,612,802	9,917,485
Total capital	60,623,221	51,818,183	49,892,069
Total risk-weighted assets	421,501,940	361,940,932	379,802,736
Tier 1 ratio	10.00%	9.91%	9.70%
Total capital adequacy ratio	14.38%	14.32%	13.14%

Total risk-weighted assets increased by 16.5% to RUB421,502 million as at 31 December 2010 as compared with RUB361,941 million as at 31 December 2009. The increase in risk-weighted assets during this period was primarily due to the growth in loans to customers. Total risk-weighted assets decreased by 4.7% to RUB361,941 million as at 31 December 2009 as compared with RUB379,803 million as at 31 December 2008. The Group attributes these changes primarily to the decrease in the size of its total loan portfolio. However, the Group's total capital adequacy ratio remained substantially above the minimal capital adequacy ratio of 8.0% recommended by the Basel Committee on Banking

Regulations and Supervisory Practices. The Group regularly reviews ways to maintain and strengthen its capital position, including by means of capital increases and the attraction of subordinated debt that meets Tier 2 capital requirements.

The Group must meet the capital adequacy requirements set out by the CBR based on its RAS financial statements. The CBR requires banks to maintain a capital adequacy ratio of 10%. The Group was in compliance with CBR requirements as at each of the three previous fiscal years.

The Group is constantly monitoring its statutory capital and risk weighted assets to ensure the compliance with CBR's capital adequacy requirements. The Group performs daily computation of CBR capital adequacy ratio and undertakes daily monitoring of the level of risk-weighted assets and capital base to ensure proper allocation of funds. The changes in CBR ratio generally correlate with changes in capital adequacy ratio calculated in accordance with Basel I. The increase in 2010 was due to the growth of shareholders' equity as a result of increase in share capital, revaluation of certain real estate assets and increase in retained earnings.

Credit-Related Commitments

The following table sets out the breakdown of the Group's credit-related off-balance sheet commitments as at 31 December 2010, 2009 and 2008.

	As at 31 December		
	2010	2009	2008
	(RUB thousands)		
Guarantees.....	62,889,293	38,437,358	39,237,569
Undrawn overdraft facilities.....	48,438,691	25,159,134	17,384,885
Letters of credit.....	5,969,835	3,529,135	16,072,268
Undrawn loan facilities.....	6,911,850	4,447,846	5,988,348
Total credit-related off-balance sheet commitments.....	124,209,669	71,573,473	78,683,070

Total credit-related off-balance sheet commitments increased by 73.5% to RUB124,210 million as at 31 December 2010 as compared with RUB71,573 million as at 31 December 2009. See also Note 37 to the 2010 Annual Financial Statements, Note 36 to the 2009 Annual Financial Statements and Note 35 to the 2008 Annual Financial Statements. The Group attributes these increases to an increase in the business volume of customers, as well as to an increase in the number of customers requiring guarantees and using overdrafts and credit lines. Total credit-related off-balance sheet commitments decreased by 9.0% to RUB71,573 million as at 31 December 2009 as compared with RUB78,683 million as at 31 December 2008. The Group attributes this decrease primarily to the decrease in letters of credit issued.

Spot and Derivative Financial Instruments

The Group uses spot and derivative financial instruments in order to hedge open positions which are generated from client operations such as foreign currency denominated loans and balances. The following table sets forth contract amounts of the Group's spot and derivative financial instruments for the periods indicated.

	As at 31 December		
	2010	2009	2008
	(RUB thousands)		
Spot and derivative financial instruments <i>Principal or agreed amount</i>			
Short-term foreign currency forward and swap contracts	47,550,361	48,502,367	32,891,765
Precious metals forward contracts	2,748,669	4,646,013	3,108,119
Securities forward contracts	90,628	—	152,026
Interest rate swaps	—	9,073,260	8,814,120
Total	50,389,658	62,221,640	44,966,030
Positive (negative) fair value			
Short-term foreign currency forward and swap contracts	11,717	(670,936)	(74,233)
Precious metals forward contracts	19,172	21,274	(68,173)
Securities forward contracts	572	—	22,306
Interest rate swaps	—	(168,814)	(151,303)
Total	31,461	(818,476)	(271,403)

Funding

The Group's principal sources of funding are deposits from corporate customers, term deposits and balances from banks and other financial institutions and the Group's issuance of its own securities, including domestic bonds and Eurobonds. In addition, the Group obtains funds from retail accounts and deposits. As at 31 December 2010, the Group was a net creditor on the interbank lending market. As at 31 December 2010, the Group's ten largest current accounts and term deposits amounted to RUB83,348 million, or 19.4% of the Group's total liabilities as compared to RUB92,453 million, or 21.4% of the Group's total liabilities as at 31 December 2009.

As at 31 December 2010, the aggregate amount of the Group's indebtedness was RUB423,472 million, which consisted of RUB297,047 million in current accounts and deposits from customers, RUB32,127 million in own securities issued, RUB59,678 million in deposits and balances from banks and other financial institutions, RUB12,802 million in other borrowed funds and RUB21,818 million in subordinated borrowings. As at 31 December 2009, the aggregate amount of the Group's indebtedness was RUB429,551 million, which consisted of RUB289,549 million in current accounts and deposits from customers, RUB43,655 million in own securities issued, RUB64,780 million in deposits and balances from banks and other financial institutions, RUB13,819 million in other borrowed funds and RUB17,748 million in subordinated borrowings. As at 31 December 2008 the corresponding amounts were RUB416,858 million, RUB229,611 million, RUB39,368 million, RUB111,275 million, RUB24,010 million and RUB12,594 million, respectively.

Sources of Funding

The following table sets forth the Group's sources of funding as at the dates indicated.

	As at 31 December					
	% of total	2010	% of total	2009	% of total	2008
	(RUB thousands, except percentages)					
Due to banks and other financial institutions						
Term deposits from local banks.....	4.1	17,570,624	0.3	1,402,234	0.2	846,008
Trade finance.....	4.0	16,767,032	3.1	13,114,615	6.4	26,545,890
Long-term finance.....	2.6	11,085,493	3.4	14,768,138	3.9	16,346,508
Vostro accounts.....	1.8	7,663,852	1.9	8,339,427	1.4	5,841,481
Term deposits from foreign banks.....	1.6	6,590,876	5.0	21,299,320	2.4	10,167,919
Term deposits from the Central Bank of the Russian Federation.....	—	—	1.4	5,856,656	12.4	51,527,551
Total	14.1	59,677,877	15.1	64,780,390	26.7	111,275,357
Own securities issued						
Promissory notes.....	4.9	20,632,071	4.9	20,986,966	2.8	11,676,688
Senior loan participation notes.....	2.0	8,650,527	3.8	16,423,635	4.3	17,889,524
Domestic bonds.....	0.7	2,781,695	1.5	6,229,540	2.3	9,541,000
Certificates of deposit.....	0.0	63,204	0.0	14,571	0.1	261,228
Total	7.6	32,127,497	10.2	43,654,712	9.5	39,368,440
Current accounts and deposits from customers						
Corporate term deposits.....	28.6	120,964,334	32.2	138,153,403	28.0	116,653,303
Corporate current accounts and demand deposits.....	16.2	68,413,408	12.9	55,365,566	14.3	59,566,765
Retail term deposits.....	20.5	86,814,621	19.8	85,000,038	10.8	45,086,652
Retail current accounts and demand deposits.....	4.9	20,854,482	2.6	11,029,832	2.0	8,304,238
Total	70.2	297,046,845	67.5	289,548,839	55.1	229,610,958
Other borrowed funds						
Syndicated loans.....	1.8	7,550,513	2.1	8,966,992	5.3	22,196,034
Other borrowings.....	1.2	5,251,682	1.1	4,852,418	0.4	1,814,228
Total	3.0	12,802,195	3.2	13,819,410	5.7	24,010,262
Subordinated borrowings	5.1	21,817,689	4.0	17,748,361	3.0	12,593,599
Total funding	100.0	423,472,103	100.0	429,551,412	100.0	416,858,616

Current Accounts and Deposits from Customers, Banks and Other Financial Institutions

The main source of finance is current account and deposits from customers. As at 31 December 2010, current accounts and deposits from customers comprised 69.0% of the Group's total liabilities, compared with 66.9% and 54.4% as at 31 December 2009 and 31 December 2008, respectively. Deposits and balances from banks and other financial institutions comprised 13.9% of the Group's total liabilities and other borrowed funds comprised 3.0% of the Group's total liabilities as at 31 December 2010, compared with 15.0% and 3.2% respectively as at 31 December 2009 and 26.4% and 5.7% respectively as at 31 December 2008.

The following table sets forth the amount of current accounts and deposits from customers, deposits and balances from banks and other financial institutions, own securities issued and other borrowed funds according to their currency.

	As at 31 December					
	%	2010	%	2009	%	2008
	(RUB thousands, except percentages)					
Current accounts and deposits from customers, deposits and balances from banks and other financial institutions, own securities issued and other borrowed funds						
In roubles.....	62.8	252,195,035	50.9	209,681,792	53.1	214,813,034
In foreign currency.....	37.2	149,459,379	49.1	202,121,559	46.9	189,451,983
Total	100.0	401,654,414	100.0	411,803,351	100.0	404,265,017

Trade Finance Funding

As at 31 December 2010, international banks had extended trade finance- related credit lines to the Group in an aggregate amount of approximately U.S.\$1.5 billion, as compared with approximately U.S.\$1.0 billion as at 31 December 2009 and approximately U.S.\$2.1 billion as at 31 December 2008. These credit lines allow the Group to

finance the import and export operations of its customers by extending letters of credit, guarantees and draft bills with a term of up to five years.

The Group's Debt Securities

Promissory Notes and Certificates of Deposit

The issuance of promissory notes and certificates of deposit are sources of funding for the Group. The Group launched its promissory notes programme in 1995 and its certificates of deposit programme in 1997. The aggregate amount of outstanding promissory notes and certificates of deposit decreased to RUB20,695 million, or 4.8% of the Group's total liabilities, as at 31 December 2010 from RUB21,002 million, or 4.9% of the Group's total liabilities, as at 31 December 2009, and RUB11,938 million, or 2.8% of the Group's total liabilities as at 31 December 2008. Of the Group's total promissory notes and certificates of deposit, 95.5% were denominated in roubles as at 31 December 2010 and 67.5% and 61.9% as at 31 December 2009 and 2008, respectively. On both dates, the remainder was denominated in U.S. dollars and euros.

Domestic and International Debt Capital Markets

The Group has been issuing bonds in the domestic capital markets since 2001. As at 31 December 2010, the Group had RUB2.8 billion of such bonds outstanding. These bonds are listed on the Moscow Interbank Currency Exchange ("MICEX") and mature in May 2012 and June 2013.

In September 2005, Promsvyaz Finance PLC issued U.S.\$200 million 8.5% loan participation notes due 2010, the proceeds of which were used to finance a loan to the Group. In October 2006, the coupon on the notes was increased to 8.75%. Proceeds from the loan were used for general corporate purposes. In August 2006, PSB Finance S.A. issued U.S.\$45 million loan participation notes due 2012, the proceeds of which were used to finance a subordinated loan to PSB. Proceeds from the loan were used for general corporate purposes. In October 2006, PSB Finance S.A. issued U.S.\$125 million loan participation notes due 2011, the proceeds of which were used to finance a loan to PSB. Proceeds of the loan were used for general corporate purposes. Also in October 2006, PSB Finance S.A. issued U.S.\$155 million loan participation notes due 2012, the proceeds of which were used to finance the redemption of the loan participation notes issued in August 2006 and to finance a further subordinated loan to PSB. Proceeds from the loan were used for general corporate purposes. In March 2007, PSB Finance S.A. issued U.S.\$100 million loan participation notes due 2011 (which merged with and became one series of notes with the U.S.\$125 million notes issued in October 2006), the proceeds of which were used to finance a loan to PSB. Proceeds of the loan were used for general corporate purposes. In July 2007, PSB Finance S.A. issued U.S.\$100 million loan participation notes due 2018, the proceeds of which were used to finance a subordinated loan to PSB. Proceeds of the loan were used for general corporate purposes. In June 2008, PSB Finance S.A. issued EUR\$15 million loan participation notes due 2009, the proceeds of which were used to finance a loan to PSB. Proceeds of the loan were used for general corporate purposes. In July 2008, PSB Finance S.A. issued U.S.\$150 million loan participation notes due 2013, the proceeds of which were used to finance a loan to PSB. Proceeds of the loan were used for general corporate purposes. In November 2009, PSB Finance S.A. issued U.S.\$200 million loan participation notes due 2015, the proceeds of which were used to finance a subordinated loan to PSB. Proceeds from the loan were used for general corporate purposes. In July 2010, PSB Finance S.A. issued U.S.\$200 million loan participation notes due 2016, the proceeds of which were used to finance a subordinated loan to PSB. Proceeds from the loan were used for general corporate purposes.

Additions of Property and Equipment

Additions of property and equipment (net of transfers) decreased by 23.9% to RUB3,309 million for the year ended 31 December 2010 from RUB4,349 million for the year ended 31 December 2009. The Group attributes this decrease primarily to a reduced rate of expansion of the Group's branch network. Additions of property and equipment (net of transfers) decreased by 46.4% to RUB4,349 million for the year ended 31 December 2009 from RUB8,112 million for the year ended 31 December 2008. The Group attributes these changes to the slowdown in the expansion of the Group's branch network in 2009.

Analysis by Segment

The Group reports under four main business segments: corporate banking; retail banking; international business, investments and financial markets and small and medium sized enterprises. Corporate banking is the Group's largest segment, which represented 61.8% of revenues for the year ended 31 December 2010, 56.4% of total assets and 36.4% of total liabilities as at 31 December 2010. International business, investments and financial markets represented 10.9% of the Group's revenues for the year ended 31 December 2010, 17.2% of total assets and 41.5% of total liabilities as at

31 December 2010, retail banking represented 15.5%, 5.2% and 15.2%, respectively, and small and medium size enterprises banking represented 10.0%, 4.7% and 5.1%, respectively.

The following table set forth certain data for the Group's segments as at 31 December 2010, 2009 and 2008.

	As at 31 December		
	2010	2009	2008
	(RUB thousands)		
Segment assets			
Corporate banking.....	267,877,350	216,234,664	237,627,066
Retail banking.....	24,631,045	32,467,429	46,319,935
Small and medium size enterprises.....	22,433,163	18,454,923	17,503,094
International business, investments and financial markets.....	81,873,887	174,881,118	135,321,495
Reconciling items ⁽¹⁾	78,311,474	29,173,243	25,029,438
Total assets.....	475,126,919	471,211,377	461,801,028
Segment liabilities			
Corporate banking.....	156,438,827	191,080,442	180,723,454
Retail banking.....	65,264,674	60,382,664	34,066,401
Small and medium size enterprises.....	22,149,339	17,450,417	3,194,650
International business, investments and financial markets.....	178,690,445	162,512,392	199,699,709
Reconciling items ⁽¹⁾	7,808,401	1,580,081	4,142,230
Total liabilities.....	430,351,686	433,005,996	421,826,444

- (1) In the 2010 Annual Financial Statements this category includes unallocated amounts and assets/liabilities related to management operations performed by PSB's Treasury Department, whereas in the 2009 and 2008 Annual Financial Statements, it includes only unallocated amounts, with assets/liabilities related to management operations performed by PSB's Treasury Department included in the category "International business, investments and financial markets".

	For the year ended 31 December		
	2010	2009	2008
	(RUB thousands)		
Segment revenue before income tax and expenses			
Corporate banking.....	34,510,082	28,998,349	22,933,234
Retail banking.....	8,641,462	8,888,696	8,147,220
Small and medium size enterprises.....	5,572,430	3,154,687	912,018
International business, investments and financial markets.....	6,066,237	18,882,219	13,437,199
Reconciling items.....	1,015,312	4,551,202	4,709,720
Total revenues.....	55,805,523	64,475,153	50,139,391

	For the year ended 31 December		
	2010	2009	2008
	(RUB thousands)		
Segment profit/(loss) for the year after tax			
Corporate banking.....	4,872,949	1,771,918	4,068,514
Retail banking.....	(4,050,693)	(5,173,379)	(4,091,619)
Small and medium size enterprises.....	267,632	(1,555,678)	(877,593)
International business, investments and financial markets.....	3,436,643	2,339,070	901,534
Reconciling items ⁽¹⁾	(2,049,382)	1,992,216	1,560,818
Total.....	2,477,149	(625,853)	1,561,655

BUSINESS

Overview

PSB is one of the leading universal banks in Russia. As at 1 January 2011, PSB was ranked the tenth largest bank by assets and the second largest among the banks not controlled by Russian state-controlled entities or foreign financial institutions, according to RBC, one of Russia's primary information providers. As at 1 January 2011, PSB's total assets accounted for 5.8% of the total assets of the Russian private banking system (i.e., excluding state owned and foreign owned banks) and 3.9% of the total term retail deposits of the Russian private banking system (i.e., excluding state owned and foreign owned banks), according to Interfax. PSB offers an extensive range of services comprising corporate banking services, SME services, retail services, and investment banking and financial markets services to clients located in Moscow, the Moscow region and other Russian regions. According to Russian Factoring Companies Association, as at 31 December 2010, PSB was the leading market participant in the Russian factoring market, with a 27% market share. In March 2010, PSB received the "Bank of the Year 2009" award from Banki.ru, one of Russia's principal banking information portals for both banking clients and market participants, and in June 2010, PSB received the "Financial Elite of Russia 2010" award.

PSB was established in 1995 and originally focused on providing corporate banking services to the Russian telecommunications sector, "Promsvyazbank" meaning "communication industry bank". However, PSB has since expanded its lending activities to include a wide range of services and by 2001, PSB had become a universal commercial bank providing an extensive range of banking services in both the corporate and retail sector. PSB currently has four principal business lines:

- corporate banking services (excluding SMEs), including corporate lending, international settlements, international trade finance, ECA-backed financing, factoring, corporate deposit taking and transactions in precious metals;
- SME banking services, including commercial lending, deposit taking, issuance of promissory notes, money transfers, guarantees, brokerage in securities and foreign exchange services;
- retail banking services, including retail loans to and deposit taking from individuals (excluding VIP clients), banking card products, settlement and cash services and foreign exchange services; and
- investment banking and financial markets services focused on private banking services for VIP clients, capital markets transactions, sales and trading, including the origination, underwriting and trading of municipal and corporate domestic bonds, brokerage, corporate finance advisory services and asset management.

PSB's products and services are distributed in Moscow, the Moscow region and other Russian regions. As at 1 March 2011, PSB had the 18th largest distribution network among Russian banks, according to RBC. In particular, from 2004 to the first half of 2008, PSB undertook a major branch expansion strategy driven by growth in its lending, especially its SME and retail lending. In December 2007, PSB was awarded Russia's National Banking Award by the Association of Russian Banks and the National Banking Journal for the "Development of the Branch Network". As at 1 March 2011, in Russia PSB had a total of 250 branches, sub-branches, points of sale or other representations, of which 183 were universal full-service branches or sub-branches. Of the 250 outlets, 58 were located in Moscow or the Moscow region. In addition, PSB maintains a branch and retail sub-branch in Cyprus and representative offices in China, India and Ukraine.

PSB has prepared financial statements in accordance with IFRS since 1997. PSB's operating income increased from RUB28.2 billion for the year ended 31 December 2008, to RUB34.1 billion for the year ended 31 December 2009, and decreased to RUB28.2 billion for the year ended 31 December 2010. PSB's total assets increased from RUB461.8 billion as at 31 December 2008, to RUB471.2 billion as at 31 December 2009, and to RUB475.1 billion as at 31 December 2010 and total equity decreased respectively, from RUB40.0 billion to RUB38.2 billion, and increased to RUB44.8 billion as at the same dates.

PSB is a Russian commercial bank organised as an open joint-stock company under the laws of the Russian Federation. PSB holds a general banking licence from the CBR and is authorised by the CBR to hold deposits and to place precious metals. PSB's head office is located at Smirnovskaya Street 10, Building 22, Moscow 109052, Russian Federation, and its telephone number is +7-495-777-1020. PSB's website is www.psbank.ru.

History

PSB was established as a limited liability company in 1995 by its founding shareholders ZAO “Technoserv A/S”, owned by founders and brothers Alexey and Dmitry Ananiev, OAO “Moscow Intercity and International Telephone” and Singleton LLP. PSB received its initial banking licence from the CBR under the name of “Commercial Bank Promsvyazbank (LLC)” on 12 May 1995 and was registered with the Moscow Registration Chamber on 16 May 1995. On 1 March 2001, an extraordinary general shareholders’ meeting resolved to reorganise PSB into a closed joint-stock company and PSB received a new general banking licence on 16 July 2001 under the name “JSCB Promsvyazbank (CJSC)”. On 27 June 2007, the general shareholders’ meeting of PSB approved the transformation of PSB to “Open Joint-Stock Company Promsvyazbank” or “OAO Promsvyazbank” and on 5 September 2007, the transformation from closed to open joint-stock company was registered with the Moscow City Department of the Federal Tax Service in the Unified State Register of Legal Entities and relevant general banking licence was issued under No. 3251 on 27 September 2007.

Corporate Organisation

Holding Structure

Since PSB’s establishment, PSB’s shareholders have engaged in a process of reorganising PSB’s shareholding structure, with PSB undergoing significant reorganisation in 2005, pursuant to which Alexey and Dmitry Ananiev’s various participation interests in PSB were consolidated into a holding company, Promsvyaz Capital, a private limited company established under the laws of the Netherlands. In November 2006, Commerzbank AG acquired a 15.3% stake for RUB2.5 billion in PSB’s charter capital through a capital increase by PSB. Outstanding shares of PSB at such time held by unrelated third parties were acquired through a series of additional transactions conducted in 2006 and 2007, which resulted in Promsvyaz Capital becoming the direct holder of the remaining 84.7% of the charter capital of PSB.

In February 2010, the EBRD became a new shareholder of PSB following a further increase in charter capital, with the EBRD acquiring an 11.8% stake in PSB for RUB4.6 billion, making this investment the largest equity investment in a Russian bank by the EBRD as at that date. Commerzbank AG exercised its pre-emptive rights in the additional share issue and thereby retained its shareholding at 15.3%, with Promsvyaz Capital’s interest reducing to 72.9%.

Therefore, at the date of this Base Prospectus, PSB has three shareholders, the EBRD with a holding of 11.8%, Commerzbank AG with a holding of 15.3% and Promsvyaz Capital with a holding of 72.9%. Pursuant to the Shareholders’ Agreement, both Commerzbank AG and the EBRD are entitled to nominate a member of PSB’s Board of Directors. Both Commerzbank AG and the EBRD nominated one member each to the Board of Directors, who were initially appointed members of the Board of Directors at the annual general shareholders’ meeting held on 25 June 2010 and re-elected at the extraordinary general shareholders’ meeting held on 12 November 2010. Commerzbank AG’s nominee passed away on 31 March 2011 and a new director is expected to be nominated by them at the next general shareholders’ meeting.

Promsvyaz Capital is wholly owned by Netherlands Antilles incorporated company, Peters International Investment N.V., which is directly and beneficially owned 50% by each of Alexey and Dmitry Ananiev.

Principal Subsidiaries

PSB has a number of subsidiaries through which it carries out leasing activities, asset management and securities dealings and issues structured products. The following table sets forth the details of PSB’s principal consolidated subsidiaries as at 31 December 2010. With the exception of PSB Finance S.A. and OOO “Promsvyazfactoring”, each of the subsidiaries listed below is directly held by PSB and all of them are directly or indirectly wholly-owned or controlled by PSB.

Name of Subsidiary	Registered Office	Country of Incorporation	Principal Activities
PSB Finance S.A. ⁽¹⁾	2 Boulevard Konrad Adenauer, L-1115 Luxembourg	Luxembourg	Financial Activity
OOO “UK Promsvyaz”	18/27 Stromynka str, Moscow 107076, Russian Federation	Russian Federation	Financial Activity
OOO “Open Leasing Company”	10/22, Smirnovskaya ul, Moscow 109052, Russian Federation	Russian Federation	Leasing

Name of Subsidiary	Registered Office	Country of Incorporation	Principal Activities
OOO "Promsvyazfactoring"	10/8, Smirnovskaya str., Moscow, 109052, Russian Federation	Russian Federation	Factoring
OOO "Saint-Petersburg International Banking Conference"	42, Moskovskoe avenue, Sergiev Posad, Moscow Region, 141300, Russian Federation	Russian Federation	Services

- (1) PSB Finance S.A. is a special purpose entity established to facilitate the Group's issues of debt securities. The entity is not owned by the Group but the Group controls its activities through the predetermination of its activities. Accordingly, it constitutes a subsidiary for the purposes of the Financial Statements.

Between 2008 and 2010, the Group acquired control over Yarsotsbank, Volgoprombank and Nizhny Novgorod Bank, which were merged with PSB in 2010. On 31 December 2009, the Group acquired control over OOO "Promsvyazfactoring" ("**Promsvyazfactoring**") pursuant to an option agreement which grants the Group the unconditional right to acquire 100% of the share capital of Promsvyazfactoring for a cash consideration of RUB5.5 million, within a period of five years. As at the date of this Base Prospectus, this option right has yet to be exercised.

Market Position

Competition and Market Share

According to the CBR, as at 1 January 2011, 1,146 banks and non-bank credit organisations were operating in the Russian Federation compared with 1,178 as at 1 January 2010 and 1,228 as at 1 January 2009. Among them, there were 1,012 banks as at 1 January 2011, compared with 1,058 as at 1 January 2010 and 1,108 as at 1 January 2009. Despite the large number of licensed Russian banks, a small number of Moscow-based banks dominate the Russian banking industry. State-controlled banks play the major role in the Russian banking sector — the market share of state-controlled banks in the total assets of Russian banking system as at 1 January 2011 being nearly 56%, according to PSB's calculations. During the Financial Crisis and 2010 when the Russian economy experienced low interest rates, state-controlled banks increased their role due to being principal recipients of the governmental aid and having access to cheap funding. See "The Banking Sector and Banking Regulation in Russia — *Russian Banking Sector*".

According to RBC, as at 1 January 2011, PSB was the second largest privately owned Russian bank by total assets, and the tenth largest bank overall (including state-controlled and foreign banks) in the Russian market. PSB's primary competitors comprise the top-15 Russian banks, including private, foreign and state-controlled banks.

In the corporate banking segment (which for the purposes of these rankings also includes all SME banking), according to RBC as at 1 January 2011, PSB was ranked eighth largest in terms of loans and ninth in terms of deposits. According to PSB's calculations, which are based on statistical information published by the CBR, as at 1 January 2011, in the total Russian banking market, PSB had a 2.3% market share in corporate client loans, and a 2.0% market share in corporate deposits, as measured by value, compared with a 1.7% and 2.4% market share respectively, as at 1 January 2010. PSB's primary competitors in this segment are, among others, Sberbank, VTB, Alfa-Bank, Unicredit, Raiffeisenbank, Uralsib and Nomos.

In the SME banking segment, PSB holds strong positions in Moscow, the St. Petersburg region, as well as in the Siberian and Far East Federal Districts of Russia. According to RBC, as at 1 July 2010, PSB was the fifth largest among all Russian banks for SME lending volumes in the first half of 2010 with a market share of 0.8% of the entire SME Russian banking market as at 1 January 2011, compared with 0.9% as at 1 January 2010. PSB's primary competitors in this segment are, among others, Sberbank, VTB-24, Rosbank, Uralsib, MDM, Nomos and Bank Intesa.

In the retail banking segment, according to RBC Rating, as at 1 January 2011, PSB was the eleventh largest of all Russian banks for retail deposits, and the twenty fourth largest for retail lending. As at 1 January 2011, PSB had a 1.0% market share for retail deposits, and a 0.9% market share for retail lending, compared with 1.2% and 1.2% respectively, as at 1 January 2010. PSB's primary competitors in this segment are, among other, VTB-24, Alfa-Bank, Raiffeisenbank, Rosbank, Uralsib, MDM, Citibank and Absolut.

Competitive ranking data is not publicly available for the high-net worth private banking segment. However, according to PSB's own calculations, PSB believes itself to be ranked within the top-10 of all Russian and foreign banks operating within Russia, by volume of VIP client customer accounts, with an estimated market share of 3.7% of the entire VIP client banking market, as at 1 January 2011. PSB's primary competitors in this segment are among others, Alfa-Bank, VTB-24, Sberbank, Citibank, Deutsche Bank, HSBC and Credit Suisse.

Competitive Strengths

The credit markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the onset of the global financial crisis in the autumn of 2007, and more dramatically since September 2008. See “Risk Factors — Risks Relating to the Global and Russian Banking Sectors — *Instability of global credit markets*”. PSB believes that it has several key strengths that provide it with advantages over its competitors in terms of its ability to consolidate and strengthen its position in light of current market conditions.

- *Countrywide Distribution Network.* As at 1 March 2011, PSB had the 18th largest distribution network of all Russian banks and 5th largest distribution network among privately-owned Russian banks, according to RBC, with a total of 250 branches, sub-branches, retail offices, SME offices, points of sale or payment offices, in the principal Russian cities, large urban and industrial areas, smaller cities across the Russian regions, as well as representative offices in China, India and Ukraine. Of these, 183 were full-service branches or sub-branches, 58 of which being located within Moscow or the Moscow region. In addition, PSB benefits from the activities of its fully operating international branch in Cyprus. PSB was the first Russian bank to open a full-service branch in Cyprus, which currently serves approximately 3,000 overseas personal and offshore corporate Russian clients and offers an extensive range of banking services, including deposit taking and international trade finance, limited corporate lending, and as of May 2008, full retail banking services. See “— *Distribution Network*”.
- *Strong Client Relationships.* PSB considers itself to be a particularly client-focused bank. It seeks to conduct its activities through close co-operation with customers, both in periods of upturn, and more recently, in downturn. This approach has contributed to PSB’s growing client base and deposit inflow, and notwithstanding the recent financial and economic crisis seen in 2008, and the temporary outflows of deposits between September and November 2008, the number of corporate and SME clients continued to increase, from approximately 68,000 at year end 2008, to approximately 80,700 at year end 2009, and to 96,900 at year end 2010, and for retail accounts from approximately 950,000 at year end 2008, to approximately 1,100,000 at year end 2009, and to approximately 1,450,000 at year end 2010. During 2008, corporate funding (i.e., current accounts and demand and term deposits from corporate customers) also continued to grow, by 67%, which countered the decline seen in public borrowings and foreign funding, and by 10% in 2009 and decreased by 2% in 2010. Retail demand and term deposits also grew by 59% for the same year, three times faster than the Russian market average (as determined by the CBR), and 89% for 2009, which was also three times faster than the Russian market average. In 2010 term deposits continued to grow and the growth rate was 12%.
- *Effective Risk Management.* PSB maintains relatively conservative risk management systems and procedures aimed at ensuring strong asset quality and low ratios of overdue loans to gross loan, and particularly since the latter half of 2008, PSB has responded quickly to tighten even further its loan underwriting standards and credit control procedures, through a centralisation of all credit decision making, a tightening of loan terms and discontinuation of certain lending products. See “Risk Management”. PSB has also increased provision coverage of its loan book and increased collateral requirements. Further, PSB has focused on guarantees, trade finance and factoring in corporate banking, focused on consumer loans, credit cards and mortgage loans in retail segment and SME lending. PSB maintains a diverse loan portfolio, and operates a system of strict limits on its currency and interest mismatch positions, managing its liquidity position at appropriate levels based on its internal risk management policies. Existing risk management procedures resulted in only minimal market losses on securities during the Financial Crisis in 2008, and defaults in its corporate bond portfolio were also largely avoided.
- *Experienced Management Team.* PSB’s senior management have significant experience in the banking sector, covering both Russian and international operations, which has proven particularly beneficial in the recent period of economic crisis. PSB has been successful in retaining talented employees and approximately two-thirds of its top managers have been with PSB for more than five years. See “Management”.
- *International Trade Finance Capability.* PSB considers servicing of international trade operations to be one of its core lines of business. According to the EBRD, PSB was “The Most Active Issuing Bank under the EBRD Trade Facilitation Programme in Russia 2008”, and was awarded the title of “The Best Bank in Trade Finance in Emerging Europe for 2008” by Euromoney magazine. PSB supports its customers’ cross-border trade operations by providing payment and settlement services in connection with their import and export operations and by issuing import letters of credit, stand-by and revolving letters of credit and guarantees. PSB’s aggregate volume of trade-finance operations, by amount, including import letters of

credit, international guarantees, forfaiting and ECA-backed operations, amounted to U.S.\$3.4 billion in 2008, U.S.\$1 billion in 2009 and U.S.\$1.6 billion in 2010.

- *Expertise in Factoring.* PSB also considers itself to be one of the market leaders in the factoring sector in Russia. According to Association of Factoring Companies and Expert.RA, PSB has been the leader in the Russian factoring market since 2008, with PSB's interests in this area accounting for 27% of the entire Russian factoring market as at 31 December 2010. Similarly, according to Factors Chain International ("FCI"), a global network for leading independent factoring companies, PSB had the largest market share among Russian banks in international factoring for 2010, with 76% share of the factoring export market in Russia, as at 31 December 2010, and a 42% share of the factoring import market in Russia as at the same date.
- *Flexibility, Adaptability and Market Orientation.* PSB managed to retain most of its corporate clients during the most severe part of the crisis and the lending freeze of 2009. During that turbulent period PSB was strongly committed to its key principles of client-orientation and "looking through the cycle". Rather than implementing steps that could result in a client's bankruptcy (e.g., by depriving the client of its working capital or key assets), PSB has instead attempted to assess clients' requirements in light of the new economic scenario and adopt revised payment schedules and an updated product mix. Consequently, while Russian banks found it difficult to grow their loan portfolios during the latter quarters of 2009 and 2010 and there was fierce price competition for good borrowers, PSB was able to achieve strong credit growth during 2010. PSB has also swiftly changed its product mix, and looked to identify new drivers for revenue generation, including through the sale of foreign exchange and interest rates hedging instruments to mid-sized corporate clientele, who have begun purchasing such instruments in the aftermath of the Financial Crisis. This is expected to have a positive impact on PSB's fee and commission income stream.

Strategy

PSB strategic goal is to become the leading Russian privately owned bank in terms of profit and market value by 2015. PSB intends to maximize its market value by:

- improving profitability and efficiency (in terms of absolute profitability, return on assets, return on equity and cost to income ratio);
- sustainable development (i.e., loan portfolio/revenue diversification, portfolio/client base quality, capital adequacy, etc.). While corporate business will continue to be a core interest, PSB aims to diversify its loan portfolio by increasing the share of retail and SME businesses. PSB also intends to diversify its revenue structure by increasing the contribution of commission and fee/transaction income in addition to extracting more profits from the retail and SME businesses;
- focus on non-financial drivers (e.g., brand, innovations, people, business processes and infrastructure).

PSB will continue to pay particular attention to risk management, adequate funding and maintenance of a balanced asset and liability portfolio. PSB will pursue a balanced cost optimization policy to ensure business profitability, while at the same time preserving its base from further growth.

- *Continued Focus on Corporate Banking.* PSB plans to pursue corporate lending as its main business line. PSB intends to maintain its current leading positions in corporate lending and funding by offering its target client segments the best range of products in the market (credit, deposit, transaction and non-banking products with emphasis on higher margin and commission-based products), by providing the highest quality of service (knowledge of client needs, customization, close integration with investment banking and retail services), through higher speed of decision-making and credit process and transparent decisions. PSB aims to retain its position as one of the leading Russian international trade finance banks and as an attractive and reliable trade finance partner to major international financial institutions through building on and relying on its reputation in the international markets and its co-operation with ECAs worldwide. PSB also plans to retain its leading position in factoring. According to Russian Factoring Companies Association, as at 31 December 2010 PSB was the leading market participant in the Russian factoring market with 27% share of the market. Cash management and leasing are also among the products which PSB plans to expand. PSB will also be focused on further diversification of its corporate client base.
- *Rapid Growth of SME Loan Portfolio.* One of PSB's key priorities is to grow its SME loan portfolio with the goal of achieving a "top-3" position in the Russian SME market while retaining sound credit quality.

(PSB is currently one of the top 10 players in this sector.) The share of SME business in PSB's loan portfolio is expected to reach 24% by December 2013. During 2010 PSB achieved 18.5% growth and started deepening its client segmentation due to the anticipated rapid development of certain SME sub-segments. In all aspects of its SME operations, PSB intends to raise standards from best Russian practice levels to the level of best European standards. PSB's competitive edge is in the strong efficiency of its sales and service processes, high quality of SME client service, as well as user-friendly SME products which are simple and convenient. PSB's product strategy for SME focuses on clearly defined product offering for various client segments as well as individualized pricing approach. PSB plans to develop its long-term credit product range and expand leasing and specialized offers.

- *Retail Banking to be a Key Priority.* In line with its long-term strategy, PSB plans to become one of the leading Russian financial institutions in terms of portfolio volumes of retail loans (a "top-10" position) and deposits (a "top-5" position). The share of retail business in PSB loan portfolio is expected to reach 23.5% by December 2013. PSB's competitive strategy relies on quality service, custom-tailored client approaches and best-in-class all-round product solutions as well as high level of technology, including maximum degree of client freedom via remote banking channels (internet bank, mobile devices, call-centre, ATM, self-service terminals). PSB's target client segments are the affluent and upper-mass client segments. PSB plans to provide bundled product offers for specific client groups in line with their banking and non-banking service needs (including advisory products and concierge-equivalent service for the affluent client segment), long-term client relationship development via monitoring of client financial needs, and prompt product offering suited for specific life cycle stages and loyalty programs. In addition to general-purpose consumer loans and various types of cards (credit, debit, internet, co-brand, affinity), PSB resumed mortgage lending in 2011 and plans to resume car loans programmes in 2012.
- *Leading Position in Private Banking.* PSB aims to be a "top-5" player among Russian banks by the volume of funds raised in this segment. PSB's strategy is based on offering full range best solutions that combine capabilities of international instruments and technologies with a deep knowledge of the Russian market and the needs of Russian clients. Though PSB's currently offers its VIP-clients highly competitive products that include a wide range of standard, investment, advisory and life-style products, PSB plans to further develop these products. In 2010 PSB opened two new VIP offices to support sales to VIP clients and plans to expand this network in the future.
- *Consolidate Investment Banking.* Investment banking, including financial market operations and debt financing arrangements for corporate clients, is another key component of PSB's long-term development. Currently PSB is one of the leading operators on the debt market and performs trading, underwriter and arranger roles. In the long-term perspective PSB aims to further improve its position in the Russian debt market through (1) leadership (i.e., a "top-5 position) in arranging rouble-denominated public offerings for Tier 2-3 issuers, as well as structured instruments, including credit-linked notes and Eurobonds; (2) "top-3" position in rouble and foreign exchange debt secondary trading; (3) "top-10" position as bond issue co-underwriter; and (4) leadership in the repo market. In line with this strategy, PSB intends to develop its full-service investment business in the domestic market, and also offer diversified products in the international financial market. PSB's primary focus is on (1) development of its asset management business (for private and corporate clients which are not financial institutions); (2) offering a full range of services in the foreign exchange and banknote market; (3) becoming a "top-5" retail brokerage player; and (4) becoming an arranger and/or advisor for global and domestic equity issues, leveraged buy-outs, mergers and acquisitions and private equity transactions. To support these initiatives, PSB plans to develop appropriate infrastructure, including offices and partners in Russia and overseas. PSB's key principles of high service quality, flexible pricing policy in niche areas and reliability along with its client-oriented approach will underpin its strategy.
- *Diversify Funding Sources.* PSB's long-term goal is that retail and corporate deposits will continue to remain the major source of funding. The target level of funding from clients is currently 65% and the remaining funding is expected to be sourced primarily from the domestic bonds market, Eurobonds market and other banks. Within the structure of clients' funding, it is expected that the share of SME and retail clients will increase and the share of corporate deposits will decrease. PSB expects that funding from financial markets, especially international financial markets, will contribute a significant share to PSB's liabilities.
- *Sales and Service Channels Development.* In 2011 PSB will continue improving efficiency parameters of its distribution network, focusing primarily on network capacity, profitability (target sales and cost per unit and per employee and share of front-office employees in the organisational structure according to Russian and

CEE benchmarks) and quality of service (by products). The primary tasks for PSB in this regard are office format optimization, back-office centralization, employee training and development. PSB intends to convert most of its branches into light operating offices (for the purpose of back office centralization). PSB has started to equip its branches with ATM terminals, e-queues and electronic cashiers. In the near future PSB intends to open an estimated 100 new offices in the most economically promising cities and regions in Russia. PSB also intends to continue development of its remote banking services (RBS – internet bank, mobile bank, call centre, ATMs, self-service terminals) with the aim of increasing service efficiency and quality and client loyalty. It is intended that the inefficiencies of person-to-person sales offices will be reduced through a partial transfer of business to remote banking channels. PSB already enjoys a leading position in Russian internet-banking and plans to extend leadership in other remote banking channels. PSB's competitive strategy focuses on achieving a leading position by offering a range of services via RBS, through optimal coverage (ATMs and terminals), and by adopting a multi-channel approach. PSB plans a 150% increase in its ATM network (with a focus on cash-in ATMs) and deployment of a self-service terminals network by 2013. Despite the fact that PSB has one of the best Russian internet-banking services and call-centre facilities, PSB plans to develop these channels, including through integration with remittance systems, client feedback option, new internet-site platform and video-consultations. PSB will expand its mobile banking services – in addition to PDA-version of internet banking and applications for mobile platforms, PSB is going to develop other new applications as well. In addition, PSB will focus on e-commerce through development of a number of new products/service areas, including e-cash/e-purse, virtual cards, e-billing, and sales of contextual advertisements.

- *Continued Enhancement of IT Systems and Optimisation of Operating Model.* PSB considers IT as a fundamental factor to support the efficient growth of its operations in the future. In 2011 in order to support its long-term objectives PSB started a project to update its IT strategy, revise target IT-architecture and improve IT function efficiency. PSB continues to invest in further automation of banking processes, thus improving product development, the quality of services, distribution channels, risk management, decision-making and reducing associated costs. In particular, PSB develops IT applications on the platforms of SAP (CRM, ERP, data warehouse), Misys (investment business), Kamakura, SAS (risk-management), Documentum (middle-office), and its proprietary computer systems “PSB Retail”, “PSB Online”, “PSB Trade”, “PSB-Info”, and centralizes data storage and processing systems. In the field of operating model improvement PSB is making a significant effort towards optimizing its functional structure and business processes. The main focus for optimization is defining and monitoring efficiency indicators for core processes, centralizing operations (back-office in 2010, middle-office and support functions in 2011-2012) and outsourcing (pilots were commenced in the second half of 2010). In 2010 PSB completed its integration with the acquired Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank.

Principal Business Activities

Overview

PSB's business activities extend to corporate banking services, SME banking services, retail banking services and investment banking and financial markets services. PSB's corporate banking remains the largest contributor to PSB's net interest income, loan book, and customer deposits. In line with its business strategy, PSB seeks to maintain its leading positions in the Russian market in corporate banking, including in such areas as trade finance and factoring, further develop its SME services, looking to increase its assets and lending operations where viable, and focus on retail lending. The following table sets forth the breakdown of PSB's total assets and liabilities for the years ended 31 December 2010, 2009 and 2008 according to PSB's banking segment type:

	Total Assets and Liabilities as at 31 December					
	2010		2009		2008	
	(RUB thousands)	(%)	(RUB thousands)	(%)	(RUB thousands)	(%)
Assets:						
Corporate banking.....	267,877,350	56%	216,234,664	46%	237,627,066	52%
SME banking.....	22,433,163	5%	18,454,923	4%	17,503,094	4%
Retail banking.....	24,631,045	5%	32,467,429	7%	46,319,935	10%
International business, investment and financial markets.....	81,873,887	17%	174,881,118	37%	135,321,495	29%
Reconciling items ⁽¹⁾	78,311,474	17%	29,173,243	6%	25,029,438	5%
Total assets	475,126,919	100%	471,211,377	100%	461,801,028	100%
Liabilities:						
Corporate banking.....	156,438,827	36%	191,080,442	44%	180,723,454	43%
SME banking.....	22,149,339	5%	17,450,417	4%	3,194,650	1%
Retail banking.....	65,264,674	15%	60,382,664	14%	34,066,401	8%
International business, investment and financial markets.....	178,690,445	42%	162,512,392	38%	199,699,709	47%
Reconciling items ⁽¹⁾	7,808,401	2%	1,580,081	0%	4,142,230	1%
Total liabilities	430,351,686	100%	433,005,996	100%	421,826,444	100%

- (1) In the 2010 Annual Financial Statements this category includes unallocated amounts and assets/liabilities related to management operations performed by PSB's Treasury Department, whereas in the 2009 and 2008 Annual Financial Statements, it includes only unallocated amounts, with assets/liabilities related to management operations performed by PSB's Treasury Department included in the category "International business, investments and financial markets".

Corporate Banking

PSB's corporate banking services extend to corporate lending, settlement operations, international trade finance, ECA-backed financing, factoring and corporate deposit taking. PSB extends these services to large privately-owned companies, companies partly or wholly-owned by state, regional or municipal authorities, as well as to federal, regional and municipal authorities themselves. PSB's corporate customers operate in key sectors of the Russian economy, including telecommunications, IT, mining, metallurgy, real estate, construction, agriculture and food production, retail, transportation, machinery construction and mass media. PSB's corporate base increased from approximately 23,900 clients as at 31 December 2009 to approximately 25,600 clients as at 31 December 2010. Historically, the majority of PSB's business has been concentrated in Moscow and the Moscow region.

Corporate Lending

As at 1 January 2011, PSB was the eighth largest Russian bank by commercial loan portfolio, according to RBC. Corporate lending is the principal component of PSB's business representing 56% of PSB's total assets as at 31 December 2010, compared with 46% of PSB's total assets as at 31 December 2009, and compared with 52% as at 31 December 2008. The relative increase in proportion of corporate lending in 2010 was mainly due to decrease in the excessive level of liquid assets on the balance sheet of PSB as at 31 December 2009. The relative decrease in proportion of corporate lending in 2009 was due to the overall growth of retained liquid assets including the growth of PSB's securities portfolio, as reflected on the Group's balance sheet and the growth in the SME lending segment. PSB's gross portfolio of loans to corporate customers decreased from RUB250.2 billion as at 31 December 2008 to RUB242 billion as at 31 December 2009, and increased to RUB289.4 billion as at 31 December 2010.

PSB's corporate lending services comprise a range of rouble- and foreign currency-denominated credit products, including medium- and short-term loans, revolving facilities, overdraft financing, bank guarantees and letters of credit offered to corporate clients. Loans to corporate clients generally have collateral in the form of real estate, securities, goods in turnover, guarantees or other assurance arrangements, and collateral has been a mandatory requirement of the most of loan applications since the latter half of 2008. However, since the beginning of 2010, PSB's credit policy also permits, subject to certain conditions, the granting of unsecured loans and overdrafts. See "Risk Management — Credit Risk". The commercial terms of the corporate loans differ, depending on the clients' rating and financial condition, collateral, maturity and other factors. See "Risk Management — Credit Risk — Credit Policies and Procedures for Legal Entities". PSB's traditional customer base for credit products includes companies in the manufacturing, trading, telecommunications, transport, food production and construction industry sectors, as well as governmental and municipal authorities. In the current economic conditions PSB is increasingly focused on companies servicing state projects, companies leading in the economic sectors with internal expertise (IT, telecommunications, retail trade), and companies leading in other low-risk economic sectors (food, medicine, transport, services, etc).

PSB's main corporate lending clients are based in Moscow and the Moscow region. As at 31 December 2010, 64.2% of gross PSB's corporate loan portfolio was extended to this region, compared with 64.8% as at 31 December 2009, and compared with 60.1% as at 31 December 2008. Corporate loans are available in roubles, U.S. dollars, euros and certain other foreign currencies for the purposes of financing investments, capital expenditures and liquidity gaps, as well as for trade and pre-export finance purposes. As at 31 December 2010, 52.2% of PSB's net corporate lending portfolio was made in roubles, 39.5% in U.S. dollars, 8.1% in euros, and 0.2% in other currencies, compared with 41.8%, 47.4%, 10.6% and 0.2% respectively as at 31 December 2009, and compared with 39.2%, 50.0%, 10.4% and 0.4% respectively as at 31 December 2008. As at 31 December 2010, overdue corporate loans accounted for 7.8% of PSB's gross corporate loans portfolio, compared with 11.2% as at 31 December 2009 and, compared with 4.0% as at 31 December 2008.

International Settlements, International Trade Finance and ECA-Backed Finance

PSB considers international trade finance and ECA-backed finance to be one of its strategic priorities within its corporate business. According to the EBRD, PSB was named "The Most Active Issuing Bank under the EBRD Trade Facilitation Programme in Russia in 2008" and PSB was also awarded "The Best Bank in Trade Finance in Emerging Europe in 2008" by Euromoney magazine. According to SWIFT, as at 31 December 2010, the Group's market share of the Russian banking system was 10.1% in terms of number of import letters of credit and 11.1% in terms of number of export letters of credit.

PSB offers standard types of international finance instruments by providing payment and settlement services in connection with customers' import and export operations, and by issuing import, stand-by and revolving letters of credit guarantees. Since November 2004, PSB has been admitted to the EBRD's "Trade Facilitation Programme" which provides credit facilities in the form of EBRD guarantees issued in favour of international commercial banks and currently has a maximum aggregate credit line of U.S.\$154 million available for transactions with terms of up to five years. In 2010, IFC became PSB's international partner to provide credit facility for trade finance in an aggregate amount of U.S.\$100 million. PSB is additionally involved in international financing projects within the framework of state programmes and national projects, for the acquisition of modern high-tech equipment, and the implementation of innovations in agriculture, the food industry and health care industry.

ECAs are public agencies and entities that provide government-backed loans, guarantees and insurance to corporations from their home country that seek to do business overseas in developing countries and emerging markets. PSB's volume of medium- and long-term trade finance, through mainly ECA-backed finance, sharply decreased from U.S.\$387 million in 2008 to U.S.\$27 million in 2009, but increased slightly again in 2010. Such a sharp decrease in 2009 was caused by the Financial Crisis which negatively affected medium- and long-term trade finance. However, following the recovery witnessed in the global and domestic economies, PSB saw a growth in the volume of this business line through 2010 and anticipates further growth in 2011. PSB has established relations with major ECAs including, among others, Euler Hermes (Germany), Coface (France), Export Development Canada, Export-Import Bank of the United States, Kexim (South Korea), KUKE (Poland), OeKB (Austria), SACE (Italy), Atradius (the Netherlands), ONDD (Belgium), EGAP (Czech Republic), SEC (Slovenia), Finnvera (Finland).

Factoring

According to Expert RA, PSB has been the leader in the Russian factoring market since 2008, with PSB's interest in this area increasing from 23.5% as at 31 December 2008 to 33.7% of the entire Russian factoring market as at 31 December 2009, an increase in market share of more than 10% during 2009. According to Russian Factoring Companies Association, PSB's interest in the Russian factoring market is 27% as at 31 December 2010. Similarly, according to FCI, PSB had the largest market share among Russian banks in international factoring for 2010, with 76% share of the factoring export market in Russia, as at 31 December 2010, and a 42% share of the factoring import market in Russia as at the same date. PSB's gains can be explained by the fact that many of PSB's competitors, including the market-leader Eurocommerz, went bankrupt as a result of the liquidity squeeze during the Financial Crisis. According to Russian Factoring Companies Association, the factoring market in Russia grew in size by 34% in 2010, and amounted to RUB484 billion in 2010.

PSB's factoring services extend to the assumption of client accounts receivable. PSB offers its clients the following factoring products: domestic factoring (recourse and without recourse), international factoring, export (recourse and without recourse), and import factoring; and also the following factoring services: financing of the seller, including loans and advance payments; maintenance of accounts receivable ledgers; and the collection of accounts receivable.

For the year ended 31 December 2010, approximately 94% of PSB's factoring services were being offered with recourse to the supplier of the goods or services under the underlying contract, compared with 94% as at 31 December 2009, and 95% as at 31 December 2008. For the year ended 31 December 2010, clients turned to PSB for factoring services on approximately 680,000 deals with 2,500 debtors, compared with 674,000 deals with 2,900 debtors, for the year ended 31 December 2009, and compared with approximately 700,000 deals and 4,900 debtors for the year ended 31 December 2008. PSB's main factoring clients are based in Moscow and the Moscow region. The regional network has however, over a three-year review period, begun to handle a growing share of PSB's factoring services as a result of a rise in the number of branches offering factoring services to customers and the substantial growth of the client base in the regions. For the year ended 31 December 2010, PSB entered into approximately 1,030 factoring agreements, of which 660 were generated by PSB's regional branch network. The share of branches in the total volume of accounts receivable assigned to PSB was 43% in 2010.

PSB actively cooperates with established factoring companies and banks in Canada, China, the Czech Republic, Denmark, France, Germany, South Korea, Taiwan, Turkey, Ukraine and other countries, which allows PSB to offer its clients high quality export factoring services on a recourse and non-recourse basis in addition to import factoring services.

PSB has become the only Russian member of FCI with "full member" status due to its diversified active work both in export and import factoring.

Corporate Funding

As at 1 January 2011, PSB was the ninth largest Russian bank by corporate deposits, according to RBC. PSB's total corporate current accounts and term deposits increased in value from RUB176.2 billion as at 31 December 2008, to RUB193.5 billion as at 31 December 2009, and slightly decreased to RUB189.4 billion as at 31 December 2010, and accounted for 76.7% as at 31 December 2008, 66.8% as at 31 December 2009, and 63.8% of PSB's total current accounts and deposits from customers as at 31 December 2010. The total number of corporate (including SME) clients increased from approximately 56,000 as at 31 December 2008 to approximately 71,000 as at 31 December 2009, and to approximately 95,000 as at 31 December 2010. The total number of customers increased despite the crisis in 2008-2009 and the decline in deposit interest rates in 2010 due to PSB's emphasis on attracting new customers.

PSB provides current and term accounts to, and accepts deposits from, its corporate clients. Such accounts and deposits are in both roubles and certain foreign currencies. PSB also provides payment and account services to and on behalf of its corporate customers through its branches, sub-branches and correspondent banking network. PSB's corporate customers may also conduct banking operations and manage their accounts through PSB's electronic system PSB Online, an internet-based banking system providing corporate customers with remote access to their client accounts. PSB offers cash handling services to its customers and broader corporate funding services, including term deposits, promissory notes and certificates of deposit. As at 31 December 2010, PSB's corporate current accounts amounted to RUB68.4 billion, compared with RUB55.4 billion as at 31 December 2009 and RUB59.6 billion as at 31 December 2008.

PSB's concentration of its top 10 corporate depositors was 38.3% of total current accounts and deposits from customers as at 31 December 2008, 31.9% as at 31 December 2009 and 28.0% as at 31 December 2010. PSB's main corporate deposit clients derived from the state and local authorities and public organisations, energy and mineral resources, finance and investments, trade and commerce, development and construction, transport, manufacturing, media and IT, and other sectors, with approximately 53% being based within Moscow and the Moscow region for the year 2010. PSB receives its corporate deposits in roubles, U.S. dollars, euros and certain other foreign currencies. The percentage of PSB's corporate current accounts and term deposits denominated in roubles, U.S. dollars and euros changed from 66%, 24% and 10% respectively, as at 31 December 2008, to 66%, 24% and 10% respectively, as at 31 December 2009, and to 72%, 23% and 4%, respectively, as at 31 December 2010.

SME Lending

As at 1 July 2010, PSB was the fifth largest Russian bank by loans issued to SME in the first half of 2010, according to RBC. Number of SME loans issued increased from 6,522 loans in 2008 to 10,477 loans in 2009 and to 12,630 loans in 2010. The SME loan portfolio increased from RUB18.9 billion as at 31 December 2008, then representing 4.1% of total assets to RUB22.5 billion as at 31 December 2009, then representing 4.8% of total assets and to RUB26.7 billion as at 31 December 2010, then representing 5.6% of total assets. SME lending is one of the key priorities for PSB with the goal to achieve "top-3" position in Russia. PSB intend to achieve this increase by selling its credit products to new and existing SME customers. As at 31 December 2010 PSB considered companies of between RUB150 million and RUB540 million in total revenue to be "medium" enterprises; and companies of less than RUB150 million in total revenue to be "small" and "micro" enterprises. With effect from 1 April 2011 PSB plans to

change the classification of SME customers as follows: PSB will consider companies of between RUB360 million and RUB2.5 billion in total revenue to be “medium” enterprises; and companies of less than RUB360 million in total revenue to be “small” and “micro” enterprises. PSB offers SMEs a broad range of “off-the-peg” products lines, differing according to size and purpose of loan, fees, interest and collateral requirements, with current client focus on medium-sized SMEs.

As at 31 December 2010, 32.9% of PSB’s gross SME lending portfolio was extended to the non-food trade industry, 20.5% to the food production and food trade industry, 12.0% to the service industries, and 34.6% to the other industries, compared with 27.3%, 20.9%, 15.2% and 36.6% respectively as at 31 December 2009, and compared with 25.6%, 16.2%, 16.2% and 42.0% respectively as at 31 December 2008. PSB’s main SME lending clients are based within the Russian regions, and as at 31 December 2010, 79.1% of PSB’s SME gross lending portfolio was extended to these regions (where demand is high and competition relatively low), and 20.9% of PSB’s SME lending portfolio was extended to Moscow and the Moscow region, compared with 81.2% and 18.8% respectively as at 31 December 2009, and compared with 81.8% and 18.2% respectively as at 31 December 2008. SME loans are available in roubles, U.S. dollars and in euros, and as at 31 December 2010, 99.3% of PSB’s net SME lending portfolio was made in roubles, 0.6% in U.S. dollars, and 0.1% in euros, compared with 98.9%, 0.8% and 0.3% respectively as at 31 December 2009, and 97.7%, 2.2% and 0.1% respectively as at 31 December 2008. PSB generally secures loans with collateral, and as at 31 December 2010, approximately 85.1% of PSB’s SME lending portfolio was collateralised, compared with 88.4% as at 31 December 2009, and 91.5% as at 31 December 2008.

Retail Banking

PSB’s retail banking activities extend to retail lending services, including retail deposit services (including current accounts and term deposits), debit card services, internet banking services, and a network of ATMs. As at 31 December 2010, PSB had approximately 1,450,000 retail accounts, compared with approximately 1,100,000 as at 31 December 2009, and approximately 950,000 as at 31 December 2008. Products are being provided to retail customers in accordance with revised policies adapted to current market conditions as discussed below.

Retail Lending

As at 1 January 2011, PSB was the 24th largest Russian bank by retail loan portfolio, according to RBC. PSB’s retail borrower base decreased to 129,000 customers due to the suspension of active lending in 2009 and in the first half of 2010. In July 2010, PSB resumed *en masse* retail lending and currently, PSB offers its retail customers general-purpose consumer loans for existing and new clients and credit card products. However, from October 2008, following a review of its product mix, PSB discontinued express loans, car loans and mortgage loans to the general public until further review, and has sought to offer remaining services, such as credit cards, only to those existing customers which have demonstrated and continue to demonstrate a solid risk profile (see “— *Investment Banking and Financial Markets Services — Private Banking*”). In November 2009 PSB resumed lending to existing customers with an established positive credit history with PSB and from July 2010 has started making cash loans to new customers following modernization of its credit approval process, implementation of new scoring models and revision of its product mix and client reassessment system. In the beginning of 2011 PSB resumed mortgage lending.

- *General Purpose Consumer Loans.* PSB offers general-purpose consumer loans to finance various purchases and activities, for a value of between RUB15,000 and RUB1,500,000. Within this product category PSB distinguishes between four main distribution channels: existing clients with a positive credit history, clients receiving salary through PSB, employees of PSB’s partners and new clients. Credit approval is made on the basis of the review of the credit history of a client and his/her payment history with PSB. Risk level for each of the four client groups, confirmation of income, payment history with PSB and other parameters are taken into account during the development of a new product mix.
- *Cards.* During 2010 there was a 29% growth in the debit and credit cards portfolio due to the reissuance of Yarsotsbank’s cards subsequent to their complete integration in 2010. In 2010, PSB also enhanced its card issuance with a focus on the least risky segments, i.e., clients receiving their salary through PSB. The salary project cards currently account for 67% of the cards portfolio. In 2010, PSB saw a growth in the credit cards segment under co-branding programme with Transaero introduced in 2009. As at 31 December 2010, the number of issued co-branded cards amounted to 24,836. PSB also offers its clients credit cards with a revolving credit limit and grace period of up to 50 days. Three types of credit cards are offered to PSB’s clients, including Visa Classic Instant Issue, Visa Classic and Visa Gold. As at 31 December 2010, PSB had issued over 975,000 cards (both debit and credit).

- *Mortgage Loans.* In February 2011 PSB resumed its mortgage-lending programme, both for its existing clients and for general public.

The way in which PSB handles its retail portfolio has undergone significant change in response to the Financial Crisis and with a view to improving profitability in the long term. At the end of 2009 PSB introduced measures to improve the recovery of overdue debts, leading to improved recovery rates in December 2009 and in 2010. From 2010, PSB has implemented systematic changes to improve the efficiency and implement automatisisation of the collection process which will enable cost reduction of this process, introduce, among others, new notification procedures, use of outsourcing and optimisation of bad debt sales. These measures/changes included the sale of retail loans overdue by more than 270 days to collection companies, restructuring of approximately 10% of the retail loan portfolio and implementation of certain IT systems, for details of which see “— Business Operations — IT Infrastructure”.

The following table sets forth the structure of PSB’s retail loan book as at 31 December for the years 2010, 2009, and 2008:

Retail loan product	As at 31 December					
	2010		2009		2008	
	(RUB thousands)	(%)	(RUB thousands)	(%)	(RUB thousands)	(%)
Consumer Loans.....	18,658,332	57.3%	23,192,571	56.9%	28,225,420	56.6%
Auto loans ⁽¹⁾	8,318,508	25.6%	11,320,973	27.8%	14,437,107	29.0%
Credit cards.....	2,254,720	6.9%	3,124,578	7.7%	3,168,271	6.4%
Mortgage loans ⁽¹⁾	1,963,008	6.0%	1,982,384	4.9%	2,268,748	4.6%
Express loans ⁽¹⁾	135,393	0.4%	693,504	1.7%	1,173,008	2.4%
Loans to VIP clients.....	1,205,372	3.7%	398,304	1.0%	522,220	1.0%
Total loans to individuals.....	32,535,333	100%	40,703,314	100%	49,794,774	100%

- (1) Car loans, mortgage loans and express loans have been discontinued as of October 2008, but have a continued presence within the loan portfolio due to average tenors of approximately 3 years for car loans, approximately 20 years for mortgage loans, and approximately two years for express loans.

PSB’s retail clients are diversified geographically across Russia. The Russian regions account for a larger share of the retail loan portfolio than Moscow and the Moscow region. As at 31 December 2010, 83.4% of PSB’s gross retail loan portfolio was extended in the Russian regions and 16.6% of PSB’s retail loan portfolio was extended in Moscow and the Moscow region, compared with 89.1% and 10.9% respectively as at 31 December 2009, and compared with 86.9% and 13.1% respectively as at 31 December 2008. Retail loans are available in roubles, U.S. dollars and euros. As at 31 December 2010, 88.6% of PSB’s net retail portfolio was made in roubles, 8.7% in U.S. dollars and 2.7% in euros, compared with 88.5%, 10.8% and 0.7% as at 31 December 2009, and 86.7%, 12.6% and 0.7% respectively as at 31 December 2008.

NPLs are loans with principal and/or interest overdue by more than 90 days (except for the ones for which partial repayment of overdue principal and/or interest took place during the last quarter of 2010). Certain loans may also be recognised as showing signs of impairment. The proportion of total retail NPLs to PSB’s gross retail loans portfolio grew from 10.6% as at 31 December 2008 to 27.7% as at 31 December 2009, and decreased to 24.8% as at 31 December 2010. The main reason for reduction of the NPL level in the retail loan portfolio was the sale of NPLs in the fourth quarter of 2010 to several collection agencies. The proportion of total overdue loans to PSB’s gross retail loans portfolio grew from 21.1% as at 31 December 2008, to 38.9% as at 31 December 2009 and to 42.7% as at 31 December 2010. Furthermore, as a result of the Financial Crisis, PSB has been required to renegotiate and reschedule a larger proportion of its loans to borrowers than in prior years. This has had an impact on PSB’s revenues.

Retail Funding

As at 1 January 2011, PSB was the 11th largest Russian bank by retail deposits, according to RBC. As at 31 December 2010, the total value of PSB’s retail current accounts and term deposits totalled RUB107.7 billion, accounting for 36% of PSB’s total current accounts and deposits from customers, compared to RUB96.0 billion and 33% as at 31 December 2009, and RUB53.4 billion and 23% as at 31 December 2008. PSB is accepted into the retail deposit insurance scheme established by the Deposit Insurance Law. See “The Banking Sector and Banking Regulation in Russia — Russian Banking Regulations”.

PSB offers its retail customers a range of current accounts and term deposits in ten different currencies, including rouble-, dollar-, and euro-denominated current accounts and term deposits. PSB also offers debit cards under the Visa and MasterCard brands to employees of its corporate customers as well as to the general public retail. In 2010,

PSB became the first bank in Russia to issue VIP Visa Infinite cards encrusted with diamonds and gold. The number of individual debit cards that PSB issued has increased steadily, from approximately 623,500 as at 31 December 2008, to 659,491 as at 31 December 2009 and to 902,708 as at 31 December 2010. PSB's retail customers can also access and operate their accounts through PSB's branches, sub-branches, ATMs, PSB Retail (PSB's proprietary internet-based software platform to manage "back office" functions), telephonic short message services, or SMSs, which provide retail customers with remote access to information about their debit card accounts. PSB also provides ancillary services to individuals, including buying, selling and exchanging foreign currencies, cashing travellers' cheques, processing rent, utility, telephone and other payments and offering safe deposit boxes for storing valuables. PSB provides money transfer services both domestically and internationally through Western Union and System Anelik. PSB also conducts transactions in securities and precious metals for retail customers, as well as offering custody services.

The percentage of PSB's retail current accounts and term deposits denominated in roubles, U.S. dollars and euros changed from 49%, 23% and 26%, respectively, as at 31 December 2008, to 49%, 18% and 33%, respectively, as at 31 December 2009, and 64%, 13% and 20%, respectively, as at December 2010. PSB's main retail deposit (current and term) clients are located in Moscow, the Moscow region and other Russian regions. Retail deposits grew strongly throughout 2009, outpacing the average growth rate for the Russian banking sector (as provided by CBR data), and continued to grow in 2010 despite reduction of interest rates. PSB believes that its attractive deposit products were able to take advantage of higher household saving rates during 2009 and 2010.

Investment Banking and Financial Markets Services

PSB's investment banking arm has expertise in capital markets transactions, sales and trading, and the origination and underwriting of municipal and corporate domestic issues (such as rouble bonds, credit linked notes ("CLNs") and promissory notes). PSB has also been active in the pre-issuance financing of corporate clients (including bridge financing), support of secondary trade, investment research, bond trading, management consulting, private banking and nostro accounts. PSB is currently a leader in the Russian debt market. In 2010, PSB's market share of the MICEX monthly "top-50" bond market participants' turnover was between 1.8% and 3.7% in the main market and between 3.1% and 7.7% in the negotiated bond deals operations market. PSB's market share of the domestic bond Tier-2 and Tier-3 new issuances has increased from 3.8% in 2009 to 7.6% in 2010 in terms of quantity of issues and from 2% in 2009 to 3.3% in 2010 in terms of nominal amount.

In 2010, PSB was named the Best Investment Bank in Russia by World Finance, a British magazine. According to the publication, PSB is an industry leader in the Russian debt capital market.

Capital Markets

PSB's corporate finance group focuses on the origination, underwriting and execution of capital markets transactions, including public and private debt and domestic corporate, municipal and regional rouble denominated bond issuances. In 2010, due to improved post-Financial Crisis domestic bond market conditions, PSB increased its debt origination and placement activity despite the mid-year deterioration in the securities markets as a result of the European debt crisis. In 2010, PSB placed rouble bonds on behalf of First United Bank (Pervobank), Globexbank, Investorgbank, the Ministry of Finance of the Republic of Sakha (Yakutia), Novikombank, RTC-Leasing, Russ-Bank, Russian International Bank, SSMO LenSpecSmu and Tatfondbank. In 2010, PSB placed 11 domestic bond issuances with a nominal value of RUB24.1 billion, as compared with four bond issuances in 2009 with a nominal value of RUB11.3 billion. According to Investment Banks League Tables published by Cbonds, a leading Russian information agency devoted to fixed income markets, PSB was ranked fifteenth among arrangers for the corporate sector, excluding issues by investment banks. In 2010, PSB was the co-lead manager for Eurobond issuances by Tatfondbank (a U.S.\$225 million loan participation notes issuance) and Nomos-Bank (a U.S.\$400 million loan participation notes issuance). PSB also arranged the secondary placement of domestic rouble bonds for Home Credit and Finance Bank as a lead manager.

In 2010, PSB participated in the arranging and/or underwriting of 73 bond issuances with an aggregate value of RUB33.7 billion, a 46% increase in number from 2009 and a 195% increase in value as compared to 2009. According to the rouble-denominated bonds league table of Cbonds, PSB was among the top-seven arrangers by volume (all industries), and ranked second in the municipal sector in the first quarter of 2010.

Sales and Trading

PSB also engages in proprietary trading in securities, including promissory notes, rouble-denominated corporate bonds, equities, Russian sovereign Eurobonds, and repurchase operations. PSB is one of the largest participants in the Russian market for promissory notes. As a member of MICEX and the Russian Trading System exchange (the "RTS"),

PSB offers its corporate and retail customers access to the two principal stock exchanges in the Russian Federation. PSB is also a member of the “term deals” section of the RTS.

PSB continued to develop its brokerage services in 2010. As at 31 December 2010, PSB had approximately 1,027 brokerage clients, compared with 1,250 as at 31 December 2009, and 1,071 as at 31 December 2008. The total number of brokerage clients decreased in 2010 due to closure of sleeping accounts and the number of active client accounts was approximately stable at 184 as at 31 December 2010, as compared to 178 as at 31 December 2009. In 2010, PSB paid special attention to VIP-brokerage services and for the first time joined MICEX’s top-25 brokers by client’s operations volumes in August 2010 with a rank of 19. In December 2010, PSB improved its ranking to 14. The number of online brokerage clients increased by 92% to 873 as at 31 December 2010, compared to 454 as at 31 December 2009 and 489 as at 31 December 2008. PSB substantially increased the sales of hedging services for clients engaged in international trade, and of futures and options on the RTS. In addition, the aggregate amount of foreign exchange lines (limits on the volume of foreign exchange operations) granted to PSB by major international and Russian banks decreased from approximately U.S.\$2.08 billion as at 31 December 2008, to approximately U.S.\$1.72 billion as at 31 December 2009, and increased to approximately U.S.\$2.27 billion as at 31 December 2010 due to the recovery in global and local economies. According to MICEX’s own ratings, for the year ended 31 December 2010, PSB was ranked in the “Top 10” of fixed income operators in the market in terms of volume, and the fifth largest OFZ repo operator, as 31 December 2010. PSB was also among the top-10 corporate bond Repo market players at MICEX as at 31 December 2010.

Supported by significant volumes of client operations, PSB consistently ranks as one of the most active equity operators at MICEX. As at 31 December 2010, PSB was ranked 28 in the main market by volumes of operations as compared to a rank of 48 as at 31 December 2009. As at 31 December 2010, PSB was ranked third by volume of operations in the over the counter bond section of MICEX as compared to a rank of 12 as at 31 December 2009. Significant volumes of repo operations (all of which complied with the policy adopted by PSB on exposure limits, including specific paper, counterparty and maturity limits) have also resulted in PSB being ranked a leading repo operator at MICEX.

In 2010, PSB began to re-structure its brokerage division. During 2011, PSB intends to further develop its brokerage operations through improvements in IT infrastructure, reliance on PSB’s network to develop sales, stronger sales teams, wider range of products, optimised prices and enhanced research support and marketing.

PSB’s securities portfolio strategy for 2010 developed during the year in response to changing market conditions. In line with deteriorating market conditions in the first half of 2010 and volatility in the fourth quarter of 2010, PSB decreased its portfolio, sales turnover and duration and, in light of the sharp growth experienced in the third quarter of 2010, followed the reverse strategy. The yield from rouble bonds and promissory notes in 2010 was lower than the historic lows experienced in 2007. PSB also pursued a moderately conservative risk management policy enabling it to expand its portfolio without jeopardising long-term stability. Traditionally, PSB’s portfolio mainly comprises state securities, regional and municipal bonds and blue-chip stocks. 70% of rouble bond securities in PSB’s portfolio are included in the CBR Lombard List. As a result, all bonds in PSB’s portfolio are highly liquid, enabling it to achieve a higher securities turnover while engaging in short-term trading operations with an expanding network of counterparties – PSB has more than 350 effective counterparties in rouble bond trading and more than 150 effective Russian counterparties in Eurobond trading. The total volume of PSB’s securities portfolio (including financial assets at fair value through profit or loss, investments available for sale and investments held to maturity) in 2010 amounted to RUB52 billion (which was an increase of 6.5% over the volume in 2009), while the share of the securities portfolio in PSB’s assets increased from 10.4% to 11.0%.

Precious Metals

PSB focuses its precious metals operations on financing production cycle investments for gold mining companies and the purchase and sale of gold. As at 1 March 2011, the volume of credit lines was U.S.\$18.5 million. PSB signed agreements with Russian mining companies for the purchase of 58,300 ounces of gold during 2011, with an approximate value of U.S.\$82 million. In 2007, PSB signed facility agreements with Standard Bank Plc and extended agreements with Credit Suisse and Commerzbank International S.A for the purposes of financing equipment purchased for Russian gold mining companies and general purposes related to its precious metals business. In 2008, PSB repaid its one-year facility with Credit Suisse and its six-month facility with Standard Bank Plc, and extended its agreement with Commerzbank International S.A. in the amount of 33,000 ounces, and in 2009, PSB repaid its facility with Commerzbank International S.A.

Real Estate

In September 2007, PSB established a separate real estate banking practice to focus on financing real estate development funds and making loans to developers in Russian regional towns such as Omsk, Perm and Tver. Even in the prevailing uncertain market conditions, PSB continues to consider several opportunities to invest in the development projects to allocate business units in such real estate or sell its interest in the projects upon their completion. Pursuant to its 2009 and 2010 credit policies, PSB does not currently offer funding to real estate development companies, however it may consider participating in real estate projects on a case-by-case basis.

Financial Solutions

PSB's financial solutions group, forming part of the Investment Department, advises corporate clients on various financing arrangements, including the development of a financing strategy and selection of appropriate financial instruments and provides management consulting services. The financial solutions group prepares information memoranda, desk-notes and presentations for corporate bonds issuers and also monitors financial markets and conducts research. PSB regularly reviews the market and specific companies and industries for its clients. In 2009, in light of difficult market conditions resulting from the Financial Crisis, PSB offered its clients new products especially designed to respond to the continuing credit crisis, including amortising bond issues with amortization, new promissory note issues, and bonds and credit loans restructuring. In the first quarter of 2010, following the recovery of the primary rouble bonds market from the Financial Crisis, PSB increased its debt origination and placement activity.

Custody Services

PSB offers its customers custody services with respect to a wide range of securities, including, debt and equity securities of Russian companies, domestic commercial paper and Eurobonds. PSB has correspondent relations with Clearstream, Luxembourg and major Russian clearing houses, such as the National Settlement Depository, which services federal and municipal government securities and corporate securities trading on MICEX, the Depository Clearing Company, which services the RTS, and VTB, which acts as the principal custodian of Russian domestic foreign currency-denominated bonds known as "MinFins." PSB also has correspondent relationships with Custodian Uralsib, Aton and Garant. PSB's client base in this area includes resident and non-resident individuals, banks, investment companies, custodian companies of mutual funds, and insurance and asset management companies. As at 31 December 2010, PSB had 1,350 custody customers, compared with 1,493 as at 31 December 2009 and 1,203 as at 31 December 2008. In 2009, the Professional Association of Registrars, Transfer-Agents, and Depositories ("**PARTAD**") gave PSB's custody services a rating of AAA for the year 2010. Custody services are insured by Oranta National Joint Stock Insurance Company.

Asset Management

PSB offers asset management services through its subsidiary OOO "UK Promsvyaz" ("**UK Promsvyaz**"), an asset management company. UK Promsvyaz holds licences from the FSFM to offer private client services to individuals, as well as to manage mutual funds and pension funds. UK Promsvyaz is rated BBB+ by the Russian National Association of Securities Market Participants ("**NAUFOR**"). UK Promsvyaz manages the assets of mutual funds, legal entities, individuals, and private pension funds, which, under Russian law, are required to place pension reserves and savings through an asset management company. In addition, PSB manages certain assets of the Pension Fund of the Russian Federation. UK Promsvyaz conducts regular portfolio reviews and manages assets according to client risk and yield requests. UK Promsvyaz's business is supervised by PSB's Investment Committee and Risk Management Department.

Private Banking

In March 2008, PSB created a new independent line of private banking services, focused on servicing high net worth private clients. PSB considers these specialised services aimed at high net worth individuals to be an important and growing source of deposits. PSB's private banking services offer clients exclusive investment banking products and services: structuring, protection and investment of clients' capital, funding of their current needs, financial consultancy services, development and support of family projects and more specific services such as transportation of valuables and booking VIP lounges in airports and business centres. Each private banking client has a personal manager to manage and conduct his affairs and provide him with financial consultancy services where applicable. For the purpose of providing more convenient services to the private banking clients, since 2008, PSB has launched specialised private banking offices in the centre of Moscow and in St. Petersburg. Two more VIP offices were opened in these cities in 2010 and one more is VIP office is intended to open in Tyumen in 2011. PSB has also initiated projects for the expansion of private banking services in other Russian regions and further expansion of the product line. By 2010 PSB was able to develop its private banking unit into a self-sufficient division and expects this segment to continue to develop in 2011.

Correspondent Accounts

PSB maintains correspondent accounts and clearing services on behalf of resident and non-resident banks, mainly in Russia and the CIS. As at 31 December 2010, 398 banks maintained 894 accounts with PSB, in Russian roubles or foreign currencies, compared with 386 banks and 916 accounts as at 31 December 2009, and 351 banks and 912 accounts as at 31 December 2008. Such clients include banks from Azerbaijan, Armenia, Belarus, Belgium, Bulgaria, Estonia, Germany, Israel, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Russia, Slovenia, Tajikistan, Ukraine and Uzbekistan.

Distribution Network

Geographic Network

As at 1 March 2011, following the implementation of a branch network optimization strategy and the completion of integration of three newly acquired banks, PSB had the 18th largest distribution network among Russian banks, according to RBC, with 250 branches, sub-branches, points of sale or other representations (including representative offices of PSB's three fully assimilated banks Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank (see "— Corporate Organisation — *Principal Subsidiaries*")). PSB's current aim is to consolidate and streamline the framework of its distribution network where viable, and maintain high operational efficiency and profitability in those offices already established.

Internationally, PSB was first among Russian banks to open a full-service branch in Cyprus, providing services such as deposit-taking, international trade finance and limited corporate lending, overseas to Russian clients and offshore entities of domestic corporate entities. PSB also maintains international representative offices in China, India and Ukraine. In 2010, PSB closed its representative office in Kyrgyzstan as this office had fulfilled its business targets to establish business relations in Central Asia and PSB currently has no plans to set up a branch in this region.

The branch network development strategy for 2011-2013 includes a transformation of full-service branches into operating offices. By the end of 2012 PSB expects to have only 8 universal full-service branches in Russia in Yaroslavl, Nizhny Novgorod, St-Petersburg, Novosibirsk, Rostov on Don, Ekaterinburg, Khabarovsk and Stavropol. The remaining 38 branches will be transformed into operating offices (based on a revised classification to be adopted by PSB) which will offer a full range of banking services to corporate, SME and retail clients. In 2010, the regional Tula and Tver branches were transformed into regional operating offices and became structural units of the Yaroslavl branch. In 2011, the majority of regional branches are scheduled to be consolidated on the basis of federal districts and this project is expected to be completed in 2012.

PSB operates six different types of domestic representation offices:

- *Universal full-service branches.* Universal full-service branches (*filiaty*) offer a full range of banking services to corporate, SME and retail clients. Universal branches operate as a senior hub to the universal full-service sub-branches, executing among others back-office, accounting and reporting functions for universal full-service sub-branches. Each branch employs approximately 40 to 50 staff and as at 1 March 2011, PSB had 47 universal full-service branches.
- *Universal full-service sub-branches.* Universal full-service sub-branches (*dopolnitelnye ofisy*) replicate services provided by universal full-service branches and offer a full range of banking services to corporate, SME and retail clients. Universal sub-branches are subordinated to the universal branches and are located in smaller towns and Moscow districts. Each sub-branch employs approximately 20 to 25 staff and as at 1 March 2011, PSB had 136 universal full-service sub-branches.
- *Full-service retail and SME offices.* Full service retail and SME offices (*universalnye roznichnye dopolnitelnye ofisy*) offer retail banking and SME client services. They are subordinated to universal full-service branches and are located in populated districts of towns and outlets. Each full-service retail and SME office employs approximately 15 to 20 staff and as at 1 March 2011, PSB had 31 full service retail and SME offices.
- *Retail points of sale.* Retail points of sale (*roznichnye dopolnitelnye ofisy v trgovom centre*) offer retail banking services. They are subordinated to universal full-service branches and are located in populated districts of towns and outlets. They also include retail mini offices and representative retail offices, located in large department stores. Each retail point of sale employs approximately two to ten staff and as at 1 March 2011, PSB had six retail points of sale.

- *Payment offices.* Payment offices (*operkassy vnekassovgo uzla*) offer payment services to retail clients. They are subordinated to retail points of sale and are located in department stores, airports and cardealers. Each payment office employs approximately two staff and as at 1 March 2011, PSB had 28 payment offices.

The following table sets forth the distribution of representations across the various regions of Russia, as at 1 March 2011.

	Branch numbers as at 1 March 2011 ⁽¹⁾							
	Universal full- service Branch	Universal full- service Sub- branch	Full- service retail	Retail and SME offices	Retail points of sale	Payment office	Other	Total
Moscow and the Moscow Region.....	—	38	4	0	1	15	—	58
Central Russia	10	24	1	2	3	2	—	42
North West	8	25	3	0	0	8	1	45
South.....	3	9	2	0	1	0	1 ⁽²⁾	16
Ural, Siberia and Far East	16	20	7	6	1	2	0	52
Volga	9	20	2	3	0	1	—	35
Cyprus	1	—	1	—	—	—	—	2
Total	47	136	20	11	6	28	2	250

(1) Network figures includes branches offices of acquired banks, Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank

(2) A new representative office was opened in Sochi on 26 December 2007.

In light of the current economic climate, PSB's aim is to consolidate, streamline and optimise its distribution network, while maintaining high operational efficiency and profitability. Since September 2008, PSB has closed 63 points of representation (including 11 closures in 2010 and 1 closure made between January and March 2011) through a process of rethinking its points of representation and "back office" functions. See "Risk Management". In 2010 and up to the date of this Base Prospectus, PSB has also closed inefficient and unprofitable offices and moved the profitable ones to premises with lower rentals and more intensive client flow. In February 2011, PSB opened one more full-service retail office providing services to VIP clients in St Petersburg. PSB's strategy for 2011-2013 includes extending its regional presence by opening 81 new offices in towns with a population over 250 thousand people.

In addition to certain conventional banking products and services, PSB's branches offer specialised, localised products and services targeted at particular customer groups. For instance, the Belgorod branch targets agricultural enterprises, the Irkutsk branch targets industrial enterprises and the Novgorod branch targets timber and pulp producers. This specialisation helps diversify PSB's customer base and business risks. In 2009, 173 ATMs of newly acquired Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank were fully integrated into PSB's network and as at 31 December 2010, PSB operated a network of 1,280 ATMs. Approximately 1,234 ATMs were located outside Moscow, compared with 997 as at 31 December 2009 and 836 as at 31 December 2008. PSB plans to continue installing ATMs and cash collection machines in all population centres in which it has a presence and expects to increase its ATM network by approximately 100 ATMs by the end of 2011.

PSB was the second Russian bank to open a representative office in China, which allows PSB to establish long-term relationships with banks and customers in China and to service trade operations between Russian and Chinese companies. In 2006, PSB opened a representative office in India, in order to better serve Russian customers interested in conducting business in India. PSB's Cyprus branch (opened in April 2002) offers a wide range of services at competitive tariffs. It is a full-featured European banking institution and is one of the largest branches of the Group by asset size. Accounts in all currencies are protected by the Cyprus Deposit Protection Scheme. By 31 December 2010, PSB in Cyprus conducted business with approximately 2,300 companies from various countries and economic sectors compared with approximately 2,200 as at 31 December 2009 and 2,000 as at 31 December 2008. In addition, PSB also maintains an international representative office in Ukraine. In 2010, PSB closed its representative office in Kyrgyzstan as this office had fulfilled its business targets to establish business relations in Central Asia and PSB currently has no plans to set up a branch in this region.

Contact Centre

PSB's contact centre is located in Moscow and operates 24 hours a day, seven days a week (which allows it to cover business hours in all Russian regions where PSB operates). Incoming calls are processed automatically with the caller linked to pre-recorded information or transferred to a group of operators. There are several services available for PSB's clients such as client support services and a help-desk. PSB's contact centre also provides information on the types

and terms of products offered by PSB, information on client balances, loan details, and office locations. Contact centre operators are also responsible for handling queries from employees of PSB's regional branches and sub-branches. In 2008, PSB implemented the Interactive Voice Reference System ("IVR"), which now conveys key information to customers. On average, at present, up to 10% of callers use IVR to obtain required information. PSB intends to extend the IVR functions to provide information as to account balance, client cash movements and functionality to conduct certain transactions. Currently, PSB's contact centre handles approximately 3,200 calls a day. As at 31 December 2010, the contact centre employed approximately 61 people. Where the number of calls increases beyond the normal volumes, PSB may also outsource this function to an alternative facility from time to time.

Telemarketing

PSB also operates a telemarketing department, which offers various banking products to retail customers. Telemarketing is one of PSB's departments, located at PSB's head office and has 17 employees, including 14 operators. In 2010, telemarketing personnel made calls to over 200,000 clients.

Internet

In 2002, PSB introduced PSB Online (including the PSB-Trade module), an Internet-based banking system providing corporate and retail customers with remote access to their accounts. In 2006, PSB introduced PSB Retail, supporting a wide range of remote services for retail customers. PSB Online and PSB Retail are secure systems, operating 24 hours a day, seven days a week, which provide customers with remote access to their accounts. These systems also allow customers to make online payments in roubles and foreign currencies, transfer funds between accounts, manage balances on debit and credit cards and obtain account statements. PSB Online and PSB Retail are both available to all corporate and individual customers in Moscow and regional branches. According to Finance magazine, PSB Retail is ranked second amongst all Internet-based banking systems in Russia in terms of range of products offered and in 2010 the number of users of PSB Retail increased by 49% from 206,000 as at 31 December 2009 to 306,300 as at 31 December 2010, with the number of transactions conducted online increasing by 64% from 2,088,308 to 3,425,383 for the same period. The number of corporate customers using PSB Online exceeded 55,000 in 2010, growing by 37% as compared to 2009. In 2010, PSB also made available the option of using hardware USB keys, resulting in a significant improvement in security of customer transactions.

In 2010, the user interface of the Internet Bank PSB-Retail system was redesigned making the system simpler and more user-friendly. Further, an information application was launched for users of iPhone and Android-based smartphones enabling them to locate PSB's nearest offices and ATMs, to learn about the bank's special offers, to look up the current currency exchange rates, etc. The launch of an application for Windows Mobile and Windows Phone-based smartphones is scheduled for 2011. Deployment of an IVR system, which enables customers to engage in an interactive dialogue with the PSB-Retail system using a telephone receiver, is also scheduled for 2011.

Business Operations

Employees

As at 31 December 2010, PSB employed 10,547 personnel, of whom 4,041 or 38%, were based in the head office and in sub-branches of Moscow and the Moscow region, and 6,500 or 62%, were based in branches and sub-branches in other Russian regions and abroad. An increase in the number of employees in 2010 was due to the completion of the integration of Volgoprombank, Nizhny Novgorod and Yarsotsbank. For the year ended 31 December 2010, employee compensation expense was RUB8.8 billion or 59% of PSB's general and administrative expense, compared with RUB7.6 billion or 57% for the year ended 31 December 2009, compared with RUB6.5 billion or 53% respectively for the year ended 31 December 2008. As at 31 December 2010, PSB's personnel and acquired banks' personnel are being accounted for jointly.

The Russian market for mid-level and senior professional staff is highly competitive. PSB's long term human resources strategy is to recruit, motivate and retain excellent employees at all levels of seniority. Since October 2008, PSB has been focusing on the rationalisation and optimisation of personnel. In 2010, PSB hired 3,100 new employees and the net inflow amounted to 106 new people. In 2010, 506 employees were made redundant as a result of PSB's network optimization and completion of the integration of Volgoprombank, Nizhny Novgorod and Yarsotsbank. Another 21 employees were made redundant because of administrative actions. In 2011, PSB will continue to monitor its number of employees and may adjust the number of employees as a result of the optimisation of PSB's sales network.

In 2011, PSB launched a training programme for its top managers designed to develop individual management style as well as strengthen team spirit. During 2011-2012, PSB's top management will receive in-house training on the

KPI assessment methodology and participate in seminars on strategic planning and analysis of market cases conducted by professors of leading business schools such as INSEAD, London Business School and Skolkovo. PSB's top managers will also receive individually tailored training from personal coaches.

PSB regularly monitors salary trends in the Russian banking sector to determine the salary levels necessary to make the Group a competitive employer on the labour market. Since 2006, PSB has been increasing the salary levels of its employees on a semi-annual basis. However, in 2009, due to the economic downturn experienced as a result of the Financial Crisis, salary levels remained constant. Following domestic economy recovery, PSB resumed reviewing salary levels for personnel on an annual basis in 2009 and 2010. In 2011 PSB plans to return to pre-crisis practice of reviewing the employees' salary levels on a semi-annual basis (though salaries are increased only once a year). Since 2009 PSB has maintained a short-term bonus payment programme only for its SME- and retail- overdue loans collection personnel. However, an annual bonus was paid to all its employees in 2009 and in 2010. In 2010, PSB maintained the short-term bonus payment programme to the same categories of employees and in 2011, PSB proposes to extend it to include corporate business personnel and IT services personnel. In 2010 PSB used the KPI system to calculate bonuses for senior managers, and plans to utilize this system for all categories of personnel. PSB also offers benefits, such as medical insurance and the use of company mobile phones. PSB has not to date, experienced any strikes, work stoppages, labour disputes or actions that have had a material effect on its operations and it considers its relationship with its employees to be good.

IT Infrastructure

PSB's IT strategy aims to deploy and maintain adaptable, flexible IT systems that can address PSB's expanding business and geographical scope. PSB is committed to developing its IT infrastructure in line with the expansion of its operations and is constantly improving its IT systems and utilising new software to optimise business processes. See "Risk Factors — Risks Relating to PSB and the Group's Business and Industry — *PSB's IT systems may malfunction or be insufficient to support future operations*". As at 31 December 2010, the IT Department employed approximately 315 people.

Information technology is an integral part of PSB's operations. PSB regularly deploys new technologies to support its present and future business. PSB developed a centralised core information and data processing system, which allows it to synchronise the management of PSB's operational, lending and risk management processes.

PSB's operations are supported by an integrated software system that is based on the banking system "New Athena." PSB's financial and security market operations are supported by Softwell RM, Egarr Focus and Diasoft Custody 5 NT, which have interfaces allowing them to exchange data with the external systems Reuters, MICEX, Bloomberg, RTS and SPBEX.

PSB uses the Way4 system, provided by Open Way, to support debit and credit card operations, Documentum with the scoring system that was designed by PSB, to support retail loans and PSB Retail to support other retail operations and services. The Documentum system automatically checks loan applications on several databases and sends an inquiry to the credit history bureau. Upon receiving the data the system gives a score and calculates maximum credit amount. Once the system has processed the application, the loan agreement is handled by the "PSB Retail" system.

In 2007, PSB began the implementation of the SAP ERP-system to support effective corporate governance and completed the introduction of the ERP-system, SAP BW and SAP HR to the whole of the branch network by the end of 2008. The deployment of subsystems under the mySAP ERP projects continued in 2010 and work was commenced towards the introduction of a system for planning administration costs, including personnel costs. PSB intends to further expand the deployment of SAP subsystems in 2011, including through the introduction of financial accounting, reporting persons, property management, collateral management and CRM for retail customers.

In 2008, PSB began the implementation of Misys Summit, a unified front-to-back system for financial markets, which fully automates transactions and handles all user requirements on securities trading. In 2010, Misys Summit was put into commercial operation.

In 2008, PSB also began the implementation of Kamakura Risk Manager ("**KRM**"), a sophisticated risk management programme which integrates loan portfolio management, market risk management, risk management guidelines recommendations in the Basel II Accord of the Basel Committee on Banking Supervision ("**Basel II**"), and other techniques for the appraisal and allocation of funds. PSB has also introduced CRM Siebel to aid in managing the relationship with its clients, which increases the efficiency of work relating to problem loans and customers within the SME and retail segments. In 2008, PSB also begun the implementation of BPM system on the SAP platform to cover the main stages of management processing including financial management and budgeting, different types of reporting

(analytics, management, IFRS, regulatory), and optimisation of general operations (human resources, procurement, general management).

In 2009, PSB introduced a more centralised solution automating the middle-office functions of the retail and SME banking segments based on EMC's Documentum data procession software. Since August 2009, loan applications have been processed by the Documentum system and since 2010, this system has also been used to process credit card applications. Part of the loan products was switched over to the SAS system decision-making and all retail products are scheduled to switch over in early 2011. In October 2010, the decision-making system for retail loan applications was awarded the first prize in the Risk Management Systems category of the Golden Dozen Award as part of the VIII Russian CIO Summit of 2010.

PSB is looking to move toward a fully integrated risk management system (reflecting Basel II and KRI), an integrated liabilities management system, BDC&KPI system, and a strategic planning system based on the SAP platform. Implementation of these systems will enable PSB to provide shareholders, managers, and all authorised employees of PSB with instant access to a centralised database of information.

In 2010, PSB put into operation a Back-up Telecommunications Centre to ensure uninterrupted customer and infrastructure communications services in the event of equipment malfunctions, natural and man-made disasters as well as major accidents suffered by communications operators. The integrated Office support system also helps secure safe and uninterrupted operation of the IT-infrastructure. Automated systems monitor the condition of the entire hardware complex and provide information about changes in the condition of the equipment and the reasons for functional failures.

PSB finalised the harmonisation and integration of the IT systems of three newly acquired banks, Volgoprombank, Nizhny Novgorod Bank and Yarsotsbank with PSB's own by the end of 2009. As part of the merger of these banks, their infrastructure was conformed to PSB standards.

Banking Licences and Memberships

As at 1 March 2011, PSB holds a number of key operational licences including the general banking and operational licence of the CBR, licences of the FSFM for a professional participant on the securities market to act as a broker, dealer, manager, depositary of securities and financial services, a CBR licence for holding deposits and placing precious metals, and a licence from the FSFM for an exchange intermediary for conducting commodity futures and options transactions in the Russian Federation. PSB is admitted to the retail deposits insurance system established by the Deposit Insurance Law. PSB is a principal member of Europay International and Visa International, as well as an official member of SWIFT. PSB is also a member of major industry organisations in the Russian financial market, including the Association of Russian Banks, MICEX, RTS, the National Stock Market Association, PARTAD, the National Currency Association, the International Forfaiting Association, the FCI and the Association of Banks of the North Western Region and International Capital Markets Association (ICMA).

Property

As at 31 December 2010, PSB owns 80% of its branch premises, foreign exchange bureau properties, ATMs and other facilities and leases the remainder, which is materially unchanged since 31 December 2008. PSB owns its head office buildings in Moscow. PSB owns most of its branch and sub-branch premises and offices and there are no liens over any of PSB's properties. In 2010 after the completion of integration of Yarsotsbank, Nizhny Novgorod Bank and Volgoprombank, PSB's property portfolio increased by 46 offices located in these regions. Despite the tough prevailing market conditions, PSB continues to consider opportunities for purchasing premises in the regions in order to establish new offices or profitable resale opportunities. Going forward, PSB intends to focus on leasing office space rather than purchasing properties.

Insurance

PSB has financial institution blanket bond insurance provided by Ingosstrakh Insurance Company (reinsured with Antares, Liberty International Underwriters, Chubb Insurance Company, Chaucer and Cartis). This insurance covers unlawful acts of employees, losses arising from unauthorised accessing of PSB's central computers systems, loss of property, losses arising from fraud transaction with payments, securities and false banknotes. In addition, PSB has a number of other insurance policies provided by Reso-Guarantee, Rosgosstrakh-Stolitsa Ltd, IC Oranta Ltd, Rosgosstrakh and Oranta, including insurance covering its offices, cash and cash equivalents, property, personnel and fraudulent transactions executed with plastic cards issued by PSB. However, the Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance

coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on its operations and financial position.

Litigation

PSB and its subsidiaries are from time to time subject to routine legal proceedings and other investigations in the ordinary course of business. Neither PSB nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which PSB is aware), during the 12 months preceding the date of this Base Prospectus, which may have, or have had in the recent past, significant effects on PSB and/or the Group's financial position or profitability.

RISK MANAGEMENT

Overview

The principal categories of risk inherent in PSB's business are credit risk, market risk (including foreign currency risk, interest rate risk and securities portfolio risk), liquidity risk and operational risk. The purpose of PSB's asset, liability and risk management ("**risk management**") policy is to evaluate, monitor and manage the size and concentration of the risks arising in the context of PSB's activities. PSB has designed its risk management policy to manage these risks by establishing procedures and setting limits, which are monitored by the relevant independent departments. Risk management functions are divided between bodies that are responsible for establishing risk management policies and procedures, including the establishment of limits, and those whose function is to implement those policies and procedures, including monitoring and controlling risks and limits.

Policy Setting

The Board of Directors, the Management Board, the President, the Credit Committees and the Asset and Liability Management Committee ("**ALCO**") work together to establish PSB's risk management policy. These bodies have the following functions:

- *Board of Directors.* The Board of Directors has overall responsibility for the determination of PSB's business priorities, approval of PSB's risk management and lending policies, and appraisal of risk management efficiency of PSB. The Board of Directors exercises control over the activities of the Management Board in the sphere of risk management.
- *Management Board.* The Management Board is responsible for formulating the risk management rules and procedures, considering any substantial risks that may come to light and notifying the Board of Directors of the same and for taking steps to mitigate risks.
- *President.* The President oversees compliance with risk management procedures and is responsible for timely risk recognition, adequate evaluation of the extent of the risk and timely implementation of risk management rules and procedures.
- *Credit Committee.* The Credit Committee aims to improve PSB's credit policy and ensure its implementation. The Credit Committee reviews and takes decisions on the following issues:
 - setting (updating) the portfolio risk limits for PSB's credit operations, such as concentration limits and industry-specific limits;
 - allocation of credit resources, including setting, changing or revising PSB's client credit limits (without limitations on the types of credit resources, including factoring and forward transactions as related to the credit exposure of a client, documentary operations and suretyships) as well as assignment of claims resulting from the provision of credit products and termination of obligations under extended credit products;
 - recommendations regarding participation in the capital of various businesses with the subsequent review of such recommendations by the authorised PSB management body;
 - recognition of non-performing credits and their transfer to PSB's specialised department for collection;
 - approval of the methodology used in credit risk analysis and assessment.

The Credit Committee may delegate particular matters or classes of matters to the Operational Credit Committee, suitably authorised employees of PSB and PSB's branches, subject in all cases to appropriate limits. See. "— Credit Risk".

- *Minor Credit Committee and Operational Minor Credit Committee.* These committees are responsible for minimising potential and existing material losses due to banking activities. They also organise and monitor collections of problem assets and establish procedures for the recovery of impaired loans.
- *Asset and Liability Management Committee.* ALCO is responsible for determining PSB's asset and liability structure, establishing PSB's short- and long-term liquidity limits, interest rate policy and transfer pricing

policy and setting market risk limits and interbank limits (inclusive limits on underwriting for new clients). PSB utilises a transfer pricing model in relation to cost shifting and income redistribution, pursuant to which profit centres sell resources under separate transactions to the Treasury which in turn sells the resources to the relevant profit centre that deals with the placement of such resources. Settlement is carried out under transfer-pricing rates, which are approved by ALCO. ALCO also acts as a risk management body in the implementation of PSB's interest rate, market risk, liquidity and country risk policy and is responsible for ensuring compliance with the CBR's mandatory economic and liquidity ratios as well as with financial and other covenants contained in PSB's loan agreements. The Management Board appoints members of ALCO.

Policy Implementation

The following bodies or persons are responsible for implementing PSB's risk management policy.

- *The Financial and Retail Risks Department.* The Financial and Retail Risks Department is responsible for identifying, measuring and monitoring all banking risks for PSB, except corporate and SME credit risk and strategic risk. It is also responsible, in co-ordination with other departments, for identifying, measuring and monitoring legal and reputation risks and their interaction with other risks. In particular, the Financial and Retail Risks Department comprises the following divisions and units: (i) the market risk management unit, (ii) the operational risk management division, (iii) the country risk and financial institutions analysis division, (iv) the retail credit risk division, (v) the balance structure risk management unit, and (vi) the securities issuers risk analysis unit. The Financial and Retail Risks Department is entirely independent from PSB's business units.
- *Treasury Department.* The Treasury Department is responsible for liquidity management, monitoring PSB's asset and liability structure, managing PSB's short-, medium- and long-term liquidity, managing foreign currency open positions and interest rate gaps related to PSB's banking business, as well as monitoring the operation of PSB's transfer pricing model.
- *Investment Department.* The Investment Department is responsible for managing PSB's securities trading and investment portfolios as well as for developing securities underwriting business and the placement of securities issued by PSB's customers.
- *Finance Department.* The Finance Department is responsible for monitoring PSB's asset and liability structure, risk-adjusted profitability of operations, supervising PSB's budget, and establishing and monitoring, in co-ordination with other departments, of provisions for impaired loans and reserves for other risks.
- *First Vice-President supervising the Finance and Risks Block* organises the bank risk management, controls the development and implementation of the risk management rules and procedures, including techniques for risk identification and evaluation, and supervises the work of the Vice-President – Head of Credit Risk Management.
- *Vice-President — Head of Credit Risks Management* is responsible for general credit risk management, including control over the application of general principles and methods for identification, evaluation and management of credit exposure. He also organises mandatory annual reviews of the risk management policy and supervises the organisation of the current activities of following subdivisions:
 - *Credit Risk Analysis Department.* The Credit Risk Analysis Department independently analyses risks relating to corporate clients' credit limits, carries out portfolio analysis of risks relating to outstanding credit products, and also develops and controls portfolio limits;
 - *Credit Risk Monitoring Department.* The Credit Risk Monitoring Department monitors client turnover through bank accounts, their covenant compliance and consolidates and organises credit limit data; and
 - *Risk Management Methodology Department.* The Risk Management Methodology Department develops procedures for analysing, measuring and controlling credit risks.
- *Credit Department.* The Credit Department is responsible for the analysis of the business of corporate clients and submission of recommendations regarding credit limits based on the evaluation of credit and other risks. It is also responsible for monitoring the financial position of the clients and informing the

Clients' Division (which comprises Standard Credit Products Department, International Finance Department, Fund Raising Department and Corporate Clients Sales Department), the Collateral Department and the Credit Risk Monitoring Department about the identified features indicating problematic indebtedness; it may also assess outstanding indebtedness and determine if such loans have or may become problematic according to its criteria. The Credit Department comprises: the Corporate Credit Control and Assessment Department, the Corporate Lending Department, the Large Business Lending and Investment Projects Department, and the Regional Corporate Lending Department.

- *SME and Retail Credit Department.* The SME and Retail Credit Department is responsible for SME and retail underwriting, control of the SME and retail credit process and the development of specific products for SME and retail banking.
- *Collateral Department.* The Collateral Department assesses and monitors the value of collateral received and the risks associated with collateral foreclosure.
- *Internal Audit and Control Department.* The Internal Audit and Control Department assesses the adequacy of, and compliance with, banking regulations and internal procedures at all levels throughout PSB on an on-going basis.
- *Foreign Exchange, Interest Rate and Commodities Trading Department.* The Foreign Exchange, Interest Rate and Commodities Trading Department manages PSB's operations on the exchanges and over-the-counter markets in the following asset classes: foreign exchange, interest rates, commodities and derivative products. Within the framework of these operations, the Foreign Exchange, Interest Rate and Commodities Trading Department is responsible for managing the currency and interest rates positions related to PSB's trading book and PSB's short-term liquidity in co-ordination with the Treasury Department.
- *Problem Assets Department.* The Problem Assets Department organises, coordinates and controls work with PSB's problem credits.

Credit Risk

General

PSB is exposed to credit risk, which is the risk that a counterparty will be unable to pay in full amounts when due. Credit risk arises, therefore, in the context of PSB's corporate, SME and retail lending activities and interbank operations, as well as with respect to debt capital markets underwriting arrangements, repurchase agreements and trading and off-balance sheet activities, such as granting letters of credit or guarantees to third parties. The general principles of PSB's credit policy are outlined in its credit policies for various types of credit products, approved by PSB's President. These policies also outline credit risk control and monitoring procedures and PSB's credit risk management systems.

In order to limit credit risk concentrations, PSB has a portfolio limit system in operation for its largest clients, for various industries and for related persons. The monitoring of the portfolio limit is based on the use of the early warning principle: when exposure reaches a pre-determined level (e.g., 90% of the established limit), PSB's management is so advised and this helps ensure a prompt management decision-making process aimed at limiting credit risk for PSB as a whole.

Credit Policies and Procedures for Legal Entities

Lending Principles for Corporate Clients

Lending principles for corporate clients are approved by the Board and their application is aimed at the maintenance of an appropriate ratio of credit exposure to minimum profitability and the scope of banking operations.

As a rule, PSB grants loans to clients that meet the following requirements:

- The client is loyal and open to PSB to the extent sufficient for analysis of its credit requirements;
- The client's management satisfies high standards of corporate governance;
- The financial and economic position of the client (current and forecasted) must allow the client to repay the debt fully and on time without compelling PSB to resort to the sale of the security;

- The purpose of the loan is clear and logically flows from the current business of the client;
- The client possesses real and clearly defined sources of repayment of the credit products extended;
- The client, as a rule, is ready to provide guarantees of the main members of its corporate group and of the beneficial owners of its business;
- The client is ready to provide security in the amount required by PSB;
- All other revealed credit-related risks of the client (legal, reputational, environmental, regulatory, etc.) are acceptable to PSB.

When making the decision to lend, PSB gives preference to the following clients:

- Those who use or are ready to use PSB's commission products (commission products include payment and cash operations, "wage payment projects", conversion and no-risk documentary transactions);
- Those who have substantial operating experience in the market, positive and above average industrial dynamics of development; have a notable share of their regional market; or a well-known brand in the market;
- Those with a positive credit history;
- Those who possess and own fixed assets in the form of property and equipment;
- Those who receive targeted state support;
- To whose accounts with PSB 50% of the client's revenues are credited, including proceeds from encashment.

PSB gives priority to the following sectors of national economy when making a decision to extend credit:

- IT and telecommunications;
- Wholesale and retail sales;
- Military industry sector;
- Power engineering;
- Pharmaceuticals;
- Food production;
- Infrastructure construction;
- Other industries related to government orders;
- Wood processing;
- Transport; and
- Extraction and production of precious metals.

New credit limits shall not be established for clients:

- whose activities are prohibited by laws of the Russian Federation, including those related to the legitimisation (money laundering) of the proceeds of crime and the financing of terrorism;

- who use aggressive methods of tax planning with respect to the greater part of their revenues and/or assets;
- who have links to the criminal community;
- whose activities are linked with high environmental risk;
- whose activities are connected with production and sale of tobacco products, gambling industry or sale of adult entertainment products;
- who are state or municipal-owned enterprises — because these entities do not disclose their accounts and it is, therefore, impossible for PSB to assess their creditworthiness.

Only the Credit Committee is permitted to authorise lending to businesses that fail to satisfy the above requirements.

PBS's Requirements for Security

In order to reduce credit risk, PSB uses the following types of security (in decreasing order of priority):

Collateral Quality Group¹	Type of Collateral (Description)
1 (Highly liquid)	Pledge of debt securities of PSB
	Cash on deposit on accounts with PSB
	Funds placed with PSB and being a 100% cover for trade finance transactions
	Pledge of refined precious metals in ingots (gold, silver, platinum and palladium)
2	Pledge of highly liquid publicly traded securities of third party issuers
	Pledge of promissory notes issued by companies with investment rating of, at least, BBB- as per the classification of Standard & Poor's or the analogous rating by Fitch Ratings or Moody's
	Guarantees of third party banks for which PSB fixed a limit for interbank transactions
3	Mortgage of the modern office, trade or warehouse real property as well as the residential real property, provided that its owner is not an individual
	Pledge of rights to receive revenues under a state contract, contract with a large monopoly company, contract with a company with investment rating of, at least, BBB- as per the classification of Standard & Poor's or the analogous rating by Fitch Ratings or Moody's
4	Mortgage of other (non-modern) office, trade or warehouse real property as well as the residential real property, provided that its owner is not an individual
	Mortgage of land plots free of any development and located within the city
	New vehicles as a floating charge
	Mortgage of modern aircrafts, river and sea vessels
	Pledge of a group of liquid equipment
	Pledge of business
5	Mortgage of production and other real property
	Pledge of other liquid assets
	Pledge of rights (claims) except for the ones referred to group 3
6	Other security including the one pledged as a lever of influence on a client

¹ According to the expected level of collectibility in the case of default of a client, as assessed by the Collateral Department.

Credit exposure of a client by each credit facility is deemed as 100% secured if the collateral value of the provided security equals to or exceeds all amount of debt. PSB has the following requirements as to the level of collateral:

Collateral Level	Allowable if:
Absence of collateral	A lending limit is set for such credit facilities as overdraft and factoring.
	A project financed is related to the performance of state or municipal order for production of output, goods or performance of works, provided that there is a sufficient basis to assume that the state financing will be made within the period stipulated in the contract.
	The client is a state-owned company that takes a monopoly position on a market.
	The client is included in top 300 largest companies in Russia in terms of its revenues
	The client simultaneously satisfies the following conditions: 1) PSB is the only lender of the client; 2) More than 80% of the client's revenues are credited to accounts with PSB, including from encashment; 3) The principal beneficiaries (jointly holding more than 50% of votes) of the business provide their personal guarantees ² as well as the consent of their spouses (if any) to the providing of such guarantee; 4) Maturity of credit facilities within the lending limit does not exceed 12 months; 5) The purpose for obtaining loans is financing of the working capital.
	A client simultaneously satisfies the following conditions: 1) It is a power supply company; and 2) Maturity of credit facilities within the lending limit does not exceed 3 months.
At least, 10% by means of highly liquid security or At least, 20% by means of liquid security	Credit facilities are conditional guarantees satisfying the following requirements: 1) Any tender guarantees; 2) Other conditional guarantees – if (simultaneously): - A beneficiary is a state-owned company that takes a monopoly position on the market (Transneft, Gazprom, etc.); <i>and</i> - A principal has experience in the relevant works (at least, two contracts with the beneficiary performed).
At least 50%	The client simultaneously satisfies the following conditions: 1) The client has stable financial condition; 2) The client has positive credit history with PSB or positive credit history with other banks for the last 12 months preceding the analysis of its financial condition confirmed by documents; 3) The principal beneficiaries (jointly holding more than 50% of votes) of the business provide their personal guarantees as well as the consent of their spouses (if any) for the provision of such guarantee; 4) The purpose for obtaining loans is financing of the working capital.
At least 100%	Other clients.

² Non-fulfillment of this condition is only allowed when the client is a public company.

The indebtedness of the client in the breakdown of each loan product is considered 100% secured if the collateral value of the provided security is equal to or exceeds the amount of the indebtedness, including accrued interest and PSB's expenses related to sale of the collateral.

Where the transaction is associated with increased credit risk (for example, the venture capital financing of a project in a field new to the client; restructuring of the client's indebtedness caused by significant worsening of its financial position; or refinancing of the entire or major part of the client's indebtedness to other creditors due to its unstable financial position), in order to encourage the client to repay the debt, it is expedient to request a pledge of the shares/stocks of the client's business representing at least a blocking stake.

Unless otherwise provided for in a decision establishing a credit limit, it is mandatory for the client to insure against the following risks for at least the term of the loan plus one month:

- Risk of loss of or damage to property provided as a collateral (except for securities and claims);
- Risk of loss of title and other real rights provided as a collateral;
- All construction and building risks (if the credit limit provides for the funding of construction and building works).

If the term of the loan exceeds one year, the property can be insured for one year provided the pledge agreement includes the pledgor's obligation to extend the insurance agreement for the next year.

Where the pledgor is a third party (not the borrower), generally the guarantee of the latter is required.

Interest Rate Determination

In determining the appropriate interest rate for an initial application, consideration is given to the size and the perceived risk level of the potential borrower. ALCO establishes transfer pricing rates that depend on the term and the currency of the loan. As part of the application process, the Credit Committee and other authorised bodies of PSB assess the level of risk premium to be applied to a particular borrower and to a particular loan product. PSB has reviewed its overall approach to interest-rate setting in accordance with market trends and PSB's own circumstances and in the current "lenders' market", it is able to differentiate its lending rates based on individual borrower risk premiums.

Stages of the Lending Process

The lending process follows the following stages:

- Outlining of lending priorities, requirements of clients and main principles for credit risk assessment and management;
- Search for potential clients who are interested in using credit products including the receipt of requests from the clients;
- Development of a credit limit;
- Approval of a credit limit, including independent expert examination of the credit risks;
- Providing credit products within the credit limit approved;
- Monitoring of the credit limit approved; and
- Dealing with troubled debts (if any).

Credit Approval Process

The decision-making process on credit limit-related matters is conducted at several levels.

The Credit Committee is authorised to take decisions at the highest level. In order to improve the efficiency of PSB's operations, the Management Board has delegated certain powers of the Credit Committee to the Operational

Credit Committee, including the authority to make minor amendments to existing credit limits set by the Credit Committee and to set new/alter existing credit limits for credit facilities that are 100% cash collateralised or secured by PSB's promissory notes.

When approving a particular credit limit, the Credit Committee may specifically limit the list of credit conditions, which may be amended by the Operational Credit Committee.

If the amount of the proposed credit limit for a corporate client does not exceed the amount determined by the decision of the Management Board, decisions on setting/alteration/revision of the credit limit are made by authorised persons in accordance with established procedures, by reference to the following principles:

- The decision is made jointly by the front-manager and the risk-manager of one of the four levels (the four eyes principle);
- The decision is made by persons at different levels depending on the term and the size of the credit limit under approval, as well as other indicators stipulated by internal documents of PSB;
- If there is no consensus at a particular level, the decision may be escalated to a higher level;
- If no consensus is reached at the higher level, the decision may be taken by the Credit Committee.

In addition, decisions on credit transactions can be taken by officials of the Head Bank within their personal limits approved by the Management Board and by PSB's branches within the limits of their limits of independent decision-making (at present, the St. Petersburg branch is the only one that has such limit) and by officials of PSB acting within other authorities granted to them by the Management Board.

A credit limit for more than RUB6.0 billion is deemed to be a large credit limit. The principles followed when making decisions on such large credit limits are as below.

- For the Credit Committee to make decisions regarding the following matters, at least six members should necessarily be present at the relevant meeting:
 - Initial setting of a large credit limit (including an increase in the existing credit limit up to a large credit limit);
 - Increase in a large credit limit by more than 10% of the initially approved large credit limit;
 - Increase in the unsecured portion of a large credit limit (which is the total unsecured portion of all credit products within a credit limit) by more than 30% of the initially approved large credit limit;
 - Exclusion of any guarantee without an equivalent substitute guarantee or pledge.
- Positive decisions by the Credit Committee regarding large credit limits become effective only after they are approved by the Board of Directors. The matter is referred to the Board of Directors for its approval pursuant to the Regulation on the Board of Directors. The approved decision is circulated to the subdivisions concerned after approval of the Board of Directors is obtained.

Monitoring of Corporate Loans

Credit limits are regularly monitored from the time of their approval until the end of the term of the limit. The purpose of monitoring credit limits is to:

- Identify in good time any violation by a client of the terms of the credit limit;
- Identify any possible increased credit risk for any client; and
- Comply with the regulatory requirements of the CBR regarding the regular assessment of credit risk.

Responsibility for monitoring credit limits is distributed among various divisions and units that participate in the lending process. The results of the credit risks monitoring are supposed to be consolidated by the Credit Risks Monitoring Department that submits them to the interested divisions and units.

If any violations of the credit limits are identified, a responsible officer of the subdivision that revealed the violation must:

- inform the Clients Division, the Credit Division, the Collateral Department (if there is collateral for the loan) and the Credit Risks Monitoring Department of the violation in accordance with PSB's internal procedures; and
- take all steps to remedy the violation as far as possible pursuant to the authorities and time limits determined by the internal regulations of PSB.

If it is impossible to immediately remedy the violation, an action plan, including a description of actions and time limits for curing the violation, shall be developed.

As well as the monitoring of the credit limits, the risks of the corporate credit portfolio are also monitored. To this end, the Portfolio Analysis Division of the Credit Risk Analysis Department regularly:

- monitors the portfolio limits;
- analyses the level of the overdue indebtedness in the credit portfolio; and
- analyses the structure of and changes in the credit portfolio.

The Portfolio Analysis Division of the Credit Risk Analysis Department or any other authorised subdivision that has relevant control responsibilities, informs members of the Credit Committee and the Management Board of any identified cases of violation of portfolio limits or an increase of the Credit Risk in respect of PSB's Corporate Credit Portfolio in general.

SME Lending

PSB bases credit decisions for SMEs on a multi-tiered internal review process. Control over credit risks is exercised by the SME Credit Committee. Each credit application submitted by a SME is subject to the examination of and approval by the SME Credit Committee. All limits are classified according to relevant ratings that reflect an assessment of the risk associated with the transaction. For the purpose of assessing the creditworthiness of the borrower, PSB analyses financial statements of the potential borrower (official as well as internal management accounts relating to liquidity, turnover, profitability, leverage and cash flow), the main features of the customer's business (type of industry, market position, type of goods, diversification of business, quality of management and accounting procedures, credit history, history of relations between the potential borrower and PSB) and statistical data (based on integrated data with regard to the similar group of borrowers for whom loans have already been granted and retrospective analysis of such data).

The credit risk management procedure also includes a regular reassessment of the creditworthiness of borrowers. PSB systematically monitors the financial position of borrowers and debt service quality. Such duties are distributed between the front office (control over the limit) and middle office (the monitoring of dates on which prescheduled events shall occur). The frequency of monitoring is stipulated by the SME Credit Committee and depends on the borrower's creditworthiness and on the type of loan security. PSB has determined indicators showing whether the credit limit or the borrower becomes problematic. If so, PSB initiates processing of pre-problem and problem debts. The loan recovery procedure includes a number of stages in which various different departments of PSB are engaged. The collection of problem loans is coordinated, and action plans are carried out, by a special division of the SME Department. The several phases include pre-trial debt collection and compulsory debt collection as a consequence of court order.

Provisioning Levels and Write-offs

The following table provides information on the credit quality of PSB's loan portfolio as at 31 December 2010 and 2009.

As at 31 December						
2010			2009			
	Gross Loans	Impairment Allowance	Impairment Allowance to Gross Loans	Gross Loans	Impairment Allowance	Impairment Allowance to Gross Loans
(RUB thousands except for percentages)						
Loans to corporate clients not involved in international business.....	223,967,823	(17,462,241)	7.80%	183,239,909	(16,095,323)	8.78%
Loans to corporate clients involved in international business.....	36,309,270	(1,358,451)	3.74%	31,944,501	(1,961,072)	6.14%
Factoring loans	29,102,961	(4,044,459)	13.90%	26,845,661	(5,659,474)	21.08%
Loans to small and medium enterprises.....	26,704,789	(4,275,030)	16.01%	22,533,997	(4,079,074)	18.10%
Loans to individuals	32,535,333	(10,532,352)	32.37%	40,703,314	(11,050,860)	27.15%
Total loans to customers	348,620,176	(37,672,533)	10.81%	305,267,382	(38,845,803)	12.76%

See also Note 9 to each of the 2010, 2009 and 2008 Annual Financial Statements for additional information on impaired loans.

PSB strictly follows the CBR's provisioning methodology for non-performing loans under which the amount of reserve depends not only on the number of days overdue, but also on various other factors. The loan quality class and amount of reserve depends on the financial standing of the borrower and on the loan servicing quality. In accordance with the requirements imposed by the CBR, the financial standing of a borrower may be classified as "good", "average" and "bad". Loan servicing quality is classified in the same manner. The financial standing of a company is assessed on the basis of a technique approved by PSB with due consideration of CBR Regulation No. 254-P. Under this technique, for example, a corporate borrower's financial standing will not be assessed as "good" if one or more of the following is detected:

- material payment orders (in terms of amount and/or duration) issued by the borrower in the past which were not paid;
- borrower has concealed losses (such as non-liquid assets on its balance sheet or bad receivables) in the amount equal to or exceeding 25% of net assets; or
- losses not foreseen in the borrower's business plan.

When the loan servicing quality is assessed, the amount of days of the delay, sources of repayment, availability of restructuring and permitted use of a loan are taken into consideration. The loan servicing quality will not be deemed "good" if the loan has been restructured, for example, if: the conditions of the loan agreement have been changed; the loan repayment period has been extended; the loan interest rate has been reduced; the principal amount of debt has been increased; the principal receivable and interest repayment schedules have been changed; or if the loan was directly or indirectly made available for the repayment of a previously granted loan.

Loans are written off after PSB has taken all necessary and sufficient measures to recover the loan that are provided by law, CBR regulations, business practices or contract. The Management Board or Board of Directors must approve all write-offs.

PSB has also developed an internal provisioning methodology for IFRS accounts in accordance with IAS 39 (revised), which recognises impairment when a loss is incurred and does not account for expected future losses if not incurred as at the balance sheet date.

For financial assets that are carried out at amortised cost, the allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. 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, the previously recognised impairment loss is reversed by adjusting an allowance account. For corporate loans, PSB establishes an allowance for impairment losses on financial assets when there is objective evidence that a financial asset or group of financial assets is impaired.

For retail and SME loans PSB estimates loan impairment for homogenous groups of loans based on the type of off-the-shelf products. Provision rates for each pool are calculated by the migration analysis method based on the past historic loss experience on these types of loans.

For financial assets carried at cost, the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate or return for a similar financial asset. Such impairment losses are not reversed. The determination of the allowance for impairment losses is based on an analysis of the risky assets and reflects the amount, which in the judgment of the Credit Department, Credit Risk Analysis Department and Financial Department, is adequate to provide for losses incurred.

Factors that PSB considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. Whilst it is possible that in particular periods PSB may sustain losses which are substantial relative to the allowance for impairment losses, it is the judgment of the Credit Department, Credit Risk Analysis Department and Financial Department that the allowance for impairment losses is adequate to absorb probable losses. If there is no objective evidence of impairment of an individually assessed loan, the loan is categorised into a group with the same credit risk characteristics assessed based on:

- historical statistics as to losses, debt servicing and impairment; and
- similar risk profiles.

Currently, the provision rates for loans without signs of impairment are based on the past loss experience (adjusted to the present macroeconomic situation in the relevant sector), which are calculated as aggregated loss figures for each pool divided by the average balance of loans in the pool for a five-year period.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted, in arriving at assets as shown in the statement of financial position.

Credit Policies and Procedures for Individuals

Credit Origination Analysis

Currently, PSB uses a system for taking decisions on granting consumer loans in accordance with approved standard procedures. However, since November 2008, all retail lending credit approval processes are conducted on a centralised basis. The centralised process provides for the participation of credit experts (underwriters) whose responsibility is the additional analysis of loan applications. As at November 2008, all retail loan applications are assessed by the Large Credit Committee and through the National Bureau of Credit Histories ("NBCH"). Eligible collateral includes securities, immovable property and third-party guarantees. The Verification and Collection Department checks the accuracy and consistency of the data provided by the borrower (such as place of employment, employee records and residence) and verifies their credit history.

During the second quarter of 2010 the decision-making process was linked to the three main credit bureau in order to receive the most relevant and up-to-date information on the credit history of a borrower. The efficiency of the decision-making system implemented in PSB was assessed by Experian and Oliver Wyman who confirmed that it was of a high standard. They also noted that the correct methodology was adopted to assess retail risks and that the procedures implemented in relation to examination of loan applications were appropriate.

Monitoring of Consumer Loans

As of November 2008, the Risk Management Department develops the methodology for internal monitoring of PSB's consumer loans, including day-to-day monitoring, monitoring of due and unpaid liabilities and computation of the provision rates based on statistic information on delinquency levels. Recomputation of the provision rates is conducted not less than once a quarter. However, the amount of the provision for each loan can be adjusted every day if necessary. In the fourth quarter of 2008, PSB introduced a new analytic system based on the SAS IT system. With the help of this

system, PSB is able to constantly monitor the quality of its consumer loans and assess the efficiency of its consumer lending procedures.

As a result of adopting the SAS IT system, PSB has improved its reporting on retail credit risks, enhanced the quality of its decision-making processes and its monitoring of the migration of retail loans. The system has also allowed PSB to develop its own scoring systems, and allowed PSB to realise regular assessments of the adequacy and effectiveness of those systems. Currently PSB has scoring models for all its retail products, and reviews the models on a regular basis reflecting current market conditions.

In the fourth quarter of 2010, the Collection Service of PSB implemented a new Siebel system to automate the interaction of the Legal Department, Back-Office, Problem Assets Dealing Department and Security Service. A system was also launched for making informational calls to clients and sending them SMSs at various levels of the collection process in order to keep clients duly informed. In the third quarter of 2010 a new IVR system was implemented to notify borrowers whose payments are overdue.

Loan Classification and Impairment Allowances

PSB reviews its loans on a regular basis to assess impairment. A loan is considered impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that event (or events) has had an impact on the estimated future cash flows of the loan that can be reliably estimated. Under certain circumstances, a loan can be rolled over if the borrower's financial standing or collateral are considered to be sufficient for doing so.

PSB first assesses whether objective evidence of impairment exists individually for loans that are individually significant, or collectively for loans that are not individually significant. If PSB determines that no objective evidence of impairment exists for a loan which is assessed individually, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data reflecting current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, PSB uses its experience and judgment to estimate the amount of any impairment loss.

The following table sets forth the analysis of the consolidated Group's loan exposure and impairment allowances as at 31 December 2010 by economic sectors. For a year-by-year comparison, see "Management Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations for the Years Ended 31 December 2010, 2009 and 2008".

As at 31 December 2010			
	Exposure	Provisions	Total
	(RUB thousands)		
Economic sector			
Loans to individuals	32,535,333	(10,532,352)	22,002,981
Loans to corporate entities, including SME, of which	316,084,843	(27,140,181)	288,944,662
Food production and food trade.....	41,839,408	(5,091,839)	36,747,569
Durables trade.....	29,828,249	(3,371,049)	26,457,200
Real estate management.....	25,268,664	(846,018)	24,422,646
Other non-food trade.....	24,625,054	(2,761,302)	21,863,752
Metallurgy.....	17,547,390	(1,355,629)	16,191,761
Wood processing.....	17,003,255	(885,936)	16,117,319
Finance, leasing and insurance.....	14,856,701	(564,404)	14,292,297
Residential real estate construction.....	14,393,654	(661,391)	13,732,263
Construction materials.....	13,636,347	(1,442,713)	12,193,634
Transport.....	11,102,278	(857,289)	10,244,989
Industrial real estate construction.....	10,271,321	(98,564)	10,172,757
Commercial real estate construction.....	9,848,081	(293,376)	9,554,705
Car trade.....	8,873,737	(1,878,910)	6,994,827
Services.....	8,656,766	(1,583,783)	7,072,983
Agriculture.....	7,399,895	(432,210)	6,967,685
Chemical production.....	7,209,486	(544,836)	6,664,650
Information technology.....	5,765,990	(6,629)	5,759,361
Pharmaceutical.....	5,155,879	(1,304,314)	3,851,565
Energy.....	4,810,261	(50,884)	4,759,377
Machinery.....	4,660,964	(364,200)	4,296,764
Luxury industry.....	3,895,770	(48,994)	3,846,776
Oil industry.....	3,494,014	(917,495)	2,576,519
Telecommunications.....	3,309,792	(238,803)	3,070,989
Defence industry.....	2,913,027	(20,226)	2,892,801
Media.....	2,534,753	(259,123)	2,275,630
State and Local Authorities.....	2,321,202	(9,967)	2,311,235
Other.....	14,862,905	(1,250,297)	13,612,608
Total loans to customers	348,620,176	(37,672,533)	310,947,643

As at 31 December 2010, gross overdue loans to customers accounted for approximately 12.0% of PSB's gross loans to customers.

Loan Recovery

PSB's Problem Assets Dealing Department is responsible for collecting loan payments, for working out problem loans at the Head Office level and for monitoring the workout process at the branch level. Any indebtedness that is considered to be problematic is transferred to the Problem Assets Dealing Department by decision of the Credit Committee. Any subdivision may determine that a loan is problematic if certain signs (as prescribed by PSB's internal regulations) come to light. In many cases, the issue of recognising indebtedness as problematic must necessarily be referred to the Credit Committee (for example, when the payment is overdue by more than 30 days, there is loss of security or substantial reduction in the value of the security, or when a bankruptcy procedure is commenced with respect to the client or a member of its corporate group).

PSB has established a system for collecting outstanding corporate loans. Once a loan is transferred to the Problem Assets Dealing Department, it evaluates borrower information and attempts to determine reasons for default. The Problem Assets Dealing Department then contacts the borrower and attempts to restructure the loan so that the borrower can resume interest payments or repay the loan. The restructuring arrangements include rescheduling of interest payments, term prolongation, obtaining additional security and other ways to restore the borrower's payment capacity. If a loan is restructured, the Problem Assets Dealing Department monitors the borrower's compliance with the terms of the restructured loan.

If restructuring of a corporate loan is not possible or not successful, the Problem Assets Dealing Department and the Legal Department bring legal actions against the borrower and/or any guarantors. Such actions may result in the borrower's bankruptcy. The Problem Assets Dealing Department has generally been successful in obtaining the partial repayment of loans through bankruptcy proceedings.

With respect to outstanding corporate loans, the Problem Assets Dealing Department also determines whether additional measures can be taken to recover some or all of the lent funds, such as selling or assigning PSB's rights to third parties. Loans deemed non-recoverable are written off against impairment allowances.

PSB has introduced a procedure for collecting outstanding retail loans. PSB's Call Centre contacts the borrower shortly before a loan is due and reminds the borrower of the upcoming payment. Should the borrower not pay according to the required schedule, PSB attempts to make contact again with the borrower and convince him that payment must be made. PSB may offer to restructure the loan so that the borrower can resume interest payments or repay the loan. If PSB is unable to locate the borrower, it may attempt to contact the borrower's friends, relatives or employer. Should the borrower fail to make the necessary payment within 30 days, the loan is treated as a problem loan. PSB continues to evaluate available information, attempts to make personal contact with the borrower and to arrange voluntary transfer to PSB of any collateral associated with the problem loan. If the problem loan is not repaid or restructured, PSB either pursues repayment or transfer of collateral through judicial processes or demands payment from any sureties or guarantors connected with the loan. The loan recovery procedures are performed by a specially designed centralised IT system that maintains information on the current status of delinquent loans and allows relevant personnel to supervise the status of loan recovery procedures and results.

The following table sets forth, on a consolidated basis, the status of gross loans to customers for the periods indicated.

	As at 31 December		
	2010	2009	2008
	(RUB thousands)		
Loans to customers			
Current	306,708,266	257,782,029	296,735,649
Overdue	41,911,910	47,485,353	22,187,540
Total loans to customers	348,620,176	305,267,382	318,923,189
Overdue as % of total	12.0%	15.6%	7.0%

Market Risk

PSB's exposure to market risk arises from changes in currency exchange rates, interest rates and securities prices. The goal of PSB's market risk management is to limit and reduce the amount of possible losses on open positions that PSB may incur because of changes in these items. Based on recommendations made by the Risk Management Department, the ALCO manages market risk by fixing limits on possible losses for each type of operation and by supervising day-to-day monitoring carried out by the Risk Management Department.

The parameters of market risk for PSB's securities portfolio are as follows:

- Value-at-Risk ("VaR"), which is calculated using the historic simulation methodology, considering correlation between instruments on a one day basis and at 99% confidence level;
- Conditional Value-at-Risk ("CVaR"), which is calculated using the historic simulation methodology, considering correlation between instruments on a one day basis and at 95% confidence level;
- the level of interest rate risk, which is characterised by the Present Value of a Basis Point ("PVBP") parameter.

Currency Risk

As PSB has assets, liabilities and other commitments in several currencies, it is exposed to currency risk through the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. PSB's currency risks primarily arise in the context of its foreign currency lending and trading in foreign currency securities and money market instruments.

PSB's currency risk is a function of its open currency positions. The ALCO manages currency risk by:

- prescribing limits on open positions for each foreign currency and for the total foreign exchange ("FX") position of PSB, being fully in line with all applicable laws and regulations (e.g., the requirements of the CBR).

- prescribing two types of “stop-loss” limits, namely (i) limits as to PSB’s losses arising during the course of one trading day and (ii) limits as to the losses arising during the previous 40 trading days. Once the 40-days stop-loss limit is reached, all loss-making FX positions are closed and all speculative activity in the FX market is suspended until an appropriate extraordinary resolution of the ALCO is taken.
- prescribing limits on VaR calculated for PSB’s FX open position on a daily basis. PSB uses the “historical simulation” methodology for calculating such FX VaR estimates. According to Basel Accord II recommendations, PSB employs the 99% quartile confidence level, over a period of up to 500 trading days, with liquidity-adjusted holding periods comprising one day for PSB’s FX and equity trading, one week for PSB’s international fixed-income sub-portfolio (under implementation) and two weeks for PSB’s domestic fixed-income sub-portfolio (under implementation).

The ALCO sets these limits on the basis of recommendations from PSB’s Risk Management Department and in accordance with VaR and stress-testing. The Risk Management Department monitors all activities relating to currency limits on a daily basis. Currency limits are reviewed at regular intervals or more frequently in the event of any particular market unrest. In such cases, the Treasury Department may also temporarily suspend or reduce its FX exposures.

The Treasury Department manages the currency position of PSB’s banking book on a day-to-day basis and the Money Markets Division manages the currency position of PSB’s trading book on a real-time basis. PSB has implemented a five-tier system of monitoring compliance with currency limits, allowing for monitoring by an individual trader, the Money Markets Division, the Risk Management Department, the Accounting, Reporting and Settlements Department and, finally, by the Internal Audit and Control Department. PSB is also subject to the currency risk requirements set by the CBR.

The table below presents, on a consolidated basis, the Group’s exposure to foreign currency risk as at 31 December 2010 (except where otherwise indicated). Included in the table are the Group’s assets and liabilities categorised by currency (dashes indicate where PSB did not have an outstanding position in the corresponding currency).

As at 31 December 2010					
	RUB	USD	EUR	Other	Total
	(RUB thousands)				
Assets					
Cash and cash equivalents.....	23,968,729	12,647,595	4,428,368	4,137,557	45,182,249
Obligatory reserves with central banks.....	2,567,027	—	448,849	—	3,015,876
Placements with banks and other financial institutions.....	14,494	5,605,817	6,501,721	—	12,122,032
Financial assets at fair value through profit or loss.....	36,310,744	5,695,180	3,979,340	19,308	46,004,572
Amounts receivable under reverse repurchase agreements.....	15,949,846	—	—	—	15,949,846
Loans to customers.....	180,809,109	107,291,732	22,198,615	648,187	310,947,643
Investments available for sale.....	2,197,714	—	5,499	—	2,203,213
Investments held to maturity.....	3,874,209	92,702	—	—	3,966,911
Assets held for sale.....	5,944,765	—	—	—	5,944,765
Other assets.....	1,848,643	614,427	41,894	8,814	2,513,778
Current income tax prepayments.....	612,254	—	—	—	612,254
Deferred tax asset.....	1,065,008	—	—	—	1,065,008
Property and equipment.....	25,598,772	—	—	—	25,598,772
Total assets	300,761,314	131,947,453	37,604,286	4,813,866	475,126,919
Liabilities					
Financial liabilities at fair value through profit or loss.....	1,020,926	558,638	6,666	7,154	1,593,384
Deposits and balances from banks and other financial institutions.....	21,613,417	22 249,044	15,523,536	291,880	59,677,877
Amounts payable under repurchase agreements.....	1,642,229	1,147,787	—	—	2,790,016
Current accounts and deposits from customers.....	205,236,349	58,505,159	29,484,504	3 820 833	297 046,845
Own securities issued.....	22,538,569	9,361,557	227	—	32,127,497
Other borrowed funds.....	2,806,700	9,995,495	—	—	12,802,195
Other liabilities.....	2,238,767	175,567	25,028	228	2,439,590
Current income tax payable.....	—	—	948	—	948
Deferred tax liability.....	55,645	—	—	—	55,645
Subordinated borrowings.....	—	21,817,689	—	—	21,817,689
Total liabilities	257,152,602	123,810,936	45,268,053	4,120,095	430,351,686
Net on balance sheet position as at 31 December 2010	43,608,712	8,136,517	(7,663,767)	693,771	44,775,233

As at 31 December 2010, the Group was also exposed to foreign currency risk in respect of its net off balance sheet assets and liabilities. As at 31 December 2010, the Group had issued guarantees and had other credit related

commitments in several foreign currencies, including roubles, U.S. dollars and euros. See Note 34 to the 2010 Annual Financial Statements.

Interest Rate Risk

PSB is exposed to interest rate risk, which is the risk of changes to PSB's financial condition or results of operations based on adverse movements in interest rates, when it lends to customers at interest rates, in amounts and at maturities that differ from the interest rates, amounts, and maturities at which PSB attracts funding. Although most of PSB's assets and liabilities have fixed interest rates, the terms of PSB's main credit products with terms of over one month generally provide for PSB's right to revise interest rates in accordance with market benchmark trends. PSB manages its interest rate risk by maintaining an interest margin, defined as net interest income expressed as a percentage of average interest-earning assets sufficient to cover operational expenses as well as a risk premium and by matching the funding and exposures with floating and fixed interest rates. As part of PSB's interest rate risk management procedures, the Treasury Department calculates the interest rate gaps and earnings-at-risk based on models approved by the Risk Management Department. The ALCO reviews those calculations, sets limits for interest rate mismatches and adopts various strategies aimed at mitigating or hedging interest rate risk, on the basis of common recommendations made by the Treasury Department and Risk Management Departments. The Treasury Department is responsible for implementing and monitoring ALCO's decision. PSB sets indicative limits for level of interest rate risk of PSB's banking book, which is characterised by the PVBP ratio. In 2010, PSB developed a model of influence of change of interest rates on financial results, which demonstrates changes of interest incomes and expenses owing to the movement of market interest rates.

As at 31 December 2010, the Group experienced a positive interest rate sensitivity gap in respect of assets and liabilities in the maturity categories "From One to Five Years" and "More than Five Years", and also experienced an overall positive interest rate sensitivity gap. As at 31 December 2010, the Group experienced a negative interest rate sensitivity gap in respect of assets and liabilities in the maturity categories "Payable on Demand and less than One Month", "From One to Six Months" and "From Six Months to One Year". For details of the exposure of the Group to interest rate risk as at 31 December 2010 see Note 34 to the 2010 Annual Financial Statements and for details of the effective average interest rates by roubles and foreign currencies for principal monetary financial instruments outstanding as at 31 December 2010, 2009 and 2008, see Note 42 to the 2010 Annual Financial Statements, Note 41 to the 2009 Annual Financial Statements and Note 40 to the 2008 Annual Financial Statements.

Securities Portfolio Risk

Securities portfolio risk is the risk of changes in the value of securities as a result of interest rate or price movements. PSB's securities portfolio, which it actively trades, consists primarily of Russian government and municipal securities, corporate bonds, promissory notes of Russian banks and equities. PSB's equity investments are insignificant and limited to sufficiently liquid shares of Russian blue chips. As at 31 December 2010, the value of PSB's financial instruments at fair value through profit or loss totalled RUB46.0 billion. The value of its equity investments included in PSB's financial instruments at fair value through profit or loss as at that date was RUB262.9 million. As at 31 December 2009, the value of PSB's financial instruments at fair value through profit or loss totalled RUB41.8 billion. The value of equity investments included in PSB's financial instruments at fair value through profit or loss as at that date was RUB143.8 million.

The ALCO manages PSB's securities portfolio risk by:

- prescribing instrument-specific issuer and portfolio limits which limit open positions for each issuer and for some securities sub-portfolios. These are set for the purpose of mitigating associated issuer credit and market liquidity risks;
- prescribing two types of "stop-loss" limits, namely (i) limits as to the losses of each sub-portfolio (rouble-denominated international debt securities, equities) arising during the course of one trading day, and (ii) limits as to PSB's losses arising during the previous 40 trading days. Once the 40-days stop-loss limit is reached, all loss-making FX positions are closed and all speculative activity in the FX market is stopped until the appropriate extraordinary resolution of the ALCO is taken;
- prescribing limits on PVBP for domestic and euro-bond portfolios. These limits restrict the value of possible losses in terms of present value of cash flows of any given bond portfolio, which would arise from a one basis point change in interest rates;
- prescribing limits on CVaR calculated for the trading positions of all of PSB's securities trading positions on a daily basis. PSB uses the "historical simulation" method based on historical data of at least half of the

year. When calculating CVaR, PSB employs a ten-day holding period for Eurobonds and a one-day holding period for equities with a 95% confidence level.

As with ALCO's policies in respect of currency risk related to securities denominated in foreign currencies, the ALCO sets these limits on the basis of recommendations from PSB's Risk Management Department and in accordance with VaR, stress-testing and budget-dependent methodologies. The Risk Management Department monitors all activities relating to currency limits on a daily basis. Currency limits are reviewed at regular intervals, and more frequently in the event of any particular market unrest. In such cases, the Treasury Department may also temporarily suspend or reduce its FX exposures.

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in PSB being unable to liquidate a position in a timely manner at a reasonable price to meet its funding obligations. PSB is exposed to liquidity risk primarily in the funding of its customer loan and securities portfolio. PSB seeks to have sufficient liquidity to meet the Group's current and future obligations and funding needs at reasonable market rates. PSB's operations are principally funded through customer deposits (both corporate and retail) and CBR deposits and loans, PSB also has some interbank borrowings and debt funding in both Russian and international capital markets. In addition, a portion of its securities portfolio is highly liquid and could be used to help PSB meet liquidity needs. PSB also has an overdraft agreement with the CBR.

The ALCO approves liquidity assessment and management procedures, determines liquidity requirements and sets minimum necessary levels of liquid assets and maturity mismatch limits. Oversight of PSB's liquidity risk is shared by PSB's Treasury Department and Risk Management Department. PSB's Treasury Department is responsible for daily monitoring of PSB's asset and liability structure and for determining long-term liquidity projections. It manages short-term liquidity through interbank operations, repurchase transactions, swaps and sales of liquid securities via the Money Markets Division. It manages medium-term and long-term liquidity by monitoring PSB's maturity gaps within pre-determined limits and maintaining minimum levels of liquid resources, which may be sufficient even in case of stress scenario. The Risk Management Department is responsible for reviewing the pertinence of all calculations, statistical models, scenarios and ratios used by the Treasury Department for managing liquidity risk. PSB is also subject to liquidity ratios established by the CBR.

PSB has developed a proprietary system that facilitates daily monitoring of the current payment position on nostro accounts, monthly liquidity gap analysis, weekly monitoring of PSB's medium and long-term liquidity, and stress-testing as follows:

- *Current payment position on nostro accounts.* PSB produces a daily report with the aim of maintaining positive balances on each of its nostro accounts with the CBR and the corresponding banks, whilst fulfilling payment orders. This report is complemented by the daily cashflow schedule for all nostro accounts that calculates net liquidity surplus or deficit.
- *Gap analysis to maturity.* PSB produces a monthly report to forecast cumulative funding surplus or deficit by maturity bucket.
- *Medium and long-term liquidity.* PSB produces a weekly report to forecast potential liquidity needs and estimate the volume of funds available for lending. The report includes both current transactions as well as anticipated new large claims and liabilities. PSB also uses the report to calculate the liquidity cushion necessary to comply with prudential requirements and provide for a potential demand deposits outflow.
- *Stress-testing.* On a monthly basis, PSB models its behaviour under distressed market conditions in order to estimate the potential outflow of funds as well as PSB's ability to meet its payment obligations through the realisation of assets. The proportions of payable funding are derived from PSB's balance sheet, coupled with an analysis of mid-2004 and 2008-2009 crisis behaviour of PSB and other banks.

During the "liquidity squeeze" caused by the Financial Crisis, PSB has relied on the sale or repurchase agreements of liquid securities from its proprietary accounts and, in some cases, PSB used the CBR's refinancing mechanisms. PSB has developed an internal system for managing its liquidity position. PSB uses a system of internal ratios of liquidity, which allow PSB to conduct high-level supervision of liquidity risks including the ratios of structural liquidity, and the necessary liquidity reserve. PSB also builds its liquidity analysis based on a cash-flow model and liquidity gap. Further, PSB divides client demand deposits into several groups. Each group is given its own liquidity

ratios, which allows PSB to better monitor its liquidity position. In addition, PSB also monitors its top 100 and top 200 depositors on a daily basis.

The following table sets forth the Group's consolidated liquidity position as at 31 December 2010 (except where otherwise indicated) and shows financial assets and liabilities by their remaining contractual maturity as at 31 December 2010, with the exception of securities included in financial assets at fair value through profit or loss as at 31 December 2010. Securities approved by the CBR as collateral for its loans are shown in the category "Less than 1 month", other securities are shown in accordance with their remaining contractual maturity as at 31 December 2010.

Domestic bonds issued are presented in the table below in accordance with their put dates. The Group included part of current accounts from customers amounting to RUB57,484,344 thousand in the category "From 1 to 6 months" based on historical experience of stable customer current accounts.

Overdue assets are classified within the "Demand and less than 1 month" column. Overdue assets classified within this category amounted to RUB13,686,048 thousand. The Group includes assets held for sale in the category "From 6 months to 1 year" as the management believes it can be sold in the near term.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
(RUB thousands)							
Financial assets							
Cash and cash equivalents	45,182,249	—	—	—	—	—	45,182,249
Obligatory reserves with central banks ..	567,083	1,460,004	757,815	249,996	(19,022)	—	3,015,876
Placements with banks and other financial institutions	2,695,667	2,598,827	6,818,780	8,758	—	—	12,122,032
Financial assets at fair value through profit or loss	32,874,973	3,257,688	1,489,849	5,415,067	2,704,109	262,886	46,004,572
Amounts receivable under reverse repurchase agreements	15,949,846	—	—	—	—	—	15,949,846
Loans to customers	44,135,209	103,968,742	56,348,063	97,857,035	8,638,594	—	310,947,643
Investments available for sale	—	—	1,948,932	—	—	254,282	2,203,213
Investments held to maturity	24,754	1,052,442	11,787	2,843,246	34,682	—	3,966,911
Other financial assets	748,032	—	—	—	—	—	748,032
Total financial assets	142,177,813	112,337,703	67,375,225	106,374,102	11,358,363	517,168	440,140,374
Financial liabilities							
Financial liabilities at fair value through profit or loss	1,575,982	16,089	1,313	—	—	—	1,593,384
Deposits and balances from banks and other financial institutions	21,562,175	13,959,090	14,104,519	9 467,421	584,672	—	59,677,877
Amounts payable under repurchase agreements	2,790,016	—	—	—	—	—	2,790,016
Current accounts and deposits from customers	59,825,740	144,655,742	72 346 004	20 219 359	—	—	297 046,845
Own securities issued	1,528,659	12,076,537	10,234,755	8,287,546	—	—	32,127,497
Other borrowed funds	785	4,976,642	1,003,674	6,821,094	—	—	12,802,195
Other financial liabilities	296,697	188,563	272,426	272,278	504	16,455	1,046,923
Subordinated borrowings	530,454	130,855	—	12,107,795	9,048,585	—	21,817,689
Total financial liabilities	88,110,508	176,003,518	97,962,691	57,175,493	9,633,761	16,455	428,902,426
Net liquidity position as at 31 December 2010	54,067,305	(63,665,815)	(30,587,466)	49,198,609	1,724,602	500,713	11,237,948
Cumulative liquidity position as at 31 December 2010	54,067,305	(9,598,510)	(40,185,976)	9,012,633	10,737,235	11,237,948	

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
(RUB thousands)							
Net liquidity position as at 31 December 2009	117,621,081	(87,305,309)	(47,120,391)	32,704,775	(1,174,922)	23,480,147	38,205,381
Cumulative liquidity position as at 31 December 2009	117,621,081	30,315,772	(16,804,619)	15,900,156	14,725,234	38,205,381	
Net liquidity position as at 31 December 2008	62,510,309	(94,261,164)	6,016,019	42,672,562	2,134,902	20,901,956	39,974,584
Cumulative liquidity position as at 31 December 2008	62,510,309	(31,750,855)	(25,734,836)	16,937,726	19,072,628	39,974,584	

For further breakdown, see Note 33 to the 2009 Annual Financial Statements and Note 32 to the 2008 Annual Financial Statements.

Operational Risk

Operational risk is the risk of loss resulting from inadequacy or failure of internal processes or systems or from external events. PSB's operational risk management strategy, developed and approved by the Management Board, provides for identification, assessment, minimisation, monitoring and control of operational risks based, in addition to other sources of information, on reports from the Operational and Fraud Risk Management Division ("OFRMD").

The OFRMD was established as a new division within the Financial and Retail Risk Management Department in April 2009 and acts in accordance with internal PSB regulations on operational risk management issued in December 2008 and internal PSB regulations on fraud risk management approved by the Management Board in December 2010. These internal regulations provide for the main principles for management of operational and fraud risk and allocate responsibility among PSB subdivisions for the same.

The OFRMD is responsible for collecting data on certain kinds of operational losses (including losses resulting from fraudulent events) (namely, “near misses” (events that did not result in actual losses), potential and indirect losses), and for classifying them on the basis of operational risk type, frequency and severity. The OFRMD collects information on losses from employees nominated in respect of each department, branch and office of PSB, makes projections on expected operational losses, analyses scenarios of unexpected losses and proposes to the Management Board various solutions for eliminating or mitigating operational risks.

PSB manages its operational and legal risks through internal monitoring and compliance policies as well as through setting appropriate reserve funds and/or through risk insurance. Currently, PSB has insurance from a leading Russian insurance company, Ingosstrakh Insurance Company (reinsured by four of the world’s leading companies) through the Bankers’ Blanket Bond (“**BBB**”) and Electronic and Computer Crime insurance programmes.

The Internal Audit and Control Department (“**IACD**”) reviews all of PSB’s internal documentation in order to identify potential shortfalls in internal control procedures and all of PSB’s business operations, notifies PSB’s Management Board of violations and supervises the correction of such violations. The IACD and the Legal Department monitor compliance with, and seek to ensure the proper functioning of, internal policies and procedures designed to minimise operational and legal risks, respectively, and also monitor compliance with relevant Russian legislation. The IACD conducts audits of policies and procedures performed at PSB’s branches annually and at PSB’s Head Office every month in accordance with the annual audit plan. The head of the IACD reports directly to PSB’s President and Board of Directors. The results of the 2010 IACD internal audits of PSB’s branches showed that some of them (in particular, branches located in Novgorod, Pskov, Khabarovsk) experienced certain problems with the organization of their internal controls. The IACD overall conclusion with respect to these branches was that the internal control system did not meet the respective minimum requirements.

PSB conducts the majority of its transactions using standard forms approved by its Legal Department. The Legal Department reviews all non-standard forms before the relevant transactions take place. PSB has in place internal documents and procedures that set forth the job descriptions and responsibilities of its personnel. The decision-making capacity and authority of particular departments and members of management are strictly regulated.

Procedures for Prevention of Money Laundering and Terrorist Financing

PSB’s anti-money laundering measures are based on relevant Russian legislation and Cyprus legislation based on EU requirements applicable to OAO Promsvyazbank Cyprus Branch. PSB has procedures and operative documents aimed at preventing money laundering and terrorist financing, including a general anti-money laundering policy, internal control procedures that include a refusal policy whereby PSB refuses to conduct business with suspicious entities or individuals and rules on counteracting money laundering and financing of individuals and legal entities engaged in terrorist activities, as well as procedures for reporting to the Federal Service for Financial Monitoring. In June 2010, PSB introduced a new edition of the anti-money laundering policy, which expands, according to the CBR’s recommendations, the list of criteria for suspicious transactions.

PSB’s Financial Monitoring Division is in charge of ensuring implementation of rules and procedures relating to the prevention of money laundering and terrorist financing throughout PSB and is in charge of reporting to the Federal Service of Financial Monitoring. It is headed by the Money Laundering Reporting Officer who reports directly to the Federal Service of Financial Monitoring. PSB’s anti-money laundering procedures are designed to ensure that:

- the risk of its being used as a vehicle for money-laundering and terrorist financing is minimised;
- it is protected from financial and reputational risks of being associated with money-laundering and terrorist financing activities;
- banking services are provided only to bona fide clients;
- transactions covered by Russian anti-money laundering legislation, including those conducted by persons or organisations known to be involved in terrorist activities, are detected and reported to the Federal Service for Financial Monitoring on a timely basis;

- transactions involving persons or entities known to be involved in terrorist activities (except for transactions where funds are credited to such persons' accounts) are suspended for two business days. The Federal Service for Financial Monitoring has the right to suspend such transactions for up to a further five business days;
- accounts are not opened or transactions are not executed for clients that lack necessary or valid identification or documentation or are known or suspected to be involved in terrorist activities.

PSB's procedures relating to the prevention of money laundering and terrorist financing include "know-your-customer" procedures which require clear identification of clients, verification of their identity and appraisal of risk of their involvement in money-laundering activities or terrorist financing; detection of transactions that the Russian anti-money laundering legislation places under compulsory control, as well as suspicious transactions and activities; reporting; record-keeping; confidentiality and training of personnel. PSB's "know-your-customer" procedures are designed to be consistent with sound business principles, to help recognise suspicious activity in a timely manner, to minimise the risk that PSB will be used as a channel for illegal activities of any kind, to prevent establishment of banking relationships with clients until their true identity is known and to identify unusual or suspicious transactions or transactions inconsistent with the information that PSB has about the client or its regular business activities. See "Risk Factors—Risks Relating to PSB and the Group's Business and Industry—*PSB's measures to prevent money laundering and/or terrorist financing may not be completely effective*".

Client and payment screening against international sanctions lists (particularly OFAC, EU, UN lists) is conducted on the Dow Jones Risk and Compliance (Factiva Limited) data base, which ensures a proper and complete "know-your-customer" programme and strengthens transaction monitoring processes against money laundering and illicit payments. It facilitates more effective and efficient due diligence, mitigates reputational risks and helps maintain relationships with foreign correspondent banks.

Russian anti-money laundering legislation provides for transactions subject to compulsory control and requires daily reporting of such transactions by banks to the Federal Service for Financial Monitoring. Certain "suspicious" transactions must also be reported on a case-by-case basis, and PSB reports these transactions to the CBR in compliance with these anti-money laundering regulations.

PSB's branch in Cyprus follows the requirements of the Central Bank of Cyprus related to AML procedures. Cyprus's branch has a module in electronic accounting system with the feature of the real time alerts in «prior to execution» format covering certain parameters of customers' activities and the system of information databases that protects the branch from entering into relations with persons who are subject to financial sanctions as per UN Resolution 1267 and with persons suspected of involvement in money laundering activities in accordance with notifications from the Financial Monitoring Department (Head Office) and regulating authorities. The reporting process established by Central Bank of Cyprus includes the reports covering the AML issues on monthly basis.

In addition to the routine reports the Cyprus branch has also presented to the regulating authorities in Cyprus 10 extra reports related to AML issues in 2010 (in response to enquiries by the Central Bank of Cyprus, the Cyprus Securities and Exchange Commission and the Unit for Combating Money Laundering).

MANAGEMENT

Overview

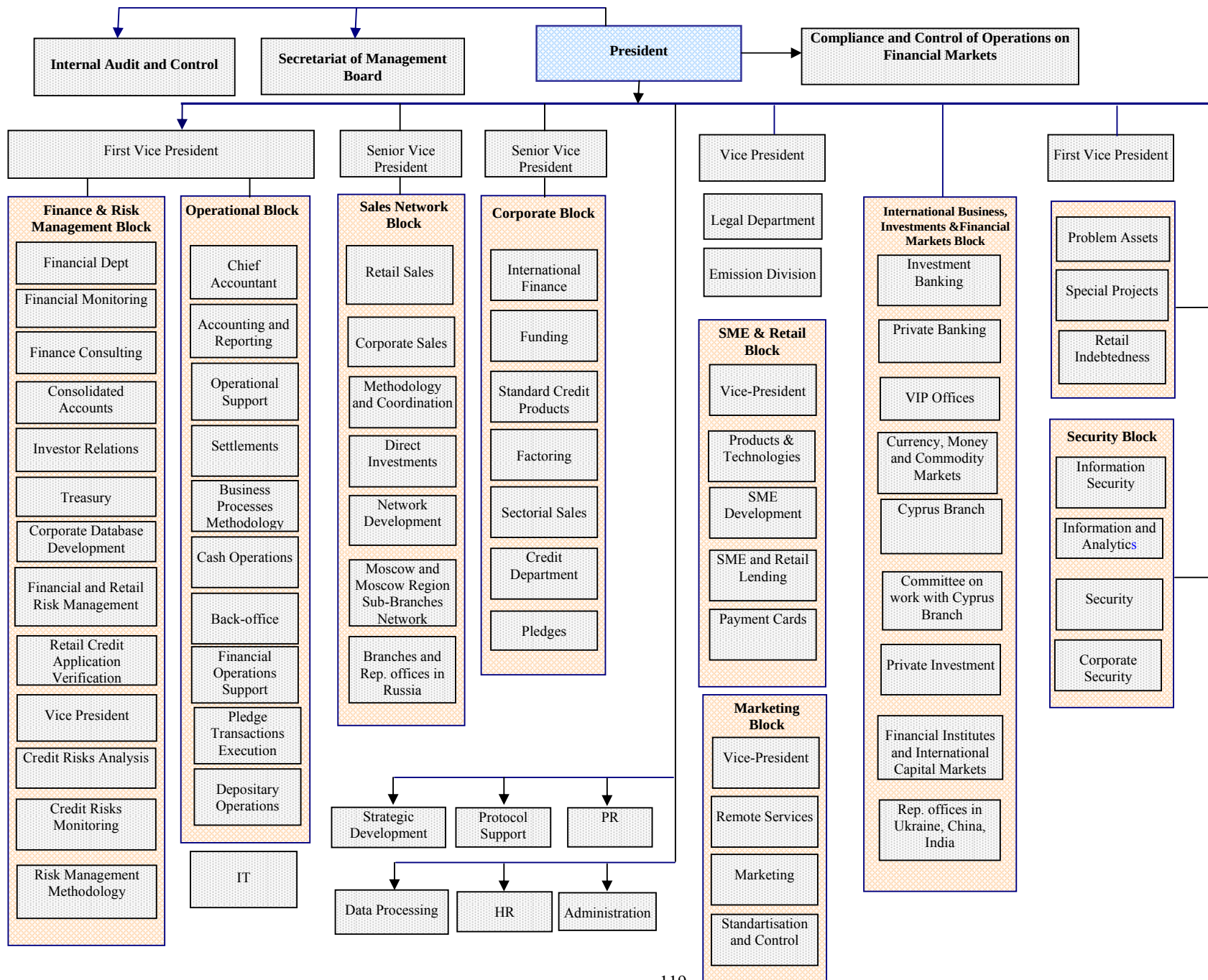
The management of PSB consists of various levels and sub-levels, each responsible for different aspects of PSB's overall activities. The highest level of governance, and the ultimate decision-making body, is conducted through the General Shareholders' Meeting. The General Shareholders' Meeting elects the Board of Directors, which is responsible for the general governance of PSB, including the determination of strategy, coordination and general supervision thereof. The Board of Directors elects the Management Board, which is the collegial executive body of PSB, and the President, which is the sole executive body of PSB. The President acts as the Chairman at the meetings of the Management Board and, together with the latter, is responsible for the day-to-day operations of PSB.

In early 2008, PSB restructured its internal organisational structure by introducing a new management model for regional representative offices and branches and by regrouping its business divisions into seven new categories, each managed by a senior executive. The reorganization was designed to improve internal management processes and business processes of the bank and adjust their functioning in response to challenging market conditions, while not affecting the substantive business activities of PSB. Please refer to the chart shown on page 116, which sets out the full management structure and internal business divisions of PSB.

General Shareholders' Meeting

The General Shareholder's Meeting is PSB's supreme governance body. The Board of Directors convenes a shareholders' meeting at least once a year. Only the General Shareholders' Meeting can make decisions in respect of:

- alteration of PSB's charter except in instances specifically provided for by law;
- reorganisation and liquidation of PSB, appointment of a liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the composition of the Board of Directors, election of its members and early termination of their powers;
- determination of the amount, nominal value and type of authorised shares as well as the rights from these shares;
- increases and reductions of PSB's charter capital;
- election of the internal audit commission and appointment of PSB's external auditor;
- approval of dividends;
- approval of annual statutory accounts and reports;
- approval of PSB's participation in financial groups and associations; and
- certain other matters provided for by law and PSB's charter.



Board of Directors

The Board of Directors is responsible for general governance matters, with the exception of those matters that are designated by law and by PSB's charter as being the exclusive responsibility of the General Shareholders' Meeting. The Board of Directors meets and casts absentee voting regularly, at least once every six weeks, and makes its decisions by simple majority so long as a quorum of at least half of the elected members of the Board of Directors is present, unless otherwise required by law or PSB's charter. PSB's shareholders elect members of the Board of Directors until the next annual shareholders' meeting, and such members may be re-elected an unlimited number of times. The Board of Directors currently has nine members, elected by PSB's shareholders at the extraordinary general shareholders' meeting held on 12 November 2010. The name, position and certain other information for each member of the Board of Directors are set forth below.

- *Alexey Ananiev* (1964) has been a member of the Board of Directors since July 2001 and since September 2006 has chaired the Board of Directors. Mr. Ananiev is also Chairman of the Advisory Council of OOO Technoserv A/S. He graduated from the Moris Thorez Moscow State Linguistic University in 1987. In 2002 he completed his postgraduate studies in the Moscow Technical University of Communications and Informatics where he received a Ph.D. degree. He received an M.B.A. from the University of Chicago Graduate School of Business in 2005.
- *Maxim Litvinov* (1970) has been a member of the Board of Directors since June 2007 and since September 2008 has served as the Deputy Chairman of the Board of Directors. Mr. Litvinov is Vice-President, Head of Strategy of ZAO "PromSvyazCapital". In 1993, he graduated from the Peoples' Friendship University of Russia. Mr. Litvinov received an M.B.A. from the Duke University's Fuqua School of Business in 2004.
- *Artem Konstandyan* (1974) has been a member of the Board of Directors since November 2010. For additional information on Mr. Konstandyan, see "— Management Board".
- *Vladislav Zabelin* (1975) has been a non-executive director on the Board of Directors since June 2008. Since December 2008, Mr. Zabelin has served as President of ZAO "PromSvyazCapital". Mr. Zabelin graduated from the Moscow State Institute of International Relations in 1997.
- *Yury Baev* (1969) has been a non-executive director on the Board of Directors since June 2010. Mr. Baev has served as Deputy Chairman of the Advisory Council of Technoserv since 2006. In 1995, he graduated from the Moscow State Technical University. Mr. Baev received an Executive M.B.A. from the University of Warwick's Warwick Business School in 2007.
- *Ilkka Salonen* (1955) has been a nominee of the European Bank for Reconstruction and Development on the Board of Directors since June 2010. Mr. Salonen has previously worked at the International Moscow Bank, Renaissance Investment Management and Sberbank. He graduated from the Helsinki University in 1981.
- *Paul Ostling* (1948) has been a member of the Board of Directors as an independent director since June 2008. Mr. Ostling is currently President of Phoenix Neftegaz Services. From October 2003 to June 2007, Mr. Ostling was an Executive Director at Ernst & Young. He graduated from the Fordham University School of Law in 1973.
- *Tamjid Basunia* (1945) has been a member of the Board of Directors as an independent director since June 2008. He was a Partner and later, Chairman of the Supervisory Board for Eastern European operations at PricewaterhouseCoopers from March 1982 to December 2005. He qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales in 1969.

Mr. Wilhelm Nüse who was a nominee of Commerzbank Auslandsbanken Holding AG on the Board of Directors since June 2010 passed away on 31 March 2011. A new nominee is expected to be appointed by Commerzbank at the next general shareholders' meeting.

The business address of each member of the Board of Directors is 10 Smirnovskaya Street, Building 22, Moscow 109052, Russian Federation. No actual or potential conflicts of interest exist between the duties that any member of the Board of Directors owes to PSB and such member's private interests or other duties.

Members of the Board of Directors, unlike members of the Management Board, do not play a daily role in the business of the Group. Therefore, PSB's controlling shareholders, one of whom is the Chairman of the Board of Directors but not a member of the Management Board, do not play a daily role in the business of the Group. See "Risk Factors — Risks Relating to PSB and the Group's Business and Industry — *The interests of PSB's shareholders may*

conflict with those of Noteholders” and “Risk Factors — Risks Relating to PSB’s and the Group’s Business and Industry — A significant part of PSB’s business is with or dependent upon related parties”.

Management Board

The Management Board is PSB’s collegial executive body. It is elected by the Board of Directors and may be re-elected an unlimited number of times. The Management Board meets regularly, at least once every two weeks, and makes its decisions by simple majority, provided that a quorum of at least half of the elected members of the Management Board is present. The Management Board is responsible for PSB’s day-to-day management and administration. The President represents PSB and acts as Chairman of the PSB’s Management Board.

The eight members of the Management Board were elected by the Board of Directors at a meeting held on 3 September 2010. The name, position and certain other information for each member of the Management Board are set out below. Unless otherwise indicated, members of the Management Board do not perform any external functions.

- *Artem Konstandyan* (1974) has been the President and Chairman of the Management Board since September 2010. Prior to this position he served as First Vice-President of PSB and member of the Management Board. Prior to joining PSB in 2001, he worked at Mapo Bank from 1994 to 2000 and then briefly at Extrobank. Mr. Konstandyan graduated from the Finance Academy under the Government of the Russian Federation in 1996 and has a Ph.D. in Economics.
- *Dmitry Sennikov* (1957) joined PSB in 1995 and has been a member of the Management Board since 1995. Mr. Sennikov was appointed Vice President of PSB in 1999 and since 2004 he has been First Vice President. Prior to joining PSB, he worked for OOO Technoserv A/C. Mr. Sennikov graduated from the Moris Thorez Moscow State Linguistic University in 1980.
- *Alexandra Volchenko* (1976) has been a member of the Management Board since 2007. In September 2010, she became First Vice President. Prior to joining PSB in 2004, she headed Risk Management Service in OAO “Uraltransbank”. Ms. Volchenko graduated from Saint-Petersburg State Engineering and Economics University in 1997 and Ural Academy of State Service in 2004.
- *Alexey Fedotkin* (1976) has been a member of the Management Board since 2007. In December 2008 he was promoted to Senior Vice-President, Head of Corporate Banking. Prior to joining PSB in 2002, he worked in branches of VTB Bank first in Khabarovsk and then in Komsomolsk na Amure from 1997 to 2002. Mr. Fedotkin graduated from Khabarovsk State Academy of Economics and Law in 1998.
- *Irina Morozova* (1963) has been a member of the Management Board since 2001 and PSB’s Chief accountant since 2000. Prior to joining PSB in 1999 as the Head of Methodology and Banking Technologies Division of the Accounting, Reporting and Settlements Department, she worked for Russian Acceptance Bank. Ms. Morozova graduated from the Economics Faculty of the Moscow Polygraphics Institute in 1986.
- *Tatiana Kuzmina* (1968) has been a member of the Management Board since 2008. Ms. Kuzmina joined PSB as its Head of Legal Department in 2005 and since 2006 she has served as Vice-President — Head of Legal Department. From 2001 to 2004, Mrs. Kuzmina worked in OAO “Bank Petrocommerce” and from 2004 to 2005 in JSCB “Eurofinance Mosnarbank”. She graduated from Kaliningrad State University in 1991.
- *Konstantin Basmanov* (1974) has been a member of the Management Board and Senior Vice-President — Head of Distribution Network since January 2009. Prior to joining PSB in 2008, he worked in Bank VTB 24 as Vice-President, Head of Sales Directorate in the Branch Network Department. From 2003 to 2006, he worked in VTB Bank, first, as the Head of the Branch Network Development Unit and later as the Managing Director for Medium-sized Businesses. From 1995 to 2002, he held various positions in the Khabarovsk branch of VTB Bank, including a Senior Expert in the Securities Unit and the Deputy Head of Client Relations Unit. Mr. Basmanov graduated from Khabarovsk State Academy of Economics and Law in 1996.
- *Elena Makhota* (1980) has been a member of the Management Board since January 2010, Vice-President since 2008 and Head of SME and Retail Banking since June 2009. Prior to joining PSB in 2007, she has been working at KMB-Bank for more than six years supervising the SME loans programme and heading the Khabarovsk branch. Ms. Makhota graduated from the Far Eastern National University with a degree in

world economy and international management in 2001 and from the Far Eastern State Technical University with a degree in law in 2002.

The business address of each member of the Management Board is 10 Smirnovskaya Street, Building 22, Moscow 109052, Russian Federation. No actual or potential conflicts of interest exist between the duties that any member of the Management Board owes to PSB and such member's private interests or other duties.

Corporate Governance

Corporate governance at PSB has been carried out in accordance with the requirements of the Joint-Stock Companies Law, other rules governing the operation of joint-stock companies in the Russian Federation, PSB's charter and other internal documents of PSB. PSB's corporate governance practices satisfy or surpass the corporate governance requirements currently prescribed in the Russian Federation, although many concepts of corporate governance that are prevalent in Western Europe and the United States, are considerably less developed in Russia.

- *Independent Directors.* PSB's Board of Directors includes two directors who each meet independence requirements and whom PSB therefore considers to be "independent" directors. These directors are Tamjid Basunia and Paul Ostling.
- *Audit Committee.* The Audit Committee of the Board of Directors of PSB was first established on 23 June 2008 and is responsible for supervising the audit of PSB. The Audit Committee consists of three members elected by the Board of Directors: Paul Ostling, Maxim Litvinov (non-executive non-voting member) and Tamjid Basunia, who is the Chairman of the Committee. The main purpose of the Audit Committee is to assist the Board of Directors in controlling PSB's operations. It is also responsible for the quality and integrity of PSB's financial statements, for the reliability and effectiveness of PSB's internal control system, risk management system, and audit procedures, and for the independence and effectiveness of external audits.
- *Nomination and Remuneration Committee.* The Nomination and Remuneration Committee of the Board of Directors of PSB was established in June 2008. This Committee consists of five members, Tamjid Basunia, Maxim Litvinov (non-voting member), Ilkka Salonen (non-voting member), Wilhelm Nüse (non-voting member) and Paul Ostling, who is the Chairman of the Committee. The Nomination and Remuneration Committee assists the Board of Directors with developing PSB's appraisal, remuneration and benefits policies.
- *Strategic Committee.* The Strategic Committee of the Board of Directors of PSB was first established on 23 June 2008 and currently consists of seven members, Maxim Litvinov (Chairman of the Committee), Alexey Ananiev, Artem Konstandyan, Vladislav Zabelin, Ilkka Salonen, Wilhelm Nüse and Alexandra Volchenko. The Committee assists the Board of Directors with analysis of concepts, programmes and strategic plans of PSB, monitoring of PSB's strategy implementation process by reference to key indicators and preparation of suggestions on corrections to be implemented to achieve greater efficiency in the context of capital markets trends, PSB's results and the Russian banking sector's conditions.

Certain Transactions

As at 31 December 2010, PSB had outstanding gross loans to members of the Management Board and the Board of Directors in the amount of RUB79 million. Short-term compensation of the members of the Board of Directors and the Management Board for the year ended 31 December 2010 was RUB622 million.

Share Ownership

As at the date of this Base Prospectus, Mr. Alexey Ananiev and Mr. Dmitry Ananiev held a combined 72.9% beneficial interest in PSB's total share capital. PSB has two additional minority shareholders, the EBRD with a holding of 11.8% and Commerzbank AG with a holding of 15.3%. Members of the Management Board have no beneficial interest in PSB's total share capital. See "Shareholding".

SHAREHOLDING

General

As at the date of this Base Prospectus, PSB's charter capital amounted to RUB10,443,008,460 and comprised of 1,044,300,846,000 ordinary shares each with a nominal value of RUB0.01. In addition, PSB has 2,855,149,154,000 authorised but unissued ordinary shares in an aggregate amount of RUB28,551,491,540. The following table sets forth information regarding the ownership of ordinary shares of PSB as at the date of this Base Prospectus:

Shareholder	Number of Shares	Percentage (%)
Promsvyaz Capital B.V.....	761,655,000,000	72.93
Commerzbank Auslandsbanken Holding AG	159,985,846,000	15.32
European Bank for Reconstruction and Development (EBRD).....	122,660,000,000	11.75
Total	1,044,300,846,000	100

Promsvyaz Capital is a private limited company organised under the laws of the Netherlands, with its registered address at Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands. Commerzbank Auslandsbanken Holding AG is a company organised under the laws of the Federal Republic of Germany, with its registered address at Kaiserstrasse 16, 60311, Frankfurt am Main, Federal Republic of Germany. The EBRD is an international financial institution, with its headquarters at One Exchange Square, London EC2A 2JN, United Kingdom. Promsvyaz Capital is wholly owned by Peters International Investment N.V. (Netherlands), in which Mr. Alexey Ananiev and Mr. Dmitry Ananiev each beneficially own 50%. Commerzbank Auslandsbanken Holding AG is a subsidiary of Commerzbank AG. The EBRD is owned by 61 countries and two intergovernmental institutions. Both Commerzbank AG and the EBRD nominated one member each to the Board of Directors, who were appointed members of the Board of Directors at the annual general shareholders' meeting held on 25 June 2010 and re-elected at the extraordinary general shareholders' meeting held on 12 November 2010. Commerzbank AG's nominee passed away on 31 March 2011 and a new director is expected to be nominated by them at the next general shareholders' meeting. See "Business — Corporate Organisation — *Holding Structure*".

Rights of PSB's Shareholders

Pursuant to PSB's charter and Russian legislation, PSB's shareholders have the following rights: to participate in the general shareholders' meeting of PSB and vote on all matters on its agenda, save for limited circumstances envisaged in Russian legislation; to receive dividends; to elect members to the Board of Directors; to receive an amount of PSB's assets upon its liquidation proportionate to its level of shareholding remaining after satisfaction of claims of PSB's creditors; to have unrestricted access to certain documents of PSB listed in Russian legislation; and other rights envisaged by Russian legislation and PSB's charter. Depending on their level of shareholding, groups of shareholders may have additional rights. None of PSB's shareholders however have voting rights that differ from any other holder of ordinary shares. PSB is not aware of any arrangements, the operation of which may at a subsequent date result in a change of control of PSB.

Dividends and Dividend Policy

PSB's general shareholders' meeting determines whether to pay annual dividends, as well as the amount, form and date of payment. Dividend payments must not exceed the amount recommended by the Board of Directors. The shareholders waived dividends for 2005, 2006, 2007, 2008 and 2009. A decision on the 2010 dividends will be taken at the annual shareholders' meeting which will take place in June 2011.

RELATED PARTY TRANSACTIONS

Under the IFRS, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial or operational decisions, as defined by IAS 24 "Related Party Disclosures". In determining each possible related party relationship, it is necessary to consider the substance of the relationship in question and not merely its legal form.

PSB enters into transactions with shareholders, subsidiaries and affiliates in the ordinary course of its business. These transactions include extending loans and trade finance, accepting deposits, providing settlement services, issuing guarantees and participating in securities and foreign exchange transactions. PSB's policy is generally to conduct all transactions with related parties at arms' length and according to terms and conditions consistent with those it applies to unrelated parties and approve them in accordance with relevant Russian and other legislation.

As at 31 December 2010, the gross amount of loans to customers made to related parties was 2.4% of PSB's aggregate gross loans to customers, compared with approximately 3.2% and 2.6%, as at 31 December 2009 and 31 December 2008, respectively. As at 31 December 2010, liabilities to related parties were 1.6% of PSB's total liabilities, compared with approximately 0.9% as at 31 December 2009 and 1.4% as at 31 December 2008. For more information on PSB's related party transactions for the year ended 31 December 2010, see Note 43 to the 2010 Annual Financial Statements. See "Risk Factors — Risks Relating to PSB and the Group's Business and Industry — *A significant part of PSB's business is with or dependent upon related parties*".

The following table set forth certain data for the Group's related party exposure as at 31 December 2010, 2009 and 2008.

	As at 31 December		
	2010	2009	2008
	(RUB thousands, except percentages)		
Total capital	60,623,221	51,818,183	49,892,069
Related party exposure, including	11,242,966	11,505,188	10,634,320
Financial assets at fair value through profit or loss	629,713	318,076	456,309
Loans to customers (gross amount)	8,308,765	9,844,839	8,287,644
Impairment allowance	(4,704)	(49,687)	(197,432)
Other assets	187,993	34,401	53,646
Guarantees issued	1,667,322	989,901	1,392,041
Letters of credit issued	453,877	367,658	642,112
Related party exposure/Total capital	18.5%	22.2%	21.3%

THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA

Overview

According to the *Economist Intelligence Unit*, an independent provider of country and industry data analysis, the Russian economy has experienced strong growth, as demonstrated by real annual GDP growth of 7.3% between 2003 and 2007. This growth was accompanied by decreasing and more stable inflationary and interest rates. Russia's credit ratings improved over this period, and attained an investment grade rating in 2003. According to Rosstat, the Russian economy remains relatively diversified, with trade, manufacturing and national resource extraction contributing to GDP by 15.7%, 14.2% and 8.9% respectively in 2010. The financial services sector is another important contributor to the economy and this sector accounted for 3.9% of GDP in 2010 compared to 2.8% in 2002. The favourable Russian macroeconomic environment, together with the increasing importance of financial services within the Russian economy, have provided significant positive stimulus for the Russian banking sector. Accordingly, this sector experienced a sustained period of high growth between 2001 and 2007.

However, the sub-prime mortgage problems and resulting credit crisis, which originated in the United States spreading to the global stage throughout 2007 and 2008, placed downward pressure on economic growth in Russia. This was partly due to the fact that fewer and more expensive loans decreased investment by businesses, as well as consumer spending, both of which are key economy drivers. In addition, the widespread dispersion of credit risk, and the uncertain effect on financial institutions, caused lenders to reduce their lending activity and to make loans at higher interest rates. In such circumstances Russian banks experienced significant difficulties in raising funds on the international capital markets and focused on attracting funds from the domestic markets. In course of implementing its anti-crisis policy, the Government has adopted a comprehensive set of measures designed to support the Russian financial sector, as well as agriculture and production. See “— Russian Banking Sector — *Anti-Crisis Legislation*”. The CBR, together with the Government, pursued a policy that aims to support credit organisations and the banking system in Russia generally. Measures taken by the Government and the CBR to prevent the bankruptcy of several major Russian banks and financial organisations provided additional liquidity that in turn have helped to minimize the impact of a possible liquidity crisis across the whole Russian banking sector. Despite these measures, the volatility and market disruption in the global banking sector continued throughout 2009 and 2010, although some improvement of the situation in the financial markets and banking sectors has recently been reported. Namely, the liquidity position in the Russian banking sector generally improved during 2009 and 2010, with both retail and corporate deposits demonstrating signs of recovery. Accordingly, by the end of 2009, Russian banks registered a considerable deposit inflow driven by an improved level of liquidity throughout Russia.

The following table sets forth certain information regarding the banking sector of the Russian Federation, for the periods indicated.

	1 January			
	2011	2010	2009	2008
Total assets (liabilities) (RUB trillion)	33.8	29.4	28.0	20.1
Loans to customers over total assets (%).....	65.6	67.5	71.2	71.0
including loans to credit organisations (%).....	8.6	9.3	8.9	7.0
Customer funds over liabilities (%).....	62.4	58.2	52.6	60.9
Number of operating credit organisations	1,012	1,058	1,108	1,136
Assets of the five largest credit organisations over total assets (%)	47.7	47.9	46.2	42.3
Credit organisations located in Moscow and the Moscow region (%)	51.9	50.6	50.2	50.0
Credit organisations with foreign investments over total assets (%)	18.0	18.3	18.7	17.2
Number of banks admitted to the retail deposit insurance system	909	923	937	934
Number of profitable credit organisations	931	938	1,050	1,123

Source: CBR.

Russian Banking Sector

Overview

The Russian banking sector consists of the CBR, Russian credit organisations and branches and representative offices of foreign credit organisations.

The Central Bank of Russia

The CBR is the primary authority responsible for the regulation of credit organisations in Russia. The CBR was established on 13 July 1990 as a successor to Gosbank of the USSR (“**Gosbank**”). After the collapse of the USSR in 1991, the CBR inherited Gosbank's operational facilities and resources, including its subsidiaries and branches. Under

current legislation, the main functions of the CBR include, inter alia: the organisation of cash and wire settlements; maintenance of budget accounts; administration of gold and currency reserves; service of domestic state debt; implementation of credit and monetary policy; international activity; and banking regulation and supervision. As the primary regulator in the banking sector, the CBR has far-reaching regulatory and supervisory authority. The CBR grants state registration of credit organisations; issues, suspends and revokes banking licences of credit organisations; controls mergers and acquisitions in the banking system; establishes mandatory ratios and reserves as well as open position requirements and monitors compliance therewith; regulates credit organisations' capital; sets out standards for financial, accounting and statistical reporting by credit organisations; issues mandatory prescriptions to, and imposes administrative sanctions on, credit organisations; and appoints the temporary administration of credit organisations that are facing insolvency.

Russian Credit Organisations

Russian credit organisations exist in the form of banks and non-bank credit organisations (“NCOs”). Banks provide a wide range of banking services, while NCOs conduct only a limited number of banking operations such as maintaining accounts and placing term deposits.

Representative Offices and Branches of Foreign Credit Organisations

Representative offices of foreign credit organisations are prohibited from conducting banking operations within Russia. Their activities are limited to facilitating the banking operations, and representing the interests of, their foreign parent entities. A foreign credit organisation may set up a representative office in Russia, subject to obtaining the approval of the CBR, and provided that the credit organisation has been in existence for at least five years, has a good reputation and is in good financial standing in its home country. Although the Banking Law provides for branches of foreign credit organisations to form a part of the Russian banking system, the CBR has not established any procedures to register such organisations and accordingly, no branches of foreign credit organisations are currently in operation in Russia.

History and Development

Prior to its reorganisation in 1987, the Soviet banking system consisted of Gosbank, which simultaneously exercised functions of a central and commercial bank, Stroibank of the USSR, which primarily serviced credit to various Soviet entities, and Vneshtorgbank of the USSR, which primarily serviced foreign trade undertaken by Soviet entities. Gosbank operated a network of “savings branches”, the predecessors to Sberbank, that offered retail banking services, mainly deposit services and the processing of utility payments, throughout the country.

In 1987, as part of the reforms to the Russian economy, in addition to Gosbank, five specialised state-controlled banks were established to service specific industries, including farming, housing maintenance, foreign economic activity and individual savings. From 1988 to 1989, many regional commercial banks emerged, primarily in the form of co-operatives or joint-stock companies. In 1991, three of the specialised state-controlled banks transformed into joint-stock companies. Some of the regional branches of the specialised state-controlled banks became independent from their head offices through management buy-outs. Furthermore, immediately prior to the collapse of the Soviet Union, in December 1991, the CBR assumed all of Gosbank's functions in Russia, and the Government liquidated Gosbank one month later. Between 1991 and 1998, the Russian banking system experienced rapid growth. The number of commercial banks in the Russian Federation increased from 358 in 1990 to 1,686 by early 1998.

In 1998, the Russian financial markets crisis, which occurred largely because of the Government's default on much of its short-term domestic debt, exposed the weakness of the Russian banking sector. Many banks were subsequently reorganised, went into liquidation 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. During 2002, some of the banks underwent ARCO's administration and completed the financial restructuring process, while other defaulting banks were liquidated. On 18 October 2003, the last credit organisation was withdrawn from ARCO's administration, and in July 2004, ARCO itself was liquidated. The 1998 financial crisis revealed a lack of effective regulation in the Russian banking sector and highlighted concerns about the integrity of the banking system. However, in the period from 1999 to 2001, the Russian banking system gradually recovered from the 1998 financial crisis. This recovery was characterised by higher liquidity levels and a shift in emphasis from investments in government securities to loans to companies and other legal entities.

In the period from 2002 to 2004, as shown by a strong growth in retail deposits, confidence in the Russian banking sector improved, as the sector strengthened. 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, in some cases, regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their own client base. During the same period, such banks faced

large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed, ceased trading or were forced to reduce their operations significantly. The CBR took several steps to help the sector overcome the crisis, including reducing the rate of mandatory reserves. In addition, the Government passed legislation pursuant to which the CBR would compensate retail customers of insolvent Russian banks who had not participated in the retail deposit insurance system before their insolvency. In August 2004, in response to these measures, the Russian banking sector began to recover from the turmoil.

In 2007, changes were made to Russian law which made it easier for foreign investors to participate in equity offerings and mergers and acquisitions in the Russian banking sector. As a result of this, in 2007, Sberbank and VTB, the two largest Russian banks, conducted large equity offerings.

In 2008, the impacts of the financial crisis began to be felt by the Russian banking system resulting in a net reduction of the number of credit organisations due to the revocation of licenses by the CBR and in some cases bankruptcy of those that did not have enough liquidity to cover short indebtedness. The Government and the CBR have responded by introducing a set of anti-crisis regulations designed to support the Russian financial system.

Anti-Crisis Legislation

The disruptions in the global markets experienced most dramatically since the latter half of 2008, the Financial Crisis (see “Risk Factors — Risks Relating to the Global and Russian Banking Sectors — *Instability of global credit markets*”), had a severe impact on liquidity, as well as the availability of credit and the terms and cost of funding in Russia. A number of financial institutions suffered severe liquidity problems and, in certain cases, the majority shareholders had to sell their shares to other Russian institutions. The Russian securitisation market also was largely inaccessible as a result of the financial crisis. Aside from the measures taken internationally to seek to restore confidence in the global capital markets, the Government and the CBR enacted a set of measures specifically to support the liquidity of the Russian banking sector aimed at restoring investor confidence and supporting the medium-term economic growth of the Russian economy by facilitating credit across the Russian banking sector. Set out below are the measures that were announced by the Government and the CBR in 2008 and 2009:

- During the month of November 2008, the CBR increased the refinancing rate from 11% to 12% as at 12 November 2008, and then to 13% as at 1 December 2008. From April 2009, the CBR gradually decreased the refinancing rate to a historical minimum – 7.75% effective as at 1 June 2010. In February 2011, the CBR increased the refinancing rate to 8.0% to slowdown inflation growth;
- According to the Federal Law No. 173-FZ of 13 October 2008 “On Additional Measures for Support of Financial System of the Russian Federation,” (the “**Financial System Support Law**”) the Government and the CBR provided up to RUB910 billion in subordinated loans to state-controlled and private banks under certain conditions. The RUB910 billion state contribution to banking sector capital in the form of long-term subordinated loans (with a maturity of up to 31 December 2019) was one of the key economic initiatives announced to restore confidence in the Russian banking sector. OAO “Sberbank” (“**Sberbank**”) received RUB500 billion, VTB received RUB200 billion and Russian Agricultural Bank received RUB25 billion as part of the initiative. The remaining RUB185 billion was designated to be distributed via Vnesheconombank (“**VEB**”) among privately-owned Russian banks subject to certain conditions. PSB initially applied to and was approved by VEB to receive such state funds, however PSB ultimately did not take such state funds as alternative sources of financing were available in the market;
- On 16 October 2008, the CBR established a new facility to conduct uncollateralised lending covering a number of Russian banks, including PSB. The maximum amounts that PSB and the other banks can raise under this facility has been set by the CBR, depending among other factors on the credit rating and amount of own capital of the proposed borrowing bank. PSB borrowed money under this facility and in the first quarter of 2009 paid off such loans in full;
- The number of instruments eligible for the CBR’s collateralised facility was increased;
- From 14 October 2008 until 31 December 2010, the CBR had the authority to guarantee interbank lending transactions and, in an effort to encourage interbank lending, partly compensate certain banks, including PSB, for any losses incurred during interbank lending operations with banks whose licences had been revoked. PSB had its interbank lending transactions guaranteed by the CBR, though PSB did not incur any losses that required the CBR to compensate PSB under this guarantee;
- On 14 October 2008, the CBR decreased the reserve requirements for banks to 0.5% for all types of financial obligations from 4.5% for financial obligations to non-resident banks in roubles and foreign

currency, from 1.5% for financial obligations to individuals in roubles and from 2.0% for all other financial obligations. During 2009, 2010 and 2011, the CBR gradually increased the reserve requirements to 4.5% for financial obligations to non-resident legal entities in roubles and foreign currency and 3.5% for financial obligations in roubles and foreign currency to individuals and in other cases;

- the Deposit Insurance Agency, a state organisation responsible for the mandatory insurance of deposits made by individuals with Russian banks (the “DIA”), guaranteed deposits from individuals of up to RUB700,000. Retail deposits made with PSB are generally subject to this guarantee;
- The Government increased the scope of financial instruments in which funds from the National Welfare Fund (established in 2008 using oil revenues, with a view to co-financing contributions to pensions of Russian citizens and to making up shortfalls in the Federal Pension Fund) can be invested and, as a consequence, up to RUB625 billion was assigned to VEB to support the Russian financial markets;
- A detailed scheme for the financial rehabilitation and restructuring of credit organisations was introduced by the Federal Law No. 175-FZ of 27 October 2008 “On Additional Measures to Strengthen Stability of the Banking System through 31 December 2011.” According to this law, the CBR together with the DIA are entitled to undertake measures to support the financial standing of defaulting banks. Such support may include mandatory capital decreases, acquisitions by the DIA of controlling interests in defaulting banks and sales of assets or controlling interests in such banks to attracted investors. Subject to the CBR approval, the DIA may also provide funding for financial rehabilitation; and
- With a view to facilitating the consolidation of the Russian banking sector, certain amendments were introduced significantly streamlining the process of bank mergers and accessions. Moreover, the increase of the minimum permitted level of own funds, with the aim of ensuring that all banks have not less than RUB180 million of own funds by 1 January 2012, should also fasten the consolidation process.

In order to enhance the protection of state funds received by banks under the above programmes, the Government and the CBR adopted certain control measures. Based on the amendments introduced to the CBR Law, the CBR has the right to appoint its representatives to those banks that received state funds either under the Financial System Support Law and CBR uncollateralised lending programme or withhold state deposits. CBR representatives may be appointed at the CBR’s discretion from the date of the receipt by a bank of state funds until the date of full return of such funds. CBR representatives have the right to participate without voting rights in meetings of all governing bodies of a bank, including credit committees and assets and liability management committees, to receive information about management remuneration and the terms and conditions of future and extended credits, as well as information on credit policy and assets and liability management.

Russian Banking Regulations

Banking activity in Russia is governed primarily by the CBR Law, the Banking Law, CBR regulations and, to a limited extent, the Currency Law, as well as certain other laws and regulations mentioned in this section. While the CBR is the primary regulator of the banking sector, other governmental entities also exercise regulatory and supervisory functions over banks in Russia. For example, the FSFM issues licences to banking institutions to act as broker-dealers or to provide custodian and other services in the Russian securities market. Tax authorities supervise the tax assessments of banks.

Regulation of Licensing

The Central Bank of Russia

According to the Banking Law, a licence must be obtained from the CBR in order for any organisation to engage in banking activity. Applicants must be incorporated within Russia. A credit organisation can be organised in the form of a joint-stock company, a limited liability company or a company with additional liability, although in practice, the latter form is not used. The CBR approves the registration and issues licences to banks and NCOs in accordance with the procedures set forth in CBR Regulation No. 135-I of 2 April 2010. An application for the state registration of a new credit organisation needs to be accompanied by a charter, a feasibility report regarding the future business activity of the credit organisation, information on the qualifications of its founders and management and certain other information. A credit organisation’s application for a CBR licence may be rejected if, among other reasons, the submitted documents do not comply with the requirements set forth in the Banking Law and the CBR’s regulations, the financial or banking records of the founders of a credit organisation are unsatisfactory or the proposed candidates for the executive and chief accountant positions do not meet the relevant requirements.

A newly-formed bank may apply for a licence authorising it to perform banking operations (other than acceptance of retail deposits) in either both roubles and foreign currencies or in roubles only, as well as a licence authorising it to take deposits in the form of, and conduct related operations with, precious metals. Subject to compliance with applicable requirements, the CBR may extend the bank's capacity by issuance of: (1) a licence authorising it to accept retail deposits in either both roubles and foreign currencies or in roubles only, and/or (2) a license authorising it to take deposits in the form of, and place, precious metals, and/or (3) a general licence authorising it to perform all banking operations except for taking deposits in the form of, and placement of, precious metals.

Currently, there are two types of NCOs (settlement NCOs and deposit and credit NCOs) and, accordingly, two types of licences issued to such credit organisations. Settlement NCOs open and maintain bank accounts and handle cash operations for legal entities, whereas deposit and credit NCOs attract term deposits from legal entities and place them in their own name and their own account.

The Federal Service for Financial Markets

The FSFM issues licences to Russian credit organisations to perform the following professional functions on the Russian securities markets: (1) broker, (2) dealer, (3) securities manager, (4) custodian, (5) registrar and (6) clearing. The licensing procedures are established in the FSFM Regulation No. 10-49/PZ-N of 20 July 2010. In addition, the FSFM has a right to conduct audits of credit organisations from time to time to check their compliance with the requirements of applicable laws and regulations.

Regulation of Acquisitions

The Central Bank of Russia

According to the Banking Law, the CBR must be notified of an acquisition of more than 1% of the shares/participation interests in a credit organisation by any individual or legal entity, or a group of individuals and/or legal entities (irrespective of whether they are residents or non-residents of the Russian Federation), and it must give prior consent to an acquisition (including acquisition on the secondary market) of more than 20% of the shares/participation interests in a credit organisation. In accordance with CBR Regulation No. 130-I of 21 February 2007, as amended, prior consent of the CBR is required for acquisition/transfer into trust of more than 20% of shares of a credit organisation in the form of a joint-stock company and any subsequent increases of ownership/trust holding above thresholds of 25%, 50% and 75% as well as acquisition/transfer into trust of 100% of shares of a credit organisation in the form of a joint-stock company (20%, $\frac{1}{3}$, $\frac{1}{2}$, $\frac{2}{3}$ and 100% of participation interests in a credit organisation in the form of a limited liability company, respectively); provided that in each case an applicant has a satisfactory financial condition and sufficient own funds (if an individual), or net assets and has been in existence for at least three years (if a legal entity). The CBR approval is valid for one year from the date of issuance, and the applicant may acquire any amount of shares/participation interests in a credit organisation within the threshold stipulated in the approval.

The Federal Antimonopoly Service

The Federal Antimonopoly Service (the “**FAS**”) controls mergers of credit organisations and acquisitions of shares/participation interests and assets of credit organisations, as well as the acquisition of rights, allowing the acquirer to determine the terms of activity or exercise the powers of the executive body of such credit organisations. In accordance with Federal Law No. 135-FZ “On Protection of Competition” of 26 July 2006, as amended (the “**Antimonopoly Law**”) and the Government Regulation No. 335 of 30 May 2007, prior consent of the FAS is required for the following actions:

- acquisition of more than 25% of the voting shares of a credit organisation in the form of a joint-stock company and any subsequent increases of ownership above thresholds of 50% and 75% of its voting shares ($\frac{1}{3}$, $\frac{1}{2}$ and $\frac{2}{3}$ of participation interests in a credit organisation in the form of a limited liability company respectively);
- contribution of shares (participation interests) and/or assets of a credit organisation into charter capital of a commercial organisation;
- acquisition of more than 10% of assets of a credit organisation, as per the most recent RAS balance sheet;
- acquisition of rights to determine activity of a credit organisation or to exercise the powers of its executive body,

- incorporation of a commercial organisation, if its share capital is paid by the shares (participation interests) and/or assets of a credit organisation;

provided that the value of such credit organisation's assets, as per the most recent RAS balance sheet exceeds RUB33 billion; and

- merger and accession of credit organisations if the aggregate value of such credit organisations' assets, as per the most recent RAS balance sheet, exceeds RUB33 billion.

Regulation of Expansion Abroad

The Banking Law authorises Russian credit organisations to incorporate subsidiaries and to open branches outside Russia with the prior approval of the CBR if the credit organisation has, among other requirements, a general licence. The opening of a representative office of a Russian credit organisation outside Russia requires that the CBR receive a notification.

Regulation of Capital

Overview

Russian regulation of capital is based on the Basel Accord. It is, however, less sophisticated in certain respects. CBR Regulation No. 215-P of 10 February 2003, as amended, (the "**Regulation No. 215-P**") distinguishes between core capital and supplemental capital (together, "**own funds**") and requires that the supplemental capital (Tier 2 capital) be no more than 100% of the core capital (Tier 1 capital) and that subordinated debt (which can be included into the core or supplemental capital) not exceed 15%, 50% or 100% of the core capital (depending on the terms of such subordinated debt).

In accordance with the Banking Law, the minimum charter capital requirements for credit organisations to be complied with, as of the date of application for state registration and issuance of the banking licence, are RUB180 million for banks and RUB90 million for NCOs applying for a licence for conducting settlements under the instructions of legal entities and RUB18 million for NCOs which are not applying for such a licence. In addition, the minimum own funds requirement for banks is RUB180 million. As at 1 January 2007, if the own funds of an existing bank were lower than RUB180 million provided that they do not decrease further below that level, the bank could continue its operations. However, the own funds of such banks must be increased to not less than RUB90 million by 1 January 2010 and not less than RUB180 million by 1 January 2012.

Subordinated Debt

Subordinated debt (in the form of loans, deposits or notes) is included in supplemental capital if the following criteria are satisfied:

- its term should be not less than five years;
- it should include a provision prohibiting, without the consent of the CBR: (i) early redemption of the debt, any of its part or any interests, and (ii) early termination and/or amendment of the agreement;
- terms of the debt, as of the date of conclusion (amendment) of the loan agreement or placement of notes, should not materially differ from the prevailing market terms of similar debt;
- the agreement should specifically provide for the lowest creditor priority ranking of the creditor in the event of the borrower's bankruptcy;
- the debt should be unsecured; and
- individuals should not be party to the agreement.

Qualification of subordinated debt as supplemental capital is subject to consent of the CBR. The borrower may initiate the approval procedure of the CBR before the funds are disbursed by submitting a draft agreement for the CBR's consideration. As a result of its review, the CBR territorial branch may respond with comments or may issue a preliminary conclusion confirming that the agreement complies with Regulation No. 215-P. The final conclusion shall confirm the CBR's consent to the inclusion of subordinated debt into supplemental capital. Subordinated debt is included

into supplemental capital from the date following the date of the CBR's final conclusion but in any event not earlier than the date of actual receipt of the funds.

Regulation No. 215-P provides that generally subordinated debt may not exceed 50% of a credit organisation's core capital (lower Tier 2 capital). However, subject to certain additional requirements, subordinated debt with the term equal to or exceeding ten or 30 years may comprise up to 100% or 15% of a credit organisation's core capital (upper Tier 2 capital), respectively.

During the last five years to maturity of the subordinated debt a cumulative discount (or amortisation) of 20% per year is applied to reflect the diminishing value of subordinated debt. According to Regulation No. 215-P, amortisation is applied on a quarterly basis in accordance with the following formula:

$$O = \frac{C}{20} \times D, \text{ where}$$

O is the amortised value of the subordinated debt;

D is the full amount of the subordinated debt extended to the bank;

C is the number of complete quarters (1 January – 31 March, 1 April – 30 June etc.) remaining until the repayment of the subordinated debt ($C < 20$).

Special amortisation rules apply to subordinated debt establishing the borrower's call option (which option may not be exercised earlier than 5 years from the date when subordinated debt was included in supplemental capital). If, in accordance with interest step up provisions, interest increase does not exceed 150bps (1/100%), subordinated debt will be amortised from the date of its scheduled maturity. In other cases, subordinated debt is discounted from the date of the potential exercise of the call option.

Regulation of Mandatory Economic Ratios

The CBR mandatory economic ratios applicable to banks are established under CBR Regulation No. 110-I of 16 January 2004, as amended. The system of mandatory economic ratios which must be observed by the banks on a daily basis and regularly reported on to the CBR, is set forth below. All ratios described below are calculated on the basis of RAS.

Mandatory Economic Ratios	Description	CBR Mandatory Economic Ratio Requirements
Capital adequacy ratio (N1)	This ratio is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base necessary to cover credit, operational and market risks. It is formulated as a ratio of a bank's capital base to its risk-weighted assets. The risk-weighted assets are calculated under a formula that aggregates different categories of the bank's assets multiplied by a certain risk factor, reserves created for possible losses of those assets, credit risk on credit related commitments, credit risk on forward transactions, operational risk as well as risks relating to interest rates, securities markets and currencies, in each case separating the systemic and idiosyncratic factors.	Minimum 11% (where a bank's capital base is below RUB180 million) and minimum 10% (where a bank's capital base is equal to or more than RUB180 million). The capital adequacy ratio currently applicable to PSB is 10%.

Instant liquidity ratio (N2)	This ratio is intended to limit the bank's liquidity risk within one operational day. It is formulated as the minimum ratio of a bank's highly liquid assets to its adjusted liabilities payable on demand.	Minimum 15%
Current liquidity ratio (N3)	This ratio is intended to limit the bank's liquidity risk within 30 calendar days. It is formulated as the minimum ratio of a bank's liquid assets payable within 30 calendar days to its adjusted liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50%
Long-term liquidity ratio (N4)	This ratio is intended to limit the bank's liquidity risk arising from placement of funds into long-term assets. It is formulated as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and adjusted liabilities maturing in more than one year.	Maximum 120%
Maximum exposure to a single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (defined as persons who belong to the same banking group or banking holding, who are close relatives, or who can directly or indirectly materially influence the decisions of legal entity borrowers). It is formulated as the maximum ratio of the aggregate amount of the bank's various credit claims against a borrower (or a group of related borrowers) to its capital base.	Maximum 25%
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks (defined as the sum of loans to, and guarantees or sureties in respect of, one client that exceeds 5% of a bank's capital base). It is formulated as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800%
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's owners. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) to its capital base.	Maximum 50%

Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.	Maximum 3%
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 formulated as the maximum ratio of the bank's investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25%

CBR Regulation No. 112-I of 31 March 2004, as amended, outlines the additional mandatory economic ratios for credit organisations that issue mortgage-backed bonds. The regulation details the methods of calculation of the ratios that were introduced by Federal Law No.152-FZ of 11 November 2003 "On Mortgage-Backed Securities" (the "**Law on Mortgage-Backed Securities**"), such as the requirement that for any bank that issues mortgage-backed securities: the ratio of loans secured by mortgages to the bank's capital base must be at least 10% (N17); the minimum ratio for the size of mortgage cover to the volume of mortgage-backed bonds in issue is 100% (N18); and, the maximum ratio for bank's aggregate obligations to creditors with priority rights to satisfy their claims in advance of holders of mortgage-backed bonds (such as bank's depositors) to a bank's capital base is 50% (N19). Banks are required to comply with these special ratios from the time when the decision is taken to issue mortgage-backed bonds until the complete redemption of such bonds.

Regulation of Liquidity Support

Under the CBR Law and the Banking Law, the CBR is authorised to disburse loans and attract deposits with credit organisations that meet certain requirements with respect to, among other things, financial stability, absence of overdue liabilities with respect to the CBR, and the CBR's ability to directly debit the relevant credit organisation's correspondent accounts to support such credit organisation's liquidity position. The CBR's loans are required either to be secured with a pledge of certain securities or receivables specified by the CBR or backed with suretyships of companies specified by the CBR. However, due to the credit crisis, from 20 October 2008, the CBR started to provide loans without any security based on Regulation No. 323-P of 16 October 2008, as amended, in order to provide additional liquidity. Under this regulation, credits may be extended for a maximum term of one year to the banks having certain ratings, including ratings from Russian rating agencies. The interest rates on the secured loans offered by the CBR range from 0% for intra-day loans to 8.0% for overnight loans pursuant to CBR Regulation No. 312-P of 12 November 2007, CBR Regulation No. 236-P of 4 August 2003 and CBR Regulations No. 2584-U and No. 2586-U of 25 February 2011. Interest rates on unsecured loans are generally higher and are determined by the CBR. The CBR's deposits are attracted on the basis of results of auctions arranged by the CBR. Such deposits may be either at fixed rates determined prior to the auction or at fixed rates set during the auctions. Depending on the type of the deposit offered, the CBR establishes specific requirements as to the request forms and the deposit's amount as well as terms and interest rates, pursuant to CBR Regulation No. 203-P of 5 November 2002.

Regulation of Mandatory Reserves

In order to regulate overall liquidity in the Russian banking sector and to control money supply, the CBR requires banks to comply with the CBR requirements for the formation of mandatory reserves. The Board of Directors of the CBR sets particular reserve requirements from time to time. According to the CBR Regulation No. 2601-U of 25 March 2011, banks are currently required to post mandatory reserves to be held in non-interest bearing accounts with the CBR in an amount equal to 5.5% of funds attracted from non-resident legal entities in roubles and foreign currency and 4.0% of funds attracted in roubles and foreign currency from individuals and in other cases. Banks are obliged to calculate the required reserves volume in accordance with the CBR Regulation No. 342-P of 7 August 2009, report it to the CBR or its regional units on a monthly basis (after the end of each calendar month) and promptly place additional reserves with the CBR, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisations to check their compliance with the reserves rules, to collect the non-reserved amounts from the banks' correspondent accounts as well as to impose fines for failure to comply with the reserve requirements.

Regulation of Loss Allowances

The CBR has put in place rules concerning the creation of allowances for impairment losses for loans extended by banks. Russian credit organisations are required to calculate and establish their allowances for impairment losses in accordance with CBR Regulation No. 254-P of 26 March 2004, as amended. This regulation requires credit organisations to rank their loans (except for groups of loans that possess similar credit risk characteristics which are ranked differently) according to the following five categories: quality I category (standard loans) – the absence of credit risk; quality II category (non-standard loans) – moderate credit risk; quality III category (doubtful loans) – considerable credit risk; quality IV category (problem loans) – high credit risk; and quality V category (bad loans) – absence of probability that the loan will be repaid. The allocation of the loan into a particular group should be made on the basis of professional judgement. All loans and similar indebtedness must be provided for, including extended loans; placed deposits including interbank credits (deposits and loans); other placed funds, including rights of claim to receive debt securities, shares, promissory notes and precious metals provided under loan agreements; discounted promissory notes; sums paid by a credit organisation to beneficiaries under bank guarantees which were not collected from the principal; monetary claims of a credit organisation under factoring transactions; claims of a credit organisation under the rights assigned to it under various transactions, and some other operations. Loans classified as category I loans (standard loans) need not be provided for. Category II through V loans entail the following provisions, respectively: (i) 1% to 20%; (ii) 21% to 50%; (iii) 51% to 100%; and (iv) 100%. Creation of provisions in relation to retail loans are subject to special rules which, *inter alia*, provide for lower provision rates applicable to such loans.

In addition to the foregoing, banks are also required to create allowances for possible losses, other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, credit related commitments, contingent liabilities and forward and other transactions. CBR Regulation No. 283-P of 20 March 2006, as amended, requires banks to place such assets and operations into one of five risk groups reflecting the following situations: (i) no real or potential threat of loss; (ii) moderate potential threat of loss; (iii) serious potential or moderate real threat of loss; (iv) simultaneous potential and moderate real threat of loss or significant real threat of partial loss; and (v) value of the particular type of asset or operation will be fully lost. Banks are then required to provide allowances for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following limits established by the CBR for each risk group specified above, respectively: (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report to the CBR as to the amounts of created non-loan allowances on a monthly basis. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules. Pursuant to CBR Regulation No. 1584-U of 22 June 2005, mandatory allowances must also be created for operations with residents of certain off-shore jurisdictions in the amounts of 25% or 50% depending on the jurisdiction involved.

Regulation of Currency Exposure

In its Regulation No. 124-I of 15 July 2005, as amended, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, “**Currency Exposure**”). Currency Exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees, suretyships and letters of credit. Open currency position is calculated as the sum of all of these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into roubles in accordance with the official exchange rates and the CBR’s prices for precious metals. The CBR has prescribed that at the end of each operational day the total amount of all long or short currency positions must not exceed 20% of the bank’s capital base. At the same time, at the end of each operational day, the long or short position with respect to any particular currency or precious metal must not exceed 10% of the bank’s capital base.

Regulation of Reporting

Starting from 1 January 2008, credit organisations are required to perform routine accounting of all their transactions in accordance with CBR Regulation No. 302-P of 26 March 2007, as amended, which aims to bring RAS accounting closer to IAS. Under CBR Regulation No. 2332-U of 12 November 2009, routine reporting is performed by credit organisations on a daily, five-day, ten-day, monthly, quarterly, half-yearly and yearly basis; certain reporting is effected on a non-regular basis. Specific monthly reporting requirements apply to credit organisations in liquidation pursuant to CBR Regulation No. 1594-U of 14 July 2005, as amended. Under the Banking Law, banking groups (*i.e.*, groups of credit organisations in which one credit organisation, directly or indirectly, exercises substantial influence on other credit organisations within the group) and banking holdings (*i.e.*, groups of legal entities in which one entity, which is not a credit organisation, exercises substantial influence on a credit organisation within the group) must regularly submit consolidated financial statements and calculations of mandatory ratios on a consolidated basis to the CBR.

Under CBR Regulation No. 2172-U of 20 January 2009, all credit organisations and banking (consolidated) groups must publish annually and quarterly in mass media its financial statements, which include balance sheet, income statement, cash flow statement, calculations of mandatory ratios and certain other information.

Pursuant to CBR Regulation No. 1363-U of 25 December 2003, as amended, starting from 1 January 2004, credit organisations are also required to prepare financial statements in accordance with IFRS for the period from 1 January to 31 December of each year on the basis of financial statements prepared in accordance with RAS for the same period and submit them to the CBR prior to 1 July in the following year. The CBR issued recommendations as to how to prepare IFRS financial statements in its Letter No. 183-T of 30 December 2010, which contains pro-forma IFRS financial statements and examples of typical adjustments to RAS accounts. Annual audits of credit organisations must be carried out by a licensed auditing company under Russian auditing standards applicable to credit organisations.

Regulation of Retail Banking

The Banking Law provides that a bank may take deposits from individuals only after it has obtained a special license and been admitted to the retail deposit insurance system.

According to the Deposit Insurance Law participation in the retail deposit insurance system is subject to the following requirements: (i) the CBR is certain that the bank's financial statements and reporting are true and accurate; (ii) the bank is in full compliance with the CBR mandatory ratios (capital adequacy, liquidity, etc.); (iii) the CBR confirms sufficient financial stability of the bank on the basis of such criteria as sufficiency and quality of the bank's capital and assets, profitability and liquidity, as well as the CBR's requirements for the transparency of its ownership structure, risk management system and internal controls; and (iv) the CBR is not conducting any enforcement actions with respect to the bank and no grounds for such enforcement actions have arisen during the CBR's inspection of the bank.

The Deposit Insurance Law provides for the creation of the DIA, which is in charge of, *inter alia*, collecting insurance contributions, managing the funds in the mandatory insurance pools, establishing insurance premiums and monitoring insurance payments, as well as recording claims of depositors against the banks and payment of deposit compensation. All banks admitted to the deposit insurance system are entered into the special register maintained by the DIA.

Under the Deposit Insurance Law, the protection for each client is limited and banks are required to make quarterly payments into a deposit insurance fund. According to the Deposit Insurance Law, reimbursement is paid in full in relation to all deposits but in any case the amount of such reimbursement is subject to a cap of RUB700,000. The insurance payment from the deposit insurance fund will be payable to depositors if a bank's licence has been revoked or if the CBR has imposed a moratorium on payments by the bank. The basis of the deposit insurance contribution is the quarterly average of daily balances of retail deposits. Standard contribution premiums cannot exceed 0.15% of the contribution basis (the applicable contribution premium was established on 23 September 2008 and is currently equal to 0.1% of the contribution basis). In certain circumstances, the premium can be increased up to 0.3% of the contribution basis, but not for more than two quarters per every 18 months. When the size of the insurance fund reaches 5% of total retail deposits of all Russian banks, all succeeding contribution premiums cannot exceed 0.05% of the contribution basis, and when the size of the insurance fund exceeds 10% of all Russian banks' retail deposits, no contributions need to be made; they resume, however, once the insurance fund falls below the 10% threshold.

In response to the turmoil that the Russian banking sector experienced from April through July 2004, the Government passed Federal Law No. 96-FZ of 29 July 2004 (the "**Uninsured Deposits Law**"), which established a protection system for retail clients of the banks that did not participate in the retail deposit insurance system. The Uninsured Deposits Law contemplates, *inter alia*, that the CBR will make payments to the individual depositors of bankrupt Russian banks if such banks have not been admitted to the system of insurance of private deposits prior to their bankruptcy. Under the Uninsured Deposits Law, reimbursement is paid in full in relation to all deposits but in any case the amount of such reimbursement shall not be more than RUB700,000. Having made the payment to the individual depositors, the CBR assumes its rights against the bank and receives the same priority in bankruptcy as a private depositor.

Regulation of Insolvency

Petition to the CBR for Licence Revocation

Under Federal Law No. 40-FZ of 25 February 1999 "On Insolvency (Bankruptcy) of Credit Institutions," as amended (the "**Bank Insolvency Law**"), if a credit organisation cannot satisfy its creditors' claims amounting to, or over, RUB100,000 pursuant to a court or a tax authority's decision, within 14 days of becoming due, the following persons may petition the CBR (the "**Licence Revocation Petition**") to revoke the credit organisation's licence:

- credit organisation;
- its creditors; and

- authorised governmental bodies (including the Federal Tax Service).

Under the Banking Law, the CBR must revoke the licence of a credit organisation if:

- the credit organisation's capital adequacy ratio falls below 2%, in accordance with Russian standards;
- the credit organisation's capital base is less than the minimum nominal charter capital requirement established by the CBR as of the date of state registration of such credit organisation;
- the credit organisation fails to adjust its capital base and nominal charter capital on the CBR's request;
- 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 RUB100,000 within 14 days of when they come due; and
- in certain other cases.

Under the Banking Law, the CBR may revoke the licence of a credit organisation if:

- the information upon which the licence was issued is false;
- the credit organisation fails to begin operations within one year of the date of issuance of the licence;
- the credit organisation discloses reporting information that is materially false;
- the credit organisation fails to submit its monthly report to the CBR within 15 days of when it is due;
- the credit organisation repeatedly fails to submit information that must appear in the state register of legal entities;
- the credit organisation conducts banking operations for which it does not hold a licence (including the cases when a single such banking operation has been conducted);
- the credit organisation's activities do not comply with the Banking Law or other banking laws and regulations where, during one year, it was repeatedly subject to the corrective measures imposed by the CBR;
- the credit organisation repeatedly and wilfully, for a one-year period, failed to follow court decisions regarding the payment of funds from its clients' accounts;
- a credit organisation that manages assets involved in a mortgage-backed securities transaction fails to comply with the requirements of the Law on Mortgage-Backed Securities and other rules and regulations issued pursuant thereto where, during one year, it was repeatedly subject to the corrective measures imposed by the CBR; or
- the temporary administration appointed to manage a credit organisation pursuant to the Bank Insolvency Law requests the revocation of its licence.

Consequences of the CBR Decision on Licence Revocation

If, in response to the Licence Revocation Petition, the CBR revokes the credit organisation's licence, any of the following entities can petition an "arbitrazh court" (a Russian commercial court) to declare the credit organisation insolvent (the "**Insolvency Petition**"):

- the credit organisation;
- its creditors;
- the Federal Tax Service; and
- the CBR.

Similarly, if the CBR fails to respond to the Licence Revocation Petition within two months of its submission, such entities can then file an Insolvency Petition with the arbitrazh court. If the CBR rejects the Licence Revocation Petition, it may be liable for any losses a creditor incurs as a result of the non-revocation of the licence. Upon revocation of the credit organisation's licence, the CBR must appoint a temporary administration for the credit organisation if such temporary administration is not already in place. The appointment of the temporary administration lasts until the appointment of a receiver. See "*Appointment of a Receiver*". Additionally, upon revocation of the credit organisation's licence, the credit organisation may not enter into new transactions or perform transactions pursuant to existing obligations except in the limited cases as set forth under the Banking Law. Upon such revocation, the obligations of the credit organisation are considered matured. A local periodical must publish information on an arbitrazh court's judgment on the Insolvency Petition. Such publication sets forth, among other things, the time frame for the acceptance and satisfaction of the creditors' claims.

Insolvency Proceedings

After hearing an Insolvency Petition and following the revocation of such credit organisation's licence, the arbitrazh court may declare the credit organisation insolvent. Upon such a declaration, all payments to existing creditors are suspended, and the credit organisation may perform its contracts only according to the ranking of claims as set forth under the Bank Insolvency Law and the Bankruptcy Law.

Appointment of a Receiver

After the arbitrazh court declares a credit organisation insolvent:

- if the credit organisation did not hold a retail banking licence, the court appoints a CBR-accredited receiver; or
- if the credit organisation held a retail banking licence, the DIA acts as the receiver. Upon its appointment, the receiver assumes the management of the credit organisation's operations. The receiver's appointment is initially for one year but may be extended for a further six-month period and, in practice, for a longer period.

The receiver's functions include:

- analysis of the credit organisation's financial standing;
- valuation of its assets;
- identification of its creditors and providing them with notice of the credit organisation's insolvency;
- identification of debtors and requesting performance of their obligations to the insolvent credit organisation; and
- other functions as set forth under the Bank Insolvency Law.

The receiver reports to a committee of creditors and to the CBR, subject to the supervision of an arbitrazh court.

Invalidation of Transactions and Refusal to Perform Obligations

Under the Bank Insolvency Law, the receiver may invalidate transactions:

- entered into within one year before the appointment of the temporary administration, if the consideration received under such transaction is deemed to be 'unequal', i.e. if the price and/or other terms and conditions of such transaction are significantly less favourable to the credit organisation than those of a similar transaction entered into under comparable circumstances;
- or entered into within three years before the appointment of the temporary administration, if entered into with the intention of inflicting damage on property interests of other creditors provided that the counterparty was aware of such consequences;
- or if the transaction could lead to the preferential satisfaction of the claim of one creditor over the claims of other creditors and was (i) entered into within the period of one month prior to, or after, the appointment of the temporary administration; or (ii) entered into within six months prior to the appointment of the

temporary administration where the counterparty was aware of the insolvency of the credit organisation at the moment of the conclusion of such transaction or if such transaction is aimed at satisfaction of claims of a particular creditor before others and may cause or has caused change in priority of claims.

In addition, under the Bank Insolvency Law, the receiver may refuse to perform any transaction that results in losses to the credit organisation where a similar transaction would not ordinarily result in such losses.

Priority of Claims

Under the Bank Insolvency Law and the Bankruptcy Law, the claims of creditors of a credit organisation rank in the following order of priority:

- claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utilities bills, legal expenses and other payments;
- first priority claims, including:
 - claims in tort for damages in respect of a physical person's life or health, as well as moral distress;
 - claims of retail depositors and individuals holding current accounts (except for individual entrepreneurs, attorneys and notary public);
 - claims of the DIA in respect of deposits and current accounts transferred to it pursuant to the Deposit Insurance Law;
 - claims of the CBR relating to payments by the CBR to retail depositors of insolvent credit organisations that are not participants in the deposit insurance system;
- 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;
- claims of all other creditors except for claims of subordinated creditors; and
- claims of subordinated creditors.

Claims of each category of creditors must be satisfied in full before claims of the following category may be considered.

Completion of Insolvency Proceedings

Upon the collection of debts and satisfaction of claims, to the extent possible, the receiver submits a report to the arbitrazh court, which in turn continues or closes the insolvency proceedings.

Regulation of Credit Histories

In December 2004, Federal Law No. 218-FZ "On Credit Histories" was passed. This law provides for the establishment of "credit bureaus" that will maintain a database of borrowers' credit histories. The law requires all credit organisations, starting from 1 September 2005, to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of their credit histories. The borrower's credit history consists of both public and confidential portions and must include, *inter alia*, information on the borrower's outstanding debt and interest on it, the terms of repayment and any legal proceedings involving the borrower in respect of loans and financings. The borrower's credit history may be distributed to a third party with the borrower's prior consent, which remains valid for one month from the date of provision thereof. The general catalogue of credit histories is maintained by the CBR and includes cover pages of all credit histories and credit bureaus that maintain the respective credit histories. The credit bureaus are supervised by the FSFM. As at 17 January 2011, the FSFM has registered 32 credit bureaus.

Regulation of Currency Control

Notwithstanding significant liberalisation of the Russian currency control regime, the Currency Law still imposes some limitations on currency operations. In particular, foreign currency operations between Russian residents

are generally prohibited (except for certain specified operations, including foreign currency transactions between Russian authorised banks listed in CBR Regulation No. 1425-U of 28 April 2004). Moreover, certain limitations not applicable to credit organisations apply to the credit organisations' clients, such as the requirement to notify the Russian tax authorities regarding opening of a bank account abroad. Finally, credit organisations are required to perform the functions of currency control agents, *i.e.*, supervise compliance by residents and non-residents with the restrictions imposed by currency laws and regulations, including the requirements imposed on residents to maintain transaction passports for certain cross-border transactions and repatriate, subject to certain exceptions, export-related earnings to Russia.

Regulation of Anti-Money Laundering and Terrorist Financing

In August 2001, the Money Laundering Law was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering ("**FATF**"). The Money Laundering Law came into effect on 1 February 2002. Credit organisations are required to comply with the provisions of the Money Laundering Law relating to, among other things, the development of appropriate internal standards and procedures, client and ultimate beneficiary identification, control over client operations and reporting of suspicious operations performed by clients.

One of the main obligations of banks under the Money Laundering Law is the control function that involves the identification of banks' clients and ultimate beneficiaries, the gathering and recording of information with respect to client operations subject to mandatory control and the reporting of such operations to the Federal Service for Financial Monitoring, the anti-money laundering authority in Russia. The Money Laundering Law requires that banks control any operations with money or other property if the sum of such operations is equal to or exceeds RUB600,000 (or its equivalent in foreign currencies) when such operations involve any of the following: certain cash transactions, transactions where at least one of the counter-parties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering (which generally corresponds to the "black list" issued by the FATF), certain operations with bank accounts/deposits, and certain transactions with moveable assets, including transactions involving precious stones, precious metals and other property. Banks also must control any operations with real estate if the sum of such operations is equal to or exceeds RUB3 million (or its equivalent in foreign currencies). In addition, banks are required to control any operations involving any individuals or organisations that are known to participate in terrorist activities and any legal entity controlled by them or their agents. If bank officers suspect that an operation is conducted in order to legalise any funds received as a result of illegal activity or to finance terrorist activities, they are required to report such operations whether or not they qualify as controlled operations. Banks are not allowed to inform clients that transactions are being reported to the Federal Service for Financial Monitoring, as well as of any other measures that have been undertaken to prevent money laundering. Certain transactions conducted by individuals are exempt from the identification requirements under the Money Laundering Law, in particular, foreign exchange operations not exceeding RUB15,000.

THE ISSUER

PSB Finance S.A. was incorporated as a *société anonyme* on 3 August 2006 for an unlimited duration with limited liability under the laws of Luxembourg. Its Articles of Incorporation are published in the *Mémorial C, Recueil des Sociétés et Associations* number 1971 of 20 October 2006. It is registered with the *Registre de Commerce et des Sociétés* in Luxembourg under number B118687. Its registered office is located at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg. The Issuer may be reached by telephone at +352-421-22-462. PSB Finance S.A.'s subscribed share capital amounts to €31,000 divided into 310 shares with a par value of €100 each. All of the shares are fully paid up. Three hundred and nine shares are owned by Stichting PSB Finance and one share by Stichting Participatie DITC Amsterdam. PSB Finance S.A. is not a subsidiary of PSB.

PSB Finance S.A. is a special purpose entity established to facilitate the Group's issues of debt securities. It is not owned by PSB or the Group. However, for the purposes of the Financial Statements, PSB Finance S.A. constitutes a subsidiary of the Group on the basis that it is an enterprise controlled by the Group, through the predetermination of PSB Finance S.A.'s activities. See "Business — Corporate Organisation — *Principal Subsidiaries*".

Corporate Governance

PSB Finance S.A. is managed by the Board of Directors, currently consisting of three directors. The directors at present are:

- Rolf Caspers, banker, having his professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg;
- Anja Lakoudi, private employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg; and
- Heike Kubica, private employee, having her professional address at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg.

The Issuer is unaware of any conflicts of interest between the duties that any director owes to the Issuer and such director's private interests or other duties. Deutsche Bank Luxembourg S.A. is the domiciliation agent of PSB Finance S.A. Its duties include the provision of certain administrative and related services. Its appointment may be terminated and it may retire upon two months' prior notice, subject to it providing the Issuer and the Trustee with a list of at least three suitable domiciliation agency service providers.

PSB Finance S.A. was established as a special purpose entity for the purposes described in Article 3 of its Articles of Incorporation, as follows: the issue of loan participation notes or other debt securities for the purpose of financing loans to PSB; the granting of loans to PSB; the granting of security interests over its assets in relation to the issuance of the loan participation notes or other debt securities; and the making of deposits at banks or with other depositaries.

PSB Finance S.A. may carry out any transactions, whether commercial or financial, which are directly or indirectly connected with its corporate object at the exclusion of any banking activity. In general, PSB Finance S.A. may carry out any operation that it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

PSB Finance S.A. is, for the purposes of the Programme, a limited recourse vehicle in respect of each Series of Notes. Under each Series, payments of principal or interest to the Issuer, deriving from the relevant Loan from the Issuer to PSB, are assigned to the Trustee as security for the Issuer's payment obligations under the relevant Notes. Each such assignment of rights for the purposes of Trustee security is subject to a limited recourse provision, such that the Trustee may only look solely to such sums for payments to be made by the Issuer under any given Series. The Trustee in respect of each Series may have no further recourse to the Issuer in respect thereof.

Financial Statements and Operations

The Issuer's fiscal year ends on 31 December of each year.

- On 23 August 2006 the Issuer issued U.S.\$45,000,000 loan participation notes due 2012, which initially bear a floating interest rate. The Issuer used the proceeds of these notes to finance a subordinated loan to PSB.

- On 20 October 2006, the Issuer issued U.S.\$125,000,000 loan participation notes due 2011, which bear an interest rate of 8.75% per annum. The Issuer used the proceeds of these notes to finance a loan to PSB.
- On 20 October 2006, the Issuer issued U.S.\$200,000,000 loan participation notes due 2012, which bear an interest rate of 9.625% per annum. The Issuer used the proceeds of these notes to finance a subordinated loan to PSB.
- On 20 March 2007, the Issuer issued an additional U.S.\$100,000,000 loan participation notes which were consolidated with and form a single series with the U.S.\$125,000,000 8.75% loan participation notes due 2011 issued on October 2006. The Issuer used the proceeds of these notes to finance a loan to PSB.
- On 20 July 2007, the Issuer issued U.S.\$100,000,000 loan participation notes due 2018, which bear a floating interest rate. The Issuer used the proceeds of these notes to finance the Original Subordinated Loan to PSB.
- In January 2008, the Issuer executed a remarketing of a private placement first marketed in July 2007 and issued U.S.\$100,000,000 12.5% loan participation notes due 2018.
- In June 2008, the Issuer issued €15,000,000 9.625% senior loan participation notes under the Programme described herein. The Issuer used the proceeds of these notes to finance a loan to PSB.
- In July 2008, the Issuer issued U.S.\$150,000,000 10.75% senior loan participation notes under the Programme described herein. The Issuer used the proceeds of these notes to finance a loan to PSB.
- In November 2009, the Issuer issued U.S.\$200,000,000 12.75% subordinated loan participation notes due 2015 under the Programme described herein. The Issuer used the proceeds of these notes to finance a loan to PSB.
- In July 2010, the Issuer issued U.S.\$200,000,000 11.25% senior loan participation notes due 2016 under the Programme described herein. The Issuer used the proceeds of these notes to finance a loan to PSB.

Except for the above, the Issuer has not engaged in any financial operations since the date of its incorporation. Except for the above, since the date of the incorporation of the Issuer on 3 August 2006, there has been no material adverse change in the financial position or the prospects of the Issuer.

Auditors

A.A.C.O. S.à.r.l. are the statutory auditors of the Issuer. The address of A.A.C.O. S.à.r.l. is 23, Val Fleuri, L-1526, Luxembourg. A.A.C.O. S.à.r.l. is a member of the *Institut des Réviseurs d'Entreprises*.

THE AMENDED AND RESTATED FACILITY AGREEMENT

THIS AMENDED AND RESTATED FACILITY AGREEMENT is made on 14 APRIL 2011

BETWEEN:

- (1) **OPEN JOINT-STOCK COMPANY PROMSVYAZBANK**, a company established under the laws of the Russian Federation whose registered office is at 10, Building 22, Smirnovskaya str, Moscow 109052, Russian Federation (“**PSB**”), as borrower; and
- (2) **PSB FINANCE S.A.**, a *société anonyme* established under the laws of Luxembourg, whose registered office is at 2, boulevard Konrad Adenauer, L-1115 Luxembourg, and is registered with the *Registre de Commerce et des Sociétés* in Luxembourg under number B118687, as lender (the “**Lender**”).

WHEREAS, the Lender at the request of PSB agreed, *inter alia*, pursuant to a facility agreement dated 14 November 2007 (the “**Original Facility Agreement**”) as amended and restated on 16 June 2009 (the “**First Amended and Restated Facility Agreement**”) and any subordinated loan agreements to be entered into from time to time by the Lender and PSB, as supplemented by a corresponding subordinated loan supplement (together, each a “**Subordinated Loan Agreement**”), to make available to PSB a loan facility in the maximum amount of the Programme Limit (as defined below) on the terms and subject to the conditions of either the Original Facility Agreement, as amended and supplemented in relation to each Loan (as defined below), by a Loan Supplement dated the Closing Date substantially in the form set out in the Schedule thereto (each, a “**Loan Supplement**”) or any Subordinated Loan Agreement;

WHEREAS, it is intended that, concurrently with the extension of any Loan under the loan facility the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Loan; and

WHEREAS, by this amended and restated facility agreement (the “**Agreement**” or the “**Facility Agreement**”) the parties hereto have agreed to amend and restate the First Amended and Restated Facility Agreement as set out below.

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 Loan Supplement.

“**Affiliates**” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with 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 Agreement**” means the amended and restated paying agency agreement relating to the Programme dated 14 April 2011, as may be amended or supplemented from time to time between the Lender, the Trustee and the agents named therein.

“**Arrangers**” means Deutsche Bank AG, London Branch and J.P. Morgan Securities Ltd. and Open Joint-Stock Company Promsvyazbank or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

“**Auditors**” means PWC or any internationally recognised firm of accountants.

“**Basel Accord**” means the paper entitled “International Convergence of Capital Measurement and Capital Standards” dated July 1988 and prepared by the Basle Committee on Banking Regulations and Supervision, as amended in November 1991.

“**BIS Guidelines**” means the guidelines on capital adequacy standards (including the constituents of capital included in the capital base, the risk weights by category for on-balance-sheet assets, the credit conversion

factors for off-balance-sheet items, and the target standard ratio) for international banks contained in the Basel Accord, without any amendment or other modification by any other agency.

“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 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.

“Calculation Agent” means, in relation to a Loan, Deutsche Bank AG, London Branch, or any other person named as such in the relevant Loan Supplement or any successor thereto.

“Capital” means PSB’s Capital as such term is defined in the BIS Guidelines, including but not limited to both Tier 1 and Tier 2 Capital, each as defined therein.

“Central Bank” or **“CBR”** means the Central Bank of the Russian Federation - Bank of Russia or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR.

“Change of Law” means any of the enactment or introduction of any new law, the variation, amendment or repeal of an existing or new law, and any ruling on or interpretation or application by a competent authority of any existing or new law which, in each case, occurs after the date hereof and for this purpose the word “law” means all or any of the following whether in existence at the date hereof or introduced hereafter and with which it is obligatory or customary for banks or other financial institutions or, as the case may be, companies in the relevant jurisdiction to comply:

- (a) any statute, treaty, order, decree, instruction, letter, directive, instrument, regulation, ordinance, or similar legislative or executive action by any national or international or local government or authority or by any ministry or department thereof and other agencies of state power and administration (including, but not limited to, taxation departments and authorities); and/or
- (b) any letter, regulation, decree, instruction, request, notice, guideline, directive, statement of policy or practice statement given by, or required of, any central bank or other monetary authority, or by or of any Taxing Authority or fiscal or other authority or agency (whether or not having the force of law); and
- (c) the decision or ruling on, the interpretation or application of, or a change in the interpretation or application of, any of the foregoing by any court of law, tribunal, central bank, monetary authority or agency or any Taxing Authority or fiscal or other competent authority or agency.

“Closing Date” means the date specified as such in the relevant Loan Supplement. **“Day Count Fraction”** has the meaning specified in the relevant Loan Supplement.

“Dealer Agreement” means the amended and restated dealer agreement relating to the Programme dated 14 April 2011 between the Lender, PSB, the Arrangers 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.

“euro” or **“€”** means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended.

“Event of Default” has the meaning assigned to such term in Clause 11.1 hereof.

“Fitch” means Fitch Ratings Ltd.

“Financial Indebtedness” means any indebtedness, in respect of any Person for, or in respect of, moneys borrowed or raised including, without limitation, any amount raised by acceptance under any acceptance credit facility; any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan

stock or any similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement or repurchase agreement) having the economic effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above.

“**Fixed Rate Loan**” means a Loan specified as such in the relevant Loan Supplement. “**Floating Rate Loan**” means a Loan specified as such in the relevant Loan Supplement. “**Group**” means PSB and its consolidated Subsidiaries taken as a whole.

“**IFRS**” means the International Financial Reporting Standards issued by the International Accounting Standards Board (as amended, supplemented or re-issued from time to time).

“**IFRS Financial Statements**” means the most recent audited financial statements of PSB for each financial year ended 31 December prepared in accordance with IFRS.

“**IFRS Fiscal Period**” means any fiscal period for which the Group has produced consolidated financial statements in accordance with IFRS which have either been audited or reviewed by independent accountants of recognised international standing.

“**Interest Commencement Date**” means the Closing Date or such other date as may be specified in the relevant Loan Supplement.

“**Interest Payment Date**” means the dates specified as such in the relevant Loan Supplement, or, in the event of a prepayment in whole or in part in accordance with Clauses 5.2, 5.3 and 5.4, the date set for such redemption in respect of the part of the 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.

“**Lender Agreements**” means the Dealer Agreement, this Agreement, the Agency Agreement, the Principal Trust Deed and together with, in relation to each Loan, the relevant Subscription Agreement, Loan Supplement and Supplemental Trust Deed.

“**Lien**” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

“**Loan**” means each loan to be made pursuant to, and on the terms specified in this Agreement and the relevant Loan Supplement and includes each Fixed Rate Loan and Floating Rate Loan.

“**Loan Agreement**” means this Agreement and (unless the context requires otherwise), in relation to a Loan, means this Agreement as amended and supplemented by the relevant Loan Supplement.

“**Lowest Rating**” means, in respect of any Rated Securities or any corporate rating of PSB, the lowest rating assigned by a Rating Agency (or, where more than one Rating Agency has assigned an equivalent rating to such Rated Securities or such corporate rating of PSB, the relevant Rating Agencies) and existing on the day immediately preceding the commencement of the Relevant Period (as defined below), as compared with the ratings of such Rated Securities or such corporate rating of PSB assigned by such Rating Agency or other Rating Agency and existing on such date.

“**Material Adverse Effect**” means a material adverse effect on (a) the business, operations, property, financial condition or business prospects of PSB; (b) PSB’s ability to perform or comply with its obligations under a Loan Agreement; or (c) the validity or enforceability of a Loan Agreement or the rights or remedies of the Lender under a Loan Agreement.

“**Moody’s**” means Moody’s Investors Services, Inc.

A “**Negative Ratings Event**” shall be deemed to have occurred:

- (a) if, during the period commencing upon or following the announcement or (in the absence of such an announcement) the occurrence of any reorganisation or any other type of corporate reconstruction, and ending on:

- (i) the date which is four weeks after the date of such announcement or occurrence, as the case may be, of the relevant reorganisation or corporate reconstruction, the Lowest Rating shall be placed on “credit watch” or formal review (or equivalent) with negative implications or a negative outlook, on the date the Lowest Rating is so placed; or
- (ii) the date which is 6 months after the date of such an announcement or occurrence, as the case may be, of the relevant reorganisation or corporate reconstruction (such period, the “**Relevant Period**”), the Lowest Rating shall be downgraded or withdrawn, on the date the Lowest Rating is so downgraded or withdrawn; or
- (b) if, at any time during the Relevant Period, any rating of any Rated Securities or any corporate rating of PSB assigned by any other Rating Agency and existing on the day immediately preceding the commencement of the Relevant Period, shall be downgraded to a rating below the Lowest Rating or withdrawn by such Rating Agency, on the date such rating is so downgraded or withdrawn,

provided that if, during the Relevant Period the Rating Agency has (a) downgraded its rating assigned to the debt obligations of the Russian Federation or (b) put the Russian Federation on “credit watch” or formal review (or equivalent) with negative implications or a negative outlook, then a Negative Ratings Event shall not be deemed to have occurred in the case of (b) and shall only be deemed to have occurred in the case of (a) if the rating assigned by such Rating Agency to any Rated Securities or the corporate rating of PSB shall be downgraded to a greater extent than such downgrading of the debt obligations of the Russian Federation.

“**Noteholder**” means, in relation to a Note, the person in whose name such Note is registered in the register of the noteholders (or in the case of joint holders, the first named holder thereof).

“**Notes**” means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Loan and relating to a Loan as defined in the relevant Loan Supplement.

“**Officer’s Certificate**” means a certificate signed by an officer of PSB who shall be the principal executive officer, principal accounting officer or principal financial officer of PSB.

“**Opinion of Counsel**” means a written opinion from international legal counsel who is acceptable to the Lender.

“**Permitted Liens**” means:

- (a) Liens securing Financial Indebtedness of a Person existing at the time that such Person is merged into or consolidated with PSB or becomes a Subsidiary of PSB, provided, however, that such Liens were not created in contemplation of such merger or consolidation and do not extend to any assets or property of PSB or any Subsidiary of PSB other than those of the surviving Person and its Subsidiaries;
- (b) Liens on assets or property acquired by PSB or a Subsidiary of PSB; provided that such Liens were not created in contemplation of such acquisition and do not extend to any other assets or property (other than proceeds of such acquired assets or property);
- (c) Liens incurred or pledges and deposits made in connection with workers’ compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature incurred in the ordinary course of business;
- (d) Liens arising from operation of law;
- (e) Liens for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which PSB has set aside on its books reserves to the extent required by IFRS;
- (f) easements, rights of way, restrictions (including zoning restrictions), reservations, permits, servitudes, minor defects or irregularities in title and other similar charges or encumbrances, and Liens arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of PSB or any of its Subsidiaries and existing, arising or incurred in the ordinary course of business;

- (g) (i) bankers' Liens in respect of deposit accounts, (ii) statutory landlords' Liens, (iii) deposits to secure the performance of bids, trade contracts, government contracts, leases, statutory obligations, surety and appeal bonds, performance and return-of- money bonds or liabilities to insurance carriers under insurance or self-insurance arrangements and other obligations of like nature (so long as, in each case with respect to items described in (i), (ii) and (iii) above of this paragraph (g), such Liens (I) do not secure obligations constituting Financial Indebtedness for borrowed money, and (II) are incurred in the ordinary course of business), and (iv) Liens arising from any judgment, decree or other order which does not constitute an Event of Default;
- (h) any Lien upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation, asset-backed financing or like arrangement and whereby all obligations secured by such Lien or having the benefit of such Lien, are to be discharged in the ordinary course from or with such assets or revenues;
- (i) any Liens granted by any Subsidiary of PSB in favour of PSB; (j) any Liens existing on the date of this Agreement;
- (j) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market in connection with (i) contracts entered into substantially for sales and purchases at market prices of precious metals and/or securities or for the financing of such sales and purchases; (ii) financing of companies primarily engaged in the production or trading of precious metals, provided that PSB has received collateral (consisting of property, equipment, cash or cash equivalents, promissory notes or third party guarantees) with a value that is at least equal to 85 per cent., of the financing, provided that the amount of all such financings in any fiscal year does not exceed U.S.\$150,000,000; (iii) the establishment of margin deposits and provision of other forms of security in connection with interest rate and foreign currency hedging operations and trading in securities; (iv) project, export credit-agency backed and pre-export financing of PSB's customers; and (v) financing provided by the European Bank for Reconstruction and Development, the International Finance Corporation, the Russian Bank of Development (RosBR), KfW Bankengruppe and analogous supranational financial institutions;
- (k) Liens on assets or property acquired by PSB or a Subsidiary of PSB; provided that such Liens (i) were created in contemplation of such acquisition; and (ii) were created in contemplation of such assets or property being leased to a third party by PSB or such Subsidiary;
- (l) Liens upon any present or future assets or revenues, or any part thereof, which is created pursuant to any Repo transaction;
- (m) any other Lien where the aggregate value of assets or revenues subject to such Lien does not exceed U.S.\$30,000,000; and
- (n) any extension, renewal of or substitution for any Lien permitted by any of the preceding sub-Clauses (a) through (n); provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien, with respect to Liens incurred pursuant to this Clause the principal amount secured has not increased and the Liens shall have not been extended to any additional property (other than proceeds of the property in question).

"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, could be an Event of Default.

"Principal Subsidiary" means at any relevant time a Subsidiary of PSB (a) whose total assets or total revenues represent at least 7.5 per cent., of the total consolidated assets, or, as the case may be, total consolidated revenues, of the Group and, for these purposes (i) the total assets and total revenues of such Subsidiary shall be determined by reference to its then most recent audited financial statements (or, if none, its then most recent management accounts); and (ii) the total consolidated assets and total consolidated revenues of the Group shall be determined by reference to the Group's then most recent audited consolidated financial statements (or, if none, its then most recent consolidated management accounts), in each case prepared in accordance with IFRS or (b) to which is transferred the whole, or substantially the whole, of the undertaking and assets of a Subsidiary of PSB which immediately before the transfer is a Principal Subsidiary of PSB.

“Principal Trust Deed” means the amended and restated principal trust deed dated 14 April 2011 between the Lender and the Trustee, as may be amended or supplemented from time to time.

“Programme” means the programme for the issuance of Notes by the Lender for the purpose of financing Loans.

“Programme Limit” means U.S.\$3,000,000,000 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” means the base prospectus dated 14 April 2011 relating to the issue of the Notes.

“PSB Account” means an account in the name of PSB as specified in the relevant Loan Supplement for receipt of Loan funds.

“Put Option”, if applicable, means the put option granted to Noteholders pursuant to the relevant Loan Supplement and the Conditions of the relevant Series of Notes.

“Put Settlement Date”, if applicable, has the meaning given to it in the relevant Loan Supplement.”

“Qualifying Jurisdiction” means any jurisdiction in which the Lender or any successor thereto is entitled to receive payment of interest on any Loan under a double taxation agreement in force on such date (subject to the completion of any necessary procedural formalities) providing for full exemption from Russian withholding tax on interest derived from a source within the Russian Federation to a resident of such jurisdiction.

“Rated Securities” means the Notes of any Series so long as they shall have an effective rating from any Rating Agency and, if there is no such rating, all unsecured and unsubordinated debt of PSB (other than any securities issued in the domestic capital markets) having an initial maturity of one year or more which is rated by any of the Rating Agencies.

“Rate of Interest” has the meaning assigned to such term in the relevant Loan Supplement.

“Rating Agency” means Standard & Poor’s, Moody’s or Fitch, or any of their successors or any rating agency substituted for any of them (or any substitute of them permitted by PSB) by PSB, from time to time, provided that any such entity shall constitute a “Rating Agency” only if it has rated the Rated Securities or given a corporate rating of PSB in each case at the invitation of PSB or with the written consent, agreement or approval of PSB.

“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 Loan Supplement.

“Repo” means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing whether or not arising in the ordinary course of business and for the purposes of this definition, the term “securities” means any capital stock share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or agency or instrumentality thereof or any supranational, international or multinational organisation.

“Risk Weighted Assets” means the aggregate of PSB’s or, if consolidated financial statements are then prepared, the Group’s consolidated balance sheet assets and off-balance sheet engagements weighted for credit and market risk in accordance with the BIS Guidelines;

“Roubles” means the lawful currency 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.

“**Series**” means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number.

“**Specified Currency**” means the currency specified as such in the relevant Loan Supplement.

“**Standard & Poor’s**” means Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc.

“**Sterling**” means the currency of the United Kingdom.

“**Subscription Agreement**” means the agreement specified as such in the relevant Loan Supplement.

“**Subsidiary**” of any specified Person means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which at least 50 per cent., of the total voting power of the voting stock is held by such first-named Person and/or any of its Subsidiaries and such first-named Person and/or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract; or (c) if in accordance with IFRS such entity would be consolidated with the first-named Person for financial statement purposes.

“**Supplemental Trust Deed**” means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, inter alia, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 9 to the Principal Trust Deed).

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer System or any successor thereto.

“**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 Qualifying Jurisdiction in which the Lender or any successor is resident for tax purposes) 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.

“**Taxing Authority**” means any government or political subdivision or territory or provision of any government or authority or agency therein or thereof having the power to tax within Russia or Luxembourg (or any Qualifying Jurisdiction in which the Lender or any successor is resident for tax purposes).

“**Treaty**” has the meaning given to it in Clause 5.2.

“**Trust Deed**” means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Loan Supplement.

“**Trustee**” means Deutsche Trustee Company Limited as trustee under the Trust Deed and any other trustee or trustees for the time being of such trust deed.

“**Warranty Date**” means the date hereof, the date of each Loan Supplement, each Closing Date, each date on which the Prospectus or any of the Lender Agreements is amended, supplemented or replaced.

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 Agency Agreement, the Dealer Agreement or the relevant Loan Supplement shall have the meanings assigned to such terms therein.

1.3 **Interpretation**

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- (a) All references to “Clause” or “Clauses” are references to a Clause or Clauses of this Agreement.

- (b) The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean the relevant Loan Agreement as a whole and not any particular part hereof.
- (c) Words importing the singular number include the plural and vice versa.
- (d) All references to “taxes” include all present or future taxes, levies, imposts and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- (e) The table of contents and the headings are for convenience only and shall not affect the construction hereof.
- (f) All references to “this Agreement” or “this Facility Agreement” are references to this Amended and Restated Facility Agreement dated 14 April 2011.

1.4 **Amendment and Restatement**

This Agreement amends and restates the First Amended and Restated Facility Agreement. Any 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 either the First Amended and Restated Facility Agreement or the Original Facility Agreement.

2. **LOANS**

2.1 **Loans**

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, the Lender hereby agrees to make available to PSB Loans 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 Loan will be used for general corporate purposes (unless otherwise specified in the relevant Loan Agreement), but the Lender shall not be concerned with the application thereof.

2.3 **Separate Loans**

It is agreed that with respect to each Loan, all the provisions of this Facility Agreement and the Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Loan and the expressions “Account”, “Closing Date”, “Day Count Fraction”, “Interest Commencement Date”, “Interest Payment Date”, “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 Loan shall be construed as referring to those of the particular Loan in question and not of all Loans unless expressly so provided, so that each such Loan shall be made pursuant to this Facility Agreement and the relevant Loan Supplement, together comprising the Loan Agreement in respect of such Loan and that, unless expressly provided, events affecting one Loan shall not affect any other.

3. **DRAWDOWN**

3.1 **Drawdown**

On the terms and subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on the Closing Date thereof the Lender shall make a Loan to PSB and PSB shall make a single drawing in the full amount of such Loan.

3.2 **Arrangement Fee**

In consideration of the Lender making a Loan available to PSB, PSB hereby agrees that it shall, by 4:00 p.m. (London time) one Business Day before each Closing Date, pay to the Lender, in Same-Day Funds an arrangement fee in connection with the financing of such Loan, including negotiation, preparation and execution of all necessary related documents and transactions and other properly incurred costs connected with and necessary for the extension of such Loan (a “**Loan Arrangement Fee**”). The Loan Arrangement Fee shall be calculated taking into account the front-end commissions, fees and costs properly incurred and documented by

the Lender in connection with financing such Loan. The total amount of the Loan Arrangement Fee is to be as specified in the relevant Loan Supplement.

3.3 **Disbursement**

Subject to the conditions set forth herein and, as the case may be, in each Loan Supplement, on each Closing Date the Lender shall transfer the amount of the relevant Loan to the PSB Account specified in the relevant Loan Supplement in Same-Day Funds.

3.4 **Ongoing Fees and Expenses**

In consideration of the Lender agreeing to make the Loans to PSB and making available the facility hereunder, PSB shall pay on demand to the Lender as and when such payments are due an amount or amounts of ongoing commissions and costs as set forth to PSB in an invoice from the Lender, providing, in reasonable detail, the nature and calculation of the relevant payment or expense.

4. **INTEREST**

4.1 **Rate of Interest for Fixed Rate Loans**

Each Fixed Rate Loan 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 applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Loan Supplement.

4.2 **Payment of Interest for Fixed Rate Loans**

Interest at the Rate of Interest shall accrue on each Fixed Rate Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, in each case to (but excluding) the next Interest Payment Date and shall be paid by PSB to the Lender in arrear not later than 10:00 a.m. one Business Day prior to each Interest Payment Date.

4.3 **Interest for Floating Rate Loans**

- (a) *Interest Payment Dates:* Each Floating Rate Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, in each case 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 PSB to the Lender in arrear not later than 10:00 a.m. one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (b) *Business Day Convention:* If any date referred to in the relevant Loan Supplement that is specified to be subject to 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.

- (c) *Rate of Interest for Floating Rate Loans:* The Rate of Interest in respect of Floating Rate Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Loan Supplement.

(i) ISDA Determination for Floating Rate Loans

Where ISDA Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest 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 sub-paragraph (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 Loan Supplement;
- (b) the Designated Maturity is a period specified in the relevant Loan Supplement; and
- (c) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Loan Supplement.

For the purposes of this sub-paragraph (i), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(ii) Screen Rate Determination for Floating Rate Loans.

- (A) Where Screen Rate Determination is specified in the relevant Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) 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 either 11:00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question 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 Loans is specified in the relevant Loan Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Loans will be determined as provided in the relevant Loan Supplement.

- (B) if the Relevant Screen Page is not available or if, sub-paragraph (A)(1) applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone 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 if the Reference Rate is LIBOR, at approximately 11:00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11:00 a.m. (Brussels time) on the Interest Determination Date in question. 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

- (C) if paragraph (B) 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 either (i) 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, offered by such Banks, if the Reference Rate is LIBOR, at approximately 11:00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11:00 a.m. (Brussels time) on the relevant Interest Determination Date, in respect of deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone interbank market, as the case may be, or (ii) if fewer than two of the Reference Banks so requested 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, if the Reference Rate is LIBOR, at approximately 11:00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11:00 a.m. (Brussels 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, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, *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 (although 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 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**

- (a) If any Margin is specified in the relevant Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (b) If any Maximum or Minimum Rate of Interest is specified in the relevant Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.
- (c) For the purposes of any calculations required pursuant to a Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Loan for any period shall be calculated by multiplying the product of the Rate of Interest and the outstanding principal amount of such Loan by the Day Count Fraction, unless an Interest Amount (or a formula for its calculation) is specified in the relevant Loan Supplement in respect of such period, in which case the amount of interest payable in respect of such Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 Determination and Notification of Rates of Interest and Interest Amounts

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 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 in writing to PSB, the Lender, the Trustee and any other Calculation Agent appointed in respect of such Floating Rate Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Clause 4.3(b), the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of PSB and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Loan becomes due and payable under Clause 11, the accrued interest and the Rate of Interest payable in respect of such Floating Rate Loan shall nevertheless continue to be calculated as previously in accordance with this Clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Loan, the Lender and PSB agree that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability to any person 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:

- (a) 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
- (b) in the case of euro, a day on which the TARGET system is operating (a “**TARGET Business Day**”), and/or
- (c) in the case of a currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres.

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any 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 or Interest Accrual Period, the “**Calculation Period**”):

- (a) if “**Actual/Actual**” or “**Actual/Actual - ISDA**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (b) if “**Actual/365 (Fixed)**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (c) if “**Actual/360**” is specified in the relevant Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (d) if “**30/360**”, “**360/360**” or “**Bond Basis**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” 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 D₁ is greater than 29, in which case D₂ will be 30.

- (e) if “**30E/360**” or “**Eurobond Basis**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

“**D₂**” 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 D₂ will be 30;

- (f) if “**30E/360 (ISDA)**” is specified in the relevant Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;

“**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

“**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

“**D₁**” 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 **D₁** will be 30; and

“**D₂**” 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 **D₂** will be 30; and

(g) if “**Actual/Actual-ICMA**” is specified in the relevant Loan Supplement:

(i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(ii) if the Calculation Period is longer than one Determination Period, the sum of:

(A) 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

(B) 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.

“**Determination Date**” means the date specified in the relevant Loan Supplement or, if none is so specified, the Interest Payment Date.

“**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 Loans, means the Fixed Amount or Broken Amount, as the case may be.

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified herein.

“ISDA Definitions” means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Loan Supplement.

“Reference Banks” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the relevant Loan Supplement.

“Reference Rate” means the rate specified as such in the relevant 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 Loan Supplement.

4.10 **Calculation Agent**

The Lender shall procure that there shall at all times be specified one or more Calculation Agents, which shall have been approved in advance by PSB, if provision is made for them hereon and for so long as any amount remains outstanding under a Loan Agreement. Where more than one Calculation Agent is appointed in respect of a Loan, references in the relevant Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement, the Lender shall (with the prior approval of PSB) 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 PSB and the Lender agree that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to each particular Series.

5. **REPAYMENT AND PREPAYMENT**

5.1 **Repayment**

Except as otherwise provided herein and in the applicable Loan Supplement, PSB shall repay each Loan not later than 10:00 a.m. one Business Day prior to the Repayment Date thereof.

5.2 **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 (the **“Treaty”**) or the laws or regulations of the Russian Federation or Luxembourg or of any political sub-division thereof or any authority therein or the enforcement of the security provided for in any Trust Deed, PSB would thereby be required to make or increase any payment due pursuant to any Loan Agreement as provided in Clauses 6.2 or 6.3 (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clauses 3.2 and 13), or if (for whatever reason) PSB would have to or has been required to pay additional amounts pursuant to Clause 8, and such additional amounts cannot be avoided by PSB taking reasonable measures available to it, then PSB may (without premium or penalty), upon not less than 20 nor more than 90 days’ notice to the Lender specifying the date of payment and including a certification by a principal officer of PSB that PSB would be required to increase the amount payable or to pay additional amounts, supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction (which notice shall be irrevocable), prepay the relevant Loan in whole (but not in part) at any time.

5.3 **Illegality**

If, at any time after the date of the relevant 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 (i) the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel if so requested and satisfactory to PSB, with the cost of such Opinion of Counsel being borne solely by PSB) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the relevant 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 Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Loan or (ii) PSB reasonably

determines (such determination being accompanied by an Opinion of Counsel if so requested and satisfactory to the Lender, with the cost of such Opinion of Counsel being borne solely by PSB) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for PSB to borrow any Loan or to allow all or part of any Loan to remain outstanding or to give effect to any of its obligations in connection with this Agreement and/or to pay interest at the rate then applicable to such Loan, then upon notice by the Lender to PSB or PSB to the Lender, as applicable, in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), PSB and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; provided, however, that the notifying party (the “**Notifying Party**”) shall be under no obligation to continue such consultation if a basis has not been determined within 60 days of the date on which it so notified the other party (the “**Notified Party**”). If such a basis has not been determined within the 60 days, then upon notice by the Notifying Party to the Notified Party in writing, PSB shall prepay such Loan in whole (but not in part) with interest accrued to the date of prepayment and all other amounts payable on such date as the Notifying Party shall certify to be necessary to comply with such requirements.

5.4 Reduction of a Loan Upon Redemption and Cancellation of Notes

PSB or any Subsidiary of PSB may from time to time, in accordance with the Conditions of the Notes, 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 is surrendered to the Lender (as issuer of such Notes) for cancellation by PSB or any of PSB’s Subsidiaries and cancelled, the relevant Loan shall be deemed to have been prepaid by PSB 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 PSB in respect of such amounts. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of this Clause 5.4, then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which the relevant Loan is so reduced and PSB shall not be entitled to any interest in respect of the cancelled Notes.

5.5 Payment of Other Amounts; Indemnity

If a Loan is to be prepaid by PSB pursuant to any of the provisions of Clauses 5.2, 5.3 or pursuant to the terms of the relevant Loan Agreement, PSB shall, simultaneously with such prepayment, pay to the Lender accrued interest (calculated up to but excluding the scheduled date of prepayment) and all other sums payable by PSB pursuant to the relevant Loan Agreement. PSB shall indemnify the Lender on demand against all costs reasonably incurred and properly documented by the Lender in connection with any prepayment pursuant to this Clause 5.

5.6 Provisions Exclusive

PSB may not voluntarily prepay any Loan except in accordance with the express terms of the relevant Loan Agreement. Any amount prepaid may not be reborrowed under such Loan Agreement.

5.7 Optional Prepayment under Put Option

If a Put Option is specified in the relevant Loan Supplement, provided that the Borrower has received notice from the Issuer at least five Business Days prior to the Put Settlement Date, the Borrower shall prepay the Loan (without premium or penalty), to the extent of the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 6(e) of the Notes, two Business Days prior to the Put Settlement Date.

6. PAYMENTS

6.1 Making of Payments

All payments of principal and interest to be made by PSB under each Loan Agreement shall be made to the Lender not later than 10:00 a.m. one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the relevant Account. The Lender agrees with PSB 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 Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by PSB under each Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on

account of any Taxes. If PSB shall be required by applicable law to make any deduction or withholding from any payment under a Loan Agreement for or on account of any Taxes, any payment due under such Loan Agreement shall be increased 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 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 in the form of a payment order and a letter signed by the principal executive officer of PSB (or such other evidence as the parties, acting reasonably, may mutually agree) of such deduction or withholding and evidence of the accounting therefor to the relevant Taxing Authority. If the Lender pays any amount in respect of such Taxes, PSB shall reimburse the Lender in the Specified Currency for such payment on demand on the basis of an invoice (supported by copies of the relevant documents evidencing payment by the Lender). For the avoidance of doubt, this Clause 6.2 is without prejudice to the obligations of the Lender pursuant to Clauses 6.5 and 6.6. The provisions of this Clause 6.2 shall not apply to any tax imposed on and calculated by reference to the overall net income of the Lender.

6.3 Tax Indemnity

If the Lender notifies PSB (setting out in reasonable detail the nature and extent of the obligation with such evidence as PSB may reasonably require) 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 in connection with its funding of any Loan, PSB agrees to pay to the Lender, not later than 10:00 a.m. one Business Day prior to the date on which payment by the Lender is due in Same-Day Funds to the relevant Account, such additional amounts as are equal to the said additional amounts which the Lender must pay in connection with the funding of any Loan, however, that as soon as reasonably practicable upon receipt by the Lender of any sums paid pursuant to this provision, to the extent that any party connected to the funding of the Loan (other than the Lender) is not entitled to such additional amounts, the Lender shall repay such additional amounts to PSB (it being understood that the Lender (or any successor thereto) shall have no obligation to determine whether any such party is entitled to such additional amount).

6.4 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit, relief or allowance or other reimbursements relating to a deduction or withholding with respect to which PSB has made a payment pursuant to this Clause 6 or obtains any other reimbursement in connection therewith, it shall pay to PSB so much of the benefit received as will leave the Lender, in its reasonable opinion, in substantially the same position as it would have been had no additional amount been required to be paid by PSB pursuant to this Clause 6 or had no reimbursement been paid to the Lender; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to PSB, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. The Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to the Lender but shall not be obliged to disclose to PSB any information regarding its tax affairs or computations, provided that the Lender shall notify PSB of any tax credit or allowance or other reimbursement it receives. Any such refund or reimbursement shall, in the absence of manifest error and subject to the Lender specifying in writing in reasonable detail the calculation of such credit, relief, allowance, refund or other reimbursement and of such payment and providing relevant supporting documents evidencing such matters, be conclusive evidence of the amount due to PSB hereunder and shall be accepted by PSB in full and final settlement of its rights of reimbursement under any Loan Agreement in respect of such deduction or withholding.

If as a result of a failure to obtain relief from deduction or withholding of any tax imposed by Russia or any Qualifying Jurisdiction (i) such tax is deducted or withheld by PSB and pursuant to this Clause 6 an increased amount is paid by PSB 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 Qualifying Jurisdiction tax authorities for a tax refund and such tax refund is credited by the Russian or Qualifying Jurisdiction tax authorities to a bank account of the Lender, the Lender shall as soon as reasonably possible notify PSB of the receipt of such tax refund and promptly transfer the entire amount of the tax refund to a bank account of PSB specified for that purpose by PSB. PSB agrees to use its reasonable endeavours to assist the Lender in making such an application. The Lender will not be liable for any delay in transferring such amount to PSB if PSB fails to provide the Lender with the relevant bank account details in due time.

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 PSB to make any deduction, withholding or payment as described in

Clauses 5.2, 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or PSB'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, including in the case of the Lender (without limitation) by the transfer of its rights or obligations under any Loan Agreement to another lender, provided that the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so would have any adverse effect upon its business, operations or financial condition or would be in breach of any arrangements which it may have made in respect of the Notes or otherwise. PSB 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 and in respect of which an itemised invoice (supported by copies of the relevant documents evidencing payment by the Lender) has been provided to PSB.

6.6 Tax Treaty Relief

Upon the instructions of PSB, the Lender shall make reasonable and timely efforts to assist PSB with completing procedural formalities necessary to obtain relief from withholding of Russian income tax pursuant to the Treaty, provided the Lender can lawfully so complete these procedural formalities.

7. CONDITIONS PRECEDENT AND REPORTS

7.1 Documents to be Delivered

The obligation of the Lender to make each Loan shall be subject to the receipt by the Lender on or prior to the relevant Closing Date of evidence that the persons mentioned in Clauses 14.13 and 14.14 hereof have agreed to receive process in the manner specified therein.

7.2 Further Conditions

The obligation of the Lender to make each Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to the relevant Subscription Agreement and (b) the Lender shall have received in full the amount referred to in Clause 3.2, if due and payable, above, as specified in the relevant Loan Supplement.

7.3 Reports

So long as any amount remains outstanding under a Loan Agreement:

- (a) PSB will, as soon as practicable following a request of the Lender provide the Lender with such further information, other than information which PSB determines in good faith to be confidential, about the business and financial condition of PSB and its Subsidiaries as the Lender may reasonably request (including information referred to in Clauses 14.5 and 14.14 of the Principal Trust Deed).
- (b) PSB consents that any information provided to the Lender pursuant to this Clause 7.3 may also be provided to the Trustee without violating any duty of confidentiality or secrecy that the Lender may owe to PSB under the laws of Luxembourg.
- (c) PSB will at the same time as delivering its audited annual financial statements pursuant to Clause 10.11(a) and within 10 days of a request from the Lender, deliver to the Lender an Officer's Certificate specifying those Subsidiaries which were at the date of such Officer's Certificate, Principal Subsidiaries.

8. CHANGE IN LAW OR INCREASE IN COST

8.1 Compensation

If after the date of a Loan Agreement, by reason of (a) any Change of Law and/or (b) change of any 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 similar companies in the

country concerned) or in the interpretation or application thereof by any person charged with the administration thereof:

- (a) the Lender incurs an additional cost as a result of the Lender's entering into or performing its obligations (including its obligation to make, fund or maintain such Loan) under such Loan Agreement other than any such cost incurred as a result of any increase in the rate of tax payable by the Lender on its income or as a result of any taxes, withholding or deduction, as the case may be referred to in Clause 6.2 or 6.3; or
- (b) the Lender becomes liable to make any additional payment on account of tax or otherwise on or calculated by reference to the amount of such Loan and/or to any sum received or receivable by it hereunder other than any such tax on the Lender's income or any tax, withholding or deduction as the case may be referred to in Clause 6.2 or 6.3,

then PSB shall, on demand of the Lender, pay to the Lender amounts sufficient to hold harmless and indemnify it from and against, as the case may be, such properly documented (1) cost or (2) liability, provided that the Lender will not be entitled to indemnification where such additional cost or liability arises as a result of the gross negligence, fraud or wilful default of the Lender.

8.2 Increased Costs Claims

If the Lender intends to make a claim pursuant to Clause 8.1, it shall promptly notify PSB thereof and provide a description in writing in reasonable detail of the relevant reason (as described in Clause 8.1), including a description of the relevant affected jurisdiction or country and the date on which the change in circumstances took effect. This written description shall demonstrate the connection between the change in circumstance and the additional costs and shall be accompanied by relevant supporting documents evidencing the matters described therein, provided that nothing herein shall require the Lender to disclose any confidential information.

8.3 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 PSB 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, PSB's obligations to pay any additional amount pursuant to such Clause, including by the transfer of its rights or obligations under any Loan Agreement to another lender, except that nothing in this Clause 8.3 shall obligate the Lender to incur any costs in taking any action which, in the reasonable opinion of the Lender, may be prejudicial to its interests.

9. REPRESENTATIONS AND WARRANTIES

9.1 PSB's Representations and Warranties

PSB does, and on each Warranty Date (unless expressly stated otherwise) shall represent and warrant to the Lender as follows, with the intent that such shall form the basis of each Loan Agreement:

- (a) PSB is duly organised and incorporated and validly existing under the laws of and resident for tax purposes in the Russian Federation and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under each Loan Agreement and to borrow Loans; PSB 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 Loan Agreement and to authorise the execution and delivery of each Loan Agreement and all other documents to be executed and delivered by it in connection with each Loan Agreement, and the performance of each Loan Agreement in accordance with its terms.
- (b) Each Loan Agreement, including each Loan Supplement in relation to each such Loan Agreement, has been duly executed and delivered by PSB and constitutes legal, valid and binding obligation of PSB 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, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that certain gross-up provisions may not be enforceable under Russian law.

- (c) The execution, delivery and performance of each Loan Agreement, including each Loan Supplement in relation thereto, by PSB 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 PSB or (iii) any agreement or other undertaking or instrument to which PSB is a party or which is binding upon PSB or any of its assets, nor result in the creation or imposition of any Lien on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.
- (d) All consents, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation, if any (other than any Russian law requirements to provide a Russian court with a duly notarised Russian translation of this Agreement or any other related documents required in connection with any proceedings in respect thereof), required by PSB in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of each Loan Agreement, including each Loan Supplement in relation thereto, and the issue and offering of each Series of Notes, have been obtained or effected and are in full force and effect.
- (e) No Event of Default or Potential Event of Default and no default in an aggregate amount in excess of U.S.\$30,000,000 (or its equivalent in any other currency) under any agreement or instrument evidencing any Financial Indebtedness of PSB has occurred and is continuing, and no such event will occur upon the making of the relevant Loan.
- (f) Save as disclosed in the Prospectus, there are no judicial, arbitral or administrative actions, proceedings or claims pending or, to the knowledge of PSB, threatened, against PSB or any of its Subsidiaries, the adverse determination of which could have a Material Adverse Effect.
- (g) Except for Liens of the type referred to in the definition of Permitted Liens in Clause 1.1, PSB and each of its Principal Subsidiaries has the right of ownership (as that expression is defined under the laws of the Russian Federation or the laws of the jurisdiction of the Subsidiary) to its property free and clear of all Liens (except to the extent that any such Lien could not reasonably result in a Material Adverse Effect) and PSB's obligations under each Loan rank at least *pari passu* with all its other unsecured and unsubordinated Financial Indebtedness (apart from any obligations mandatorily preferred by law).
- (h) The most recent audited consolidated financial statements of PSB:
 - (i) were prepared in accordance with IFRS, as consistently applied; and
 - (ii) present fairly in all material respects the assets and liabilities as at that date and the results of operations of PSB during the relevant financial year.
- (i) Except as disclosed in the Prospectus, there has been no material adverse change since the date of the IFRS Financial Statements in the financial condition, results of business operations or prospects of PSB or the Group taken as a whole.
- (j) The execution, delivery and enforceability of each Loan Agreement, including each Loan Supplement in relation thereto, is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any constituent part or political sub-division or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court).
- (k) Neither PSB nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Loan Agreement, including each Loan Supplement in relation thereto.
- (l) PSB is 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.
- (m) Neither PSB, nor any of its Subsidiaries (to the extent that such action, steps or proceedings as set out below by or against a subsidiary of PSB could reasonably result in a Material Adverse Effect) has taken any corporate action nor, to the best of the knowledge and belief of PSB, have any other steps been taken or legal proceedings been started or threatened in writing against PSB or any of its Subsidiaries for its bankruptcy, winding-up, dissolution, external administration or re-organisation (whether by way of merger, accession, division, separation or transformation (as these terms are construed by applicable

Russian legislation) or any other type of corporate reconstruction) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues.

- (n) There are no strikes or other employment disputes against PSB which are pending or, to PSB's knowledge, threatened in writing which could have a Material Adverse Effect.
- (o) Save as disclosed in the Prospectus, in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England pursuant to Clause 14.9 in relation to any Loan Agreement will be recognised and enforced in the Russian Federation after compliance with the applicable procedural rules and all other legal requirements in the Russian Federation.
- (p) Under the laws of the Russian Federation, in conjunction with the agreement between the Russian Federation and Luxembourg (or any other Qualifying Jurisdiction in which the Lender may be resident for tax purposes) for the avoidance of double taxation (the "**Treaty**") PSB will not be required to make any deduction or withholding from any payment it may make hereunder.
- (q) PSB has no overdue tax liabilities which could have a Material Adverse Effect other than those which it has disclosed in the Prospectus and which it is contesting in good faith.
- (r) All licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable PSB and any of its Subsidiaries to own its assets and carry on its business, the absence of which could have a Material Adverse Effect, are in full force and effect.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to PSB as follows:

- (a) 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.
- (b) 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.
- (c) The Lender (i) is a *société anonyme* which at the date of this Agreement 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 criteria and it is not subject to taxation in Luxembourg merely on income from sources in Luxembourg or connected with property located in Luxembourg, (ii) is a company which is a resident of the Grand Duchy of Luxembourg under the Luxembourg - Russia double tax treaty, and (iii) does not have a permanent establishment in the Russian Federation. The Lender has no intention to effect any corporate action or reorganisation or change of taxation jurisdiction that would result in the Lender ceasing to be a resident of the Grand Duchy of Luxembourg or ceasing to be subject to taxation in the Grand Duchy of Luxembourg.
- (d) The Lender Agreements constitute legal, valid and binding obligations of the Lender, each enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally, and general equitable principles.
- (e) All authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

10. COVENANTS

The covenants in this Clause 10 remain in force from the date of this Agreement for so long as any amount remains outstanding under a Loan Agreement.

10.1 Maintenance of Legal Validity

PSB shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of the Russian Federation to enable it lawfully to enter into and perform its obligations under each Loan Agreement, including each Loan Supplement in relation thereto, and to ensure the legality, validity, enforceability or admissibility in evidence in the Russian Federation of each Loan Agreement, including each Loan Supplement in relation thereto.

10.2 Time of Payments

PSB shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities required by each Loan Agreement, including each Loan Supplement in relation thereto (“**Relevant Payments**”), provided that, in the event that PSB is prevented, hindered or limited from paying such amounts by virtue of any laws and regulations of the Russian Federation or any requirement of the Central Bank or any other relevant authority, PSB undertakes to use its best endeavours to promptly take all actions necessary to comply with such laws and regulations or requirements of the Central Bank relevant to it in order to enable it to make the Relevant Payments and shall, as soon as such compliance is achieved, make all Relevant Payments under each Loan Agreement, including each Loan Supplement in relation thereto.

10.3 Notification of Default

PSB shall promptly inform the Lender of the occurrence of any Event of Default or Potential Event of Default and, upon receipt of a written request to that effect from the Lender, confirm to the Lender that, as at the date specified in such request, save as previously notified to the Lender or as notified in such confirmation, no Event of Default or Potential Event of Default has occurred.

10.4 Claims *Pari Passu*

The payment obligations of PSB under each Loan Agreement, including each Loan Supplement in relation thereto, shall at all times rank at least *pari passu* with all its other present and future unsecured and unsubordinated obligations, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

10.5 Negative Pledge

So long as any amount remains outstanding under any Loan Agreement, including each Loan Supplement in relation thereto, PSB shall not and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur or suffer to exist any Liens, other than Permitted Liens, on any of its/their assets, now owned or hereafter acquired, securing any Financial Indebtedness, unless PSB’s obligations under each Loan Agreement, including each Loan Supplement in relation thereto, are secured equally and rateably with such other Financial Indebtedness.

10.6 Mergers

PSB shall not, and shall ensure that none of its Principal Subsidiaries will, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable Russian legislation), or participate in any other type of corporate reconstruction, if any such reorganisation or other type of corporate reconstruction could result, in the opinion of the Lender, in a (a) Material Adverse Effect, or (b) Negative Ratings Event.

10.7 Disposals

Except as otherwise permitted herein, PSB shall not, and shall ensure that none of its Subsidiaries will, other than in the ordinary course of business, sell, lease, transfer or otherwise dispose of, to a Person other than PSB or a Subsidiary of PSB, as the case may be, by one or more transactions or series of transactions (whether related or not), the whole or any part of its revenues or its assets which together constitute more than 15 per cent., of the gross assets of the Group, determined on a consolidated basis by reference to the balance sheet date for PSB’s most recent IFRS Fiscal Period unless such transaction is on an arm’s-length basis and on commercially reasonable terms and has been approved by a decision adopted by a competent decision making body of PSB or, as the case may be, the relevant Subsidiary of PSB, in accordance with the Federal Law of the Russian Federation No. 208-FZ “On Joint Stock Companies” of 26 December 1995, as amended, or where relevant, the Federal Law of the Russian Federation No. 14-FZ “On Limited Liability Companies” of 14 January

1998, as amended (each, as applicable, the “**Company Law**”) and the constituent documents of PSB or the relevant Subsidiary, as the case may be.

10.8 **Transactions with Affiliates**

PSB shall not, and shall ensure that none of its Subsidiaries, directly or indirectly, will, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an “**Affiliate Transaction**”) including intercompany loans unless (A) the terms of such Affiliate Transaction are no less favourable to PSB or such Subsidiary of PSB, as the case may be, than those that could be obtained in a comparable arm’s-length transaction with a Person that is not an Affiliate of PSB or such Subsidiary of PSB or (B) such Affiliate Transaction is made pursuant to a contract existing on the date hereof (excluding any amendments or modifications thereof).

With respect to an Affiliate Transaction involving aggregate payments or value in excess of U.S.\$20,000,000 (or its equivalent in any other currency), the terms of the Affiliate Transaction shall (if necessary in accordance with the Company Law and the constituent documents of PSB) be set forth in writing and such Affiliate Transaction shall be approved by a decision adopted by a competent decision making body of PSB.

In no event for so long as any Loan remains outstanding shall the aggregate amount of Affiliate Transactions exceed 20 per cent., of the Group’s total assets determined on a consolidated basis by reference to the balance sheet date for PSB’s most recent IFRS Fiscal Period.

This Clause 10.8 does not apply (i) to any Affiliate Transaction between PSB and any of its Subsidiaries or between the Subsidiaries of PSB, (ii) to any compensation or employee benefit arrangements with any officer or director of PSB or any of its Subsidiaries arising as a result of their employment contract or (iii) any guarantee or indemnity by a shareholder of PSB or an Affiliate thereof of any Financial Indebtedness of PSB or any Subsidiary of PSB.

10.9 **Payment of Taxes and Other Claims**

PSB shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, as the same shall fall due (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of PSB and its Subsidiaries, and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of PSB or any of its Subsidiaries; provided, however, that none of PSB nor any Subsidiary of PSB shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made, or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$5,000,000 (or its equivalent in any other currency).

10.10 **Withholding Tax Exemption**

- (a) The Lender shall at the cost and expense of PSB use all reasonable endeavours to provide PSB with a certificate issued by the competent taxing authorities in the Qualifying Jurisdiction confirming that the Lender is a tax resident of a Qualifying Jurisdiction for the purpose of the Treaty no later than five Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than five Business Days prior to the first Interest Payment Date in that year) and such other information or forms as may be reasonably requested by PSB to enable it to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained, 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 tax authorities of a Qualifying Jurisdiction, but shall notify PSB without delay about any such failure or delay with a written description of the actions taken by the Lender to obtain such tax residency certificate. Such a certificate shall be appropriately apostilled and a certified translation shall be supplied at the expense of PSB.
- (b) PSB and the Lender acknowledge that the Russian legislation regulating the procedure for obtaining access to Treaty benefits, as well as practical approach and technical interpretations of the Russian tax authorities, may be subject to change. PSB and the Lender further acknowledge that any such change may result in access to Treaty benefits, and in particular to obtaining the reduced rate of withholding

with respect to interest, becoming more difficult or impossible. In the event of any such change impacting adversely on PSB's ability to apply the reduced rate of withholding tax on interest, PSB and the Lender shall use their best endeavours to amend the procedure described in Clause 10.10(a) including, if required, provision regarding procurement of necessary documents and actions from other parties, in order to ensure that the rate of withholding tax on interest as provided for in the Treaty can be successfully applied.

10.11 Financial Information

- (a) PSB hereby undertakes that it will deliver to the Lender within 6 months after the end of each of its financial years, copies of PSB's audited consolidated financial statements for such financial year, prepared in accordance with IFRS as consistently applied and in English, including a report thereon by PSB's certified independent accountants.
- (b) PSB hereby undertakes that it will deliver to the Lender within 4 months after the end of the second quarter of each of its financial years, copies of PSB's unaudited consolidated financial statements for 6 months, prepared in accordance with IFRS. PSB further undertakes to provide within 3 months after the end of each quarter, copies of PSB's unaudited consolidated financial statements (if any) for the preceding 3 months, prepared in accordance with IFRS.
- (c) PSB hereby undertakes that it will deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of PSB as the Lender may reasonably request and will deliver to the Lender an Officer's Certificate stating as at a date specified by the Lender, the number of Notes held by PSB and its Subsidiaries for their own account or on behalf of any other company or person.
- (d) PSB consents that any information provided to the Lender pursuant to this Clause 10.11 and Clause 7.3 may also be provided to the Trustee, if so requested by the Trustee, without violating any duty of confidentiality or secrecy that the Lender may owe to PSB under the laws of Luxembourg.

10.12 Maintenance of Capital Adequacy

PSB shall (except as otherwise specifically provided or agreed by the Lender) at all times (save in respect of Clause 10.12(b) below, which will apply in respect of the time periods set out therein) maintain:

- (a) compliance in all material respects with mandatory ratios (normatives) and other requirements of the Central Bank applicable to banks; and
- (b) a ratio of Capital to Risk Weighted Assets:
 - (i) at any time that either (a) the long-term foreign currency rating given to PSB is either below BB (in the case of Fitch and/or Standard & Poor's) and/or the long-term bank deposits—foreign currency rating is below Ba2 (in the case of Moody's) or (b) any one or more of Moody's, Fitch or Standard & Poor's ceases to rate PSB, of not less than 11 per cent.; or
 - (ii) at any time that the long-term foreign currency rating given to PSB is at BB or above (in the case of each of Fitch and Standard & Poor's) and the long-term bank deposits—foreign currency rating is at Ba2 or above (in the case of Moody's), of not less than 10 per cent.

10.13 Compliance Certificates

PSB shall deliver to the Lender (i) within 15 days of any written request by the Lender and (ii) on each anniversary of the execution of this Agreement, written notice in the form of an Officer's Certificate stating whether any Potential Event of Default or Event of Default has occurred, its status and what action PSB is taking or proposes to take with respect thereto.

Each set of financial statements delivered by PSB pursuant to Clause 10.11 shall be accompanied by a certificate of the Auditors stating that as of the date of which such financial statements were prepared PSB was in compliance with Clause 10.12.

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, the Lender shall be entitled to the remedies set forth in Clause 11.3:

(a) **Failure to Pay**

PSB fails to pay any sum due from it under a Loan Agreement at the time, in the currency and in the manner specified herein, and such failure is not remedied within five Business Days of the due date for payment.

(b) **Obligations**

PSB fails duly to perform or comply with, or is otherwise in breach of, any other obligation expressed to be assumed by it in a Loan Agreement and such failure or breach, provided it is capable of remedy, is not remedied within 30 days after the Lender has given notice of it to PSB.

(c) **Cross Default**

Any Financial Indebtedness of PSB or any of its Principal Subsidiaries becomes due and payable prior to the stated maturity thereof (other than at the option of the debtor or (provided that no Event of Default, howsoever described, has occurred) any person entitled to such indebtedness) following a default of PSB or any of its Principal Subsidiaries, or PSB or any of its Principal Subsidiaries shall fail to make any payment of principal in respect of any Financial Indebtedness of PSB or any of its Principal Subsidiaries on the date on which such payment is due and payable (but after the expiry of any originally applicable grace period) or PSB or any of its Principal Subsidiaries shall fail to honour any guarantee or indemnity given by PSB or any of its Principal Subsidiaries in respect of Financial Indebtedness, unless the aggregate amount of Financial Indebtedness relating to all the above events is less than U.S.\$30,000,000 (or its equivalent in any other currency).

(d) **Validity and Illegality**

The validity of any Loan Agreement is contested by PSB or PSB shall deny any of its obligations under any Loan Agreement or (save as provided in Clause 10.1) it is, or will become, unlawful for PSB to perform or comply with any of its obligations under or in respect of any Loan Agreement or any of such obligations shall become unenforceable or cease to be legal, valid and binding.

(e) **Authorisations**

(i) Any regulation, decree, consent, approval, licence or other authorisation necessary to enable PSB to enter into or (save as provided in Clause 10.1) perform its obligations under any Loan Agreement or for the validity or enforceability thereof shall expire or be withheld, revoked or terminated or otherwise cease to remain in full force and effect or shall be modified in a manner which adversely affects any rights or claims of the Lender unless remedied by PSB within 30 days.

(ii) The occurrence of any of the following events: (a) revocation of the general banking licence of PSB or, if applicable, of any of its Principal Subsidiaries; (b) PSB or any of its Principal Subsidiaries seeking, consenting or acquiescing in the introduction of proceedings for its liquidation or bankruptcy or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of PSB or any of its Principal Subsidiaries as the case may be; (c) the presentation or filing of a petition in any court, arbitration court or before any agency alleging or for the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceeding) of PSB or any of its Principal Subsidiaries (excluding any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (d) the institution of the supervision (*nablyudeniye*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) of any of its Principal Subsidiaries that is not a credit organisation; (e) the convening of a meeting of creditors of any of PSB's Principal Subsidiaries for the purposes of considering an amicable settlement (*mirovoye soglasenie*), as the above terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency

(Bankruptcy)” of 26 October 2002, as amended or replaced from time to time; (f) the institution of the financial rehabilitation (*finansovoye ozdorovleniye*), pursuant to the request of the Central Bank, temporary administration (*vremennaya administratsiya*), bankruptcy management (*konkursnoye proizvodstvo*) or reorganisation (*reorganizatsiya*) with respect to PSB or any Principal 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); (g) any judicial liquidation, dissolution, administration or winding-up in respect of PSB or any Principal Subsidiary; and/or (h) the shareholders of PSB or any of its Principal Subsidiaries approving any plan of dissolution, administration or winding-up of PSB or such Principal Subsidiary.

- (iii) PSB or any of its Principal Subsidiaries (i) fails or is unable to pay its debts generally as they become due, or (ii) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or any other such action or proceeding or to the appointment of a custodian of it or for any substantial part of its property, or (iii) a court of competent jurisdiction enters an order for relief or a decree in an involuntary case in bankruptcy or any other such action or proceeding or for the appointment of a custodian in respect of PSB or any of its Principal Subsidiaries or any of its property and such order or decree remains unstayed and in effect for 60 days.

(f) **Judgments**

The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against PSB and/or any Principal Subsidiaries of PSB exceeds U.S.\$20,000,000 or the equivalent thereof in any other currency or currencies and there is a period of 20 days which passes following the due date for payment thereof during which all such judgments, decrees or orders are not discharged, satisfied, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Clause 10.3.

(g) **Business**

PSB ceases to carry on the principal business it carried on at the date hereof.

(h) **Misrepresentation**

Any representation or warranty of PSB or any certificate or notice delivered to the Lender in connection with this Agreement or any Loan Agreement prove 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.

(i) **Analogous Events**

Any event occurs which under the laws of any relevant jurisdiction has an analogous effect, where applicable, to any of the events referred to in Clauses 11.1(a) to 11.1(h).

11.2 Notice of Default

PSB shall deliver to the Lender and the Trustee, within 10 days after becoming aware thereof, written notice of any event which is a Potential Event of Default or an Event of Default, its status and what action PSB is taking or proposes to take with respect thereto.

11.3 Default Remedies

Upon the occurrence of an Event of Default or at any time thereafter, the Lender may, by notice in writing to PSB, (a) declare the obligations of the Lender under the relevant Loan Agreement to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Loan Agreement by PSB 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 PSB; provided, however, that if any event of any kind referred to in Clauses 11.1(d) or 11.1(e) occurs, the obligations of the Lender under such Loan Agreement shall immediately terminate, and all amounts payable under such Loan Agreement by PSB 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 all especially waived by PSB.

The Lender may at its discretion and without further notice, institute proceedings in a manner and to the extent contemplated by the applicable law for the winding up of PSB and to prove its debt and claim in any liquidation of PSB and any proceeding the Lender may think fit to enforce any obligation, condition or provision binding on PSB under this Agreement or any Loan Agreement.

11.4 **Rights Not Exclusive**

The rights and remedies provided for in each Loan Agreement are cumulative to the extent permitted by law and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. **INDEMNITY**

12.1 **Indemnification**

PSB undertakes to the Lender that if the Lender, any director, officer, employee or agent of the Lender (each an “**Indemnified Party**”) incurs 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 properly documented and reasonably incurred out-of-pocket costs and expenses (including legal fees) on a full indemnity basis together with any Russian taxes thereon (a “Loss”) 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 enforcement thereof), PSB shall pay to the Indemnified Party on demand an amount equal to such Loss unless, in any such case, and save to the extent that such Loss is caused by such Indemnified Parties’ gross negligence or wilful misconduct or such Loss arises out of a breach of the representations and warranties of the Lender contained herein. The Indemnified Party shall deliver to PSB (in accordance with Clause 14.4) a certificate describing in reasonable detail the amount of such loss together with supporting documents evidencing such amount.

12.2 **Independent Obligation**

Clause 12.1 constitutes a separate and independent obligation of PSB from its other obligations under or in connection with each Loan Agreement or any other obligations of PSB in connection with its receipt of any Loan and shall not affect, or be construed to affect, any other provision of a 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 Losses described in Clause 12.1 and specifying in reasonable detail, as requested by PSB, the basis therefor shall, in the absence of manifest error, be *prima facie* evidence of the amount of such Losses.

12.4 **Lender’s Costs**

PSB shall, from time to time on demand of the Lender, and without prejudice to the provisions of Clauses 13.1 and 13.2, compensate the Lender in the Specified Currency at such daily and/or hourly rates as the Lender shall from time to time reasonably determine (notifying such rates to PSB), for all costs (including telephone, fax, copying, travel and such personnel costs) reasonably incurred and properly documented by the Lender in connection with its taking such action as it may deem appropriate or in complying with any request by PSB in connection with:

- (a) the granting or proposed granting of any waiver or consent requested hereunder by PSB;
- (b) any actual breach by PSB of its obligations hereunder; or
- (c) any amendment or proposed amendment hereto requested by PSB.

12.5 **Survival**

The obligations of PSB pursuant to Clauses 6.2, 6.3, 12.1 and 14.2 shall survive the execution and delivery of each Loan Agreement and the drawdown and repayment of the relevant Loan, in each case by PSB.

13. FEES AND EXPENSES

13.1 Loan Arrangement Fee for the Extension of the Loan by the Lender

PSB shall, pursuant to Clause 3.2 hereof and the relevant Loan Supplement, pay the Lender a Loan Arrangement Fee in connection with the extension of each Loan in the Specified Currency.

13.2 Payment of Ongoing Commissions and Costs

In addition, PSB hereby agrees to pay to the Lender on demand in the Specified Currency all ongoing commissions and costs payable by the Lender under or in respect of the Lender Agreements. Payments to the Lender referred to in this Clause 13.2 shall be made by PSB at least one Business Day before the relevant payment is to be made or commission or cost incurred; provided that before such payment is made by PSB, the Lender shall submit an invoice providing, in reasonable details, the nature and calculation of the relevant payment or expense in accordance with Clause 3.4. Subsequently, PSB and the Lender shall enter and sign a delivery and acceptance act (an “**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, Clause 13 and Clause 14.2, PSB 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 PSB shall prepare) with respect to the amounts to be paid by PSB. 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 PSB’s obligations recorded therein.

14.2 Stamp Duties

- (a) PSB shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on PSB by any person in the Russian Federation or Luxembourg (or any other Qualifying Jurisdiction in which the Lender may be resident for tax purposes) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and shall indemnify the Lender against any and all costs, expenses and penalties properly documented which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by PSB to pay such taxes or similar charges.
- (b) PSB 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 (or any other Qualifying Jurisdiction in which the Lender may be resident for tax purposes) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Loan Agreement and any documents related thereto as well as the documents related to the Lender’s funding of any Loan, PSB shall reimburse 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 PSB, any right, power to privilege under any Loan Agreement and no course of dealing between PSB 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 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 Loan Agreement shall be given or made in the English language by telex, SWIFT or courier, or fax (in the case of the Lender only) to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Loan Agreement addressed as follows:

- (a) if to PSB:

Open Joint-Stock Company Promsvyazbank
10, Building 22, Smirnovskaya str.
Moscow 109052
Russian Federation

Facsimile: +70957271021
Attention: Financial Institutions and International Capital Markets Department
SWIFT: PRMS RU MM

- (b) if to the Lender:

PSB Finance S.A.
2, Boulevard Konrad Adenauer
L-1115 Luxembourg
Grand Duchy of Luxembourg

Facsimile: +35242122718
Attention: The Directors

or to such other postal address, SWIFT or fax number as any party may hereafter specify in writing to the other.

Any notice, request, demand or other communication given by courier shall be conclusively deemed to have been given on the day of actual delivery thereof and, if given by fax or SWIFT, on the day of transmission 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

- (a) Each Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Loan Agreement. Any reference in a Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 14.5(c) below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and PSB or any agreements of the Lender or PSB pursuant to Clause 6.4 or Clause 8.
- (b) PSB shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.
- (c) The Lender may assign or transfer, in whole or in part, on or at any time after the date of this Agreement, any of its rights and benefits or obligations under this Agreement (i), with the prior written consent of PSB, to a company located in a Qualifying Jurisdiction and/or (ii), in connection with the funding of each Loan, by way of first fixed charge granted by the Lender and the absolute assignment by the Lender in favour of the Trustee (as Trustee) of the Lender's rights and benefits under each Loan Agreement and, in each case under (ii) hereof, PSB agrees that it will, on or prior to the relevant Closing Date, acknowledge in writing any such charge and assignment.
- (d) Any references in this Agreement to any such assignee or transferee pursuant to Clause 14.5(c) 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 obligations of PSB in respect of any amount due in the Specified Currency (or such other currency as contemplated by such obligation) under a 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**”), PSB hereby agrees to indemnify and hold harmless the Lender against any deficiency in the Specified Currency. Any obligation of PSB 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 in the relevant 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 PSB.

14.7 **Contracts (Rights of Third Parties) Act 1999**

A person who is not a party to a Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Loan Agreement.

14.8 **Choice of Law**

Each Loan Agreement and any non-contractual obligations arising out of or in connection with it shall be governed by, and construed in accordance with, the laws of England.

14.9 **Jurisdiction**

The parties irrevocably agree that any dispute arising out of or in connection with this Agreement, including a dispute as to the validity, existence or termination of this Agreement or the consequences of its nullity and/or this Clause 14.9 (a “**Dispute**”), shall be resolved:

- (a) subject to Clause 14.9(b) below, by arbitration in London, England, conducted in the English language by three arbitrators, in accordance with the Arbitration Rules of the London Court of International Arbitration (“LCIA”), which rules are deemed to be incorporated by reference into this clause, save that Article 5.6, of the LCIA Rules shall be amended as follows: unless the parties agree otherwise, the third arbitrator, who shall act as chairman of the tribunal, shall be nominated by the two arbitrators nominated by or on behalf of the parties. If he is not so nominated within 30 days of the date of nomination of the later of the two party-nominated arbitrators to be nominated, he shall be chosen by the LCIA Court. The parties agree to exclude the jurisdiction of the English courts under sections 45 and 69 of the Arbitration Act 1996; or
- (b) at the sole option of the Lender, by proceedings brought in the courts of England, which courts are to have non-exclusive jurisdiction. If the Lender is in the position of a Respondent (as defined in the LCIA Rules) and wishes to exercise this option, it must do so by notice to the other parties to the Dispute within 30 days of service on it of the Request for Arbitration.

For the avoidance of doubt, Clause 14.9(b) is for the benefit of the Lender alone and shall not limit the right of the Lender to bring proceedings in any other court of competent jurisdiction.

14.10 **Appropriate Forum**

Each of the parties irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Dispute, and agrees not to claim that any such court is not a convenient or appropriate forum.

14.11 **Non Exclusivity**

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Lender to take proceedings in any other court of competent jurisdiction, nor shall the taking of

proceedings in any one or more jurisdictions preclude the taking of proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

14.12 **Consent to Enforcement**

Each of the parties consents generally in respect of any proceedings to the giving of any relief or the issue of any process in connection with such proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such proceedings.

14.13 **Lender's Process Agent**

The Lender irrevocably appoints Law Debenture Corporate Services Limited (the "**Lender's Agent**"), now of 5th Floor, 100 Wood Street, London, EC2V 7EX, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

- (a) service upon the Lender's Agent shall be deemed valid service upon the Lender whether or not the process is forwarded to or received by the Lender;
- (b) the Lender shall inform PSB, in writing, of any change in the address of the Lender's Agent within 28 days of such change;
- (c) if the Lender's Agent ceases to be able to act as a process agent or to have an address in England, the Lender irrevocably agrees to appoint a new process agent in England acceptable to PSB and to deliver to PSB within 14 days a copy of a written acceptance of appointment by the new process agent; and
- (d) nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

14.14 **PSB's Process Agent**

PSB irrevocably appoints Law Debenture Corporate Services Limited ("**PSB's Agent**"), now of 5th Floor, 100 Wood Street, London, EC2V 7EX, United Kingdom, as its agent to accept service of process in England in any Dispute (whether that Dispute is to be resolved by arbitration or litigation), provided that:

- (a) service upon PSB's Agent shall be deemed valid service upon PSB whether or not the process is forwarded to or received by PSB;
- (b) PSB shall inform the Lender, in writing, of any change in the address of PSB's Agent within 28 days of such change;
- (c) if the PSB's Agent ceases to be able to act as a process agent or to have an address in England, PSB irrevocably agrees to appoint a new process agent in England acceptable to the Lender and to deliver to the Lender within 14 days a copy of a written acceptance of appointment by the new process agent; and
- (d) nothing in this Agreement shall affect the right to serve process in any other manner permitted by law.

14.15 **Waiver of Immunity**

To the extent PSB or the Lender may, in relation to any Dispute, claim in any jurisdiction, for itself or its assets or revenues, immunity from the jurisdiction of any court or tribunal, service of process, injunctive or other interim relief, or any process for execution of any award or judgment against its property, PSB and the Lender irrevocably waive such immunity.

14.16 **Counterparts**

Each Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

14.17 **Language**

The language which governs the interpretation of each Loan Agreement is the English language.

14.18 **Amendments**

Except as otherwise provided by its terms, each Loan Agreement may not be varied except by an agreement in writing signed by the parties.

14.19 **Partial Invalidity**

The illegality, invalidity or unenforceability to any extent of any provision of any Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

IN WITNESS WHEREOF, the parties hereto have caused this Facility Agreement to be executed on the date first written above.

For and on behalf of

OPEN JOINT-STOCK COMPANY PROMSVYAZBANK:

By:

Title:

By:

Title:

For and on behalf of

PSB FINANCE S.A.

By:

Title:

By:

Title:

SCHEDULE 1
FORM OF LOAN SUPPLEMENT

[DATE]

OPEN JOINT-STOCK COMPANY PROMSVYAZBANK

and

PSB FINANCE S.A.

LOAN SUPPLEMENT

to be read in conjunction with an Amended and Restated Facility Agreement

dated 14 April 2011

in respect of

a Loan of [●]

Series [●]

THIS LOAN SUPPLEMENT IS MADE ON [Signing Date]

BETWEEN:

- (1) **PSB FINANCE S.A.**, a *société anonyme* established under the laws of Luxembourg, whose registered office is at 2, boulevard Konrad Adenauer, L-1115 Luxembourg, and is registered with the *Registre de Commerce et des Sociétés* in Luxembourg under number B118687, as issuer (the “**Lender**”); and
- (2) **OPEN JOINT-STOCK COMPANY PROMSVYAZBANK**, a company established under the laws of the Russian Federation whose registered office is at 10, Building 22, Smirnovskaya str., Moscow 109052, Russian Federation (“**PSB**”).

WHEREAS:

- (A) PSB has entered into an amended and restated facility agreement dated 14 April 2011 (such facility agreement, as may be amended or supplemented from time to time, (the “**Facility Agreement**”) with the Lender in respect of the U.S.\$3,000,000,000 Programme for the issuance of loan participation notes by the Lender (the “**Programme**”).
- (B) PSB proposes to borrow [●] (the “**Loan**”) and the Lender wishes to make such Loan on the terms set out in the Facility Agreement and this Loan Supplement.

IT IS AGREED as follows:

1. **DEFINITIONS**

Capitalised terms used but not defined in this Loan Supplement shall have the meaning given to them in the Facility Agreement save to the extent supplemented or modified herein.

2. **ADDITIONAL DEFINITIONS**

For the purpose of this Loan Supplement, the following expressions used in the 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 [●];

“**Loan Agreement**” means the Facility Agreement as amended and supplemented by this Loan Supplement;

“**Notes**” means [●] [[●] per cent.][Floating Rate] Loan Participation Notes due [●] issued by the Lender as Series [●] under the Programme;

“**PSB Account**” means the account in the name of PSB (account number [●]);

“**Repayment Date**” means [●] [*amend as required for Floating Rate Notes*];

“**Specified Currency**” means [●];

“**Subscription Agreement**” means an agreement between the Lender, PSB 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 14 April 2011 (as may be amended or supplemented from time to time) as amended and supplemented by a Supplemental Trust Deed dated [●] constituting and securing the Notes.

3. INCORPORATION BY REFERENCE

Except as otherwise provided, the terms of the Facility Agreement shall apply to this Loan Supplement as if they were set out herein and the Facility Agreement shall be read and construed, only in relation to the Loan constituted hereby, as one document with this Loan Supplement.

4. THE LOAN

4.1 Drawdown

Subject to the terms and conditions of the Loan Agreement, the Lender agrees to make the Loan on the Closing Date to PSB and PSB shall make a single drawing in the full amount of the Loan.

4.2 Interest

The Loan is a [Fixed Rate][Floating Rate] Loan. Interest shall be calculated, and the following terms used in the Facility Agreement shall have the meanings, as set out below:

(a) Fixed Rate Loan Provisions	[Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)	
(i) Interest Commencement Date:	[●]
(ii) Rate[(s)] of Interest:	[●] per cent., per annum payable [annually/semi-annually] in arrear
(iii) 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]
(iv) Fixed Amount[(s)]:	[●] per [●] in principal amount
(v) Interest Period Date:	[●] (Not applicable unless different from Interest Payment Date)
(vi) Broken Amount:	[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)] and the Interest Payment Date(s) to which they relate]
(vii) Day Count Fraction (Clause 4.9):	[●]
(Day Count Fraction should be Actual/Actual-ICMA for all fixed rate loans other than those denominated in U. S. dollars, unless specified)	
(viii) Determination Date(s) (Clause 4.9):	[●] in each year. [Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last interest period] ³
(ix) Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/give details]

³ Only to be completed for a Loan where Day Count Fraction is Actual/Actual-ICMA.

(b)	Floating Rate Loan Provisions	[Applicable/Not Applicable] <i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(i)	Interest Commencement Date:	[•]
(ii)	Interest Period(s):	[•]
(iii)	Specified Interest Payment Dates:	[•]
(iv)	Business Day Convention:	[Floating Rate Business Day Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other <i>(give details)</i>]
(v)	Business Centre(s) (Clause 4.9):	[•]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other <i>(give details)</i>]
(vii)	Interest Period Date(s):	[Not Applicable/spec/Ty <i>dates</i>]
(viii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[•]
(ix)	Screen Rate Determination (Clause 4.9:	
	• Relevant Time:	[•]
	• Interest Determination Date:	[[•] <i>[TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]</i>]
	• Relevant Screen Page/Primary Source for Floating Rate:	[Specify relevant screen page or “Reference Banks”]
	• Reference Banks (if Primary Source is “Reference Banks”):	[Specify four]
	• Relevant Financial Centre:	[The financial centre most closely connected to the Reference rate- specify if not London]
	• Reference Rate:	[LIBOR, EURIBOR 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]

- (x) ISDA Determination (Clause 4.3):
 - Floating Rate Option: [•]
 - Designated Maturity: [•]
 - Reset Date: [•]
 - ISDA Definitions: (if different from those set out in the Conditions) [•]
- (xi) Margin(s): [+/ -] [•] per cent. per annum
- (xii) Minimum Rate of Interest: [•] per cent. per annum
- (xiii) Maximum Rate of Interest: [•] per cent. per annum
- (xiv) Day Count Fraction (Clause 4.9): [•]
- (xv) Rate Multiplier: [•]
- (xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Loans, if different from those set out in the Facility Agreement: [•]

5. **LOAN ARRANGEMENT FEE**

Pursuant to Clause 3.2 of the Facility Agreement and in consideration of the Lender making the Loan to PSB, PSB hereby agrees that it shall, two Business Days before the Closing Date, pay to the Lender, in Same-Day Funds, the Loan Arrangement Fee calculated taking into account the front-end fees, commissions and costs incurred by the Lender in connection with financing the Loan pursuant to an invoice submitted by the Lender to PSB in the total amount of [•].

6. **GOVERNING LAW**

This Loan Supplement including any non contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

This Loan Supplement has been entered into on the date stated at the beginning.

OPEN JOINT-STOCK COMPANY PROMSVYAZBANK

By:

By:

PSB FINANCE S.A.

By:

By:

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of Part A of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the 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 definitive Notes. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified hereon (the “**Supplemental Trust Deed**”) supplemental to an amended and restated trust deed dated 14 April 2011 and as may be amended or supplemented from time to time (the “**Principal Trust Deed**”), each made between PSB Finance S.A. (the “**Issuer**”) and Deutsche Trustee Company 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**”). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the “Trust Deed”.

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 Open Joint-Stock Company Promsvyazbank (the “**Borrower**”) subject to, and in accordance with, either (i) in relation to a Senior Loan, an amended and restated facility agreement between the Issuer and the Borrower dated 14 April 2011 (such facility agreement, the “**Facility Agreement**”) as amended and supplemented by a loan supplement to be dated the Trade Date (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 the Borrower to be entered into on the Trade Date (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 from the Borrower pursuant to the Loan Agreement except for the Reserved Rights as defined below.

The Issuer 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 has assigned absolutely to the Trustee certain other rights under the Loan Agreement (together with the Charge, the “**Security Interests**”), in each case excluding the Reserved Rights (as defined below). In certain circumstances, the Trustee can (subject to it being indemnified and/or secured 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 below) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Borrower) pursuant to, an amended and restated paying agency agreement dated 14 April 2011 (as may be amended or supplemented from time to time, the “**Agency Agreement**”), and made between the Issuer, Deutsche Bank AG, London Branch as principal paying agent, calculation agent and transfer agent (the “**Principal Paying Agent**”, the “**Calculation Agent**” and the “**Transfer Agent**” respectively), Deutsche Bank Trust Company Americas as a registrar, a paying agent and a transfer agent (the “**U.S. Registrar**”, “**U.S. Paying Agent**” and “**Transfer Agent**” respectively), Deutsche Bank Luxembourg S.A. as a registrar (the “**Luxembourg Registrar**”) and the Trustee. References herein to principal paying agent, registrar, paying agent or transfer agent, shall include any additional or successor principal paying agent, registrar, paying agent or transfer agent.

Copies of the Trust Deed, the Loan Agreement, the Agency Agreement and the Final Terms are available for inspection at the principal office of the Trustee and at the specified office of the Principal Paying Agent in London and the U.S. Paying Agent in New York.

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 and the 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**” are the rights excluded from the Security Interest, being all and any rights, interests and benefits of the Issuer in respect of the obligations of the Borrower (i) in respect of a Senior Series, under Clauses 3.2, 5.3 (other than the right to receive any amount payable under such Clause), 6.2 (to the extent that the Borrower 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 (only to the extent that the Issuer has received amounts to which the Noteholders are not entitled), 8, 12.1 - 3, 13.1, 13.2 (only to the extent that the Borrower shall reimburse the Issuer for any amount paid by the Issuer) and 14.2 (to the extent that the Borrower shall reimburse the Issuer for any amount paid by the Issuer in respect of such taxes, charges or costs) of the Facility Agreement and, for the avoidance of doubt, Clause 6.4 of the Facility Agreement, and (ii) in respect of a Subordinated Series, as set out in the relevant Supplemental Trust Deed.

1 STATUS

The Notes constitute secured, limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited in the manner described below. The Notes are secured in the manner described in the Trust Deed and shall for each Series at all times rank *pari passu* and without any preference amongst themselves.

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and 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 amounts in respect of any Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) less any amounts in respect of any Reserved Rights 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 between the Issuer and the Borrower.

Noteholders have notice of, and have accepted, these Terms and Conditions, the Final Terms and the contents of the Trust Deed 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, or shall at any 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 the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts (if any)) due or to become due from the Borrower 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 the Borrower;
- 1.3** neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;
- 1.4** neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, any Paying Agent, any Registrar, Calculation Agent or Transfer Agent of their respective obligations under the Agency Agreement;
- 1.5** the financial servicing and performance of the terms and conditions of the Notes depend solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Borrower has represented and warranted to the Issuer that the Loan Agreement constitutes a legal, valid and binding obligation of the Borrower; and
- 1.6** the Issuer and the Trustee shall 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 Potential Event of Default (each as defined in the

relevant Loan Agreement) has occurred (other than, in the case of the Issuer, any Event of Default or Potential Event of Default caused by failure to pay principal, interest or other amounts when due under the Loan Agreement) and (ii) Officer's Certificates specifying the Principal Subsidiaries (as defined in the Loan Agreement) of the Borrower and shall not otherwise be responsible for investigating any aspect of the Borrower'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 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 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.

- 1.7 The Issuer will not be liable for any withholding or deduction or for any payment on account of tax (not being a tax imposed on the Issuer's net income) required to be made by the Issuer on or in relation to any sum received by it under any Loan Agreement which will or may affect payments made or to be made by the Issuer in respect of the Notes save to the extent that it has actually received and retained additional amounts under such Loan Agreement in respect of such withholding or deduction or payment and the Issuer shall not be obliged to take any actions or measures as regards such deduction or withholding or payment, other than those set out in the relevant Loan Agreement.

The obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In respect of a Note issued under a Subordinated Series (as defined in the Trust Deed) only, the claims of the Issuer under the Loan Agreement, excluding the Reserved Rights, constitute the direct, unconditional and unsecured subordinated obligations of the Borrower and will rank at least equally with all other unsecured and subordinated obligations of the Borrower (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 the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's right under or in respect of the Loan Agreement or the Loan exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower 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 it has been indemnified and/or secured by the Noteholders to its satisfaction. After realisation of the Security Interests (as defined in the Trust Deed), the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes will be satisfied and none of the foregoing parties may take further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished. In particular, neither the Trustee nor any Noteholder shall petition or take any other step for the winding up of the Issuer.

2 FORM AND DENOMINATION

The Notes will be issued in fully registered form, and in the Specified Denomination shown hereon or higher integral multiples as specified in the relevant Final Terms, without interest coupons, provided that (i) interests in the Rule 144A Notes shall be held in amounts of not less than U.S.\$200,000 and (ii) the minimum Specified Denomination of any Notes shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

The Notes are Fixed Rate Notes, Floating Rate Notes, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified hereon.

3 REGISTER, TITLE AND TRANSFERS

The Registrars will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement with an up-to-date copy to be kept with the Issuer at its registered office (the

“**Issuer’s Register**”). In these Conditions the “holder” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “Noteholder” shall be construed accordingly. A Note will be issued to each Noteholder in respect of its registered holding. Under the terms of the Agency Agreement, the relevant Registrar will provide to the Issuer after each such change to the Register an up-to-date copy of the Register to be maintained at the Issuer’s registered office. In case of inconsistency between the Register and the Issuer’s Register, the Issuer’s Register shall prevail.

The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note) and no person shall be liable for so treating such holder.

A Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the specified office of the relevant Registrar or at the specified office of a Transfer Agent, together with such evidence as such 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 Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Note will be issued to the transferor.

Subject to the last paragraph of this Condition, within five business days of the surrender of a Note in accordance with the immediately preceding paragraph above, the relevant Registrar will register the transfer in question and deliver a new Note 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 dealings in foreign currencies) in the city where the relevant Registrar has its specified office.

The transfer of a Note will be effected without charge but against such indemnity as the relevant Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

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 (and will not consent to any request of the Borrower to), without the prior written consent of the Trustee, agree to any amendments 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 the Russian Federation if applicable (the “**CBR**”)) 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 the instructions of the Trustee from time to time with respect to the Loan Agreement which instructions shall be subject at all times to and followed in full conformity with the terms of the relevant Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14.

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not 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 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 other liability, or subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

5 INTEREST

- 5.1 **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to

the Rate(s) of Interest specified thereon which shall be equal to the rate per annum at which interest under the relevant 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 under the relevant Loan Agreement. The amount of interest payable shall be determined in accordance with Condition 5.4.

5.2 **Interest on Floating Rate Notes:**

- (a) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified thereon, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5.4. 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, as the case may be.
- (b) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the 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.
- (c) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and as set out in the Loan Agreement.

5.3 **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8.4).

5.4 **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount and the Day Count Fraction for such Interest Accrual Period as specified hereon and in the Loan Agreement, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual 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 per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amount payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

5.5 **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 Accrual 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, the Borrower, 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 5.2(b), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If 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.

- 5.6 **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual 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

- 6.1 **Final Redemption:** Unless the Loan is previously prepaid or repaid pursuant to Clauses 5.1, 5.2 or 5.4 of the 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, the Borrower 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 Redemption Date specified hereon at their Final Redemption Amount (which, unless otherwise specified hereon, is 100 per cent. of the principal amount thereof).
- 6.2 **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 endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders in accordance with Condition 14.

To the extent that the Issuer receives amounts of principal, interest 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 on a pro rata basis to the Noteholders.

- 6.3 **Purchase:** The Borrower or any of its Subsidiaries (as defined in the Facility Agreement) 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 the Borrower or such Subsidiary, surrendered by the Borrower or such Subsidiary, as the case may be, to the Issuer for cancellation, whereupon the Issuer shall instruct the Principal Paying Agent to cancel such Notes. Upon such cancellation by or on behalf of the Principal Paying Agent, the relevant Loan shall be deemed to have been prepaid by the Borrower 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 6.3 will only apply to Notes issued under a Subordinated Series to the extent specified to be applicable in the relevant Final Terms.

- 6.4 **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 a U.S. person that 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).

- 6.5 **Redemption at the Option of Noteholders of a Senior Series:** 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 (unless, prior to the delivery of the Put Option Notice referred to below, the Issuer gives notice under Condition 6.2) 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) (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 Noteholders in accordance with Condition 14, specifying the details relating to the occurrence of the Put Event and the procedure for exercising the option contained in this Condition 6.5 (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 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 such option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. The Principal Paying Agent or the Paying Agent will provide such Noteholder with a receipt. Provided that the Senior Notes that are the subject of any such Put Option Notice have been delivered to the Principal Paying 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 the Borrower and (ii) as provided in Condition 7) 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 6.5, may be withdrawn.

“**Put Event**” means any event specified in the relevant Loan Supplement.

7 PAYMENTS AND AGENTS

Payments of principal shall be made against presentation and surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Paying Agent, Transfer Agent or Registrar and in the manner provided in the paragraph below.

Interest shall be paid to the person shown on the Register at the close of business on the 15th day before the due date for payment thereof (the “**Record Date**”). Payments of interest shall be made in the Specified Currency by cheque drawn on a bank in the principal financial centre for the Specified Currency or, in the case of euro, in a city in which banks have access to the TARGET System (a “**Bank**”) and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the relevant Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank, or by transfer to an account in the Specified Currency maintained by the payee with, a Bank in the principal financial centre of such Specified Currency or in the case of euro, a Bank specified by the payee or at the option of the payee, by a euro cheque and (in the case of interest payable on redemption) upon surrender of the relevant Notes at the specified office of the Principal Paying Agent or at the specified office of any Transfer Agent.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

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.

The names of the initial Paying Agents and their initial specified offices are set out below. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or 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 any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 14.

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the 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 become enforceable, the Issuer will, pursuant to Clauses 6 and 7 of the Agency Agreement require the Borrower to make all payments of principal, interest, premium and additional amounts (if any) to be made pursuant to the Loan Agreement to the Principal Paying 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.

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 the Russian Federation or Luxembourg or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes or duties is required by law.

In such event, the Issuer shall pay such additional payments ("**additional amounts**") as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives an equivalent amount from the Borrower under the Loan Agreement. To the extent that the Issuer receives a lesser additional amount from the Borrower the Issuer will account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, 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:

- 8.1 to a Noteholder who (a) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (b) is liable for such taxes or duties by reason of his having some connection with the Russian Federation or Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;
- 8.2 in respect of a Note presented for payment of principal more than 30 days after the Relevant Date (as defined below) except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 8.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- 8.4 in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

As used herein, "**Relevant Date**" (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full corresponding amount payable has not been received by, or for the account of, the Issuer 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 by or on behalf of the Issuer in accordance with Condition 14.

Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

For the avoidance of doubt, the Issuer shall only pay such additional amounts to the Noteholders to the extent and at such time as it shall have actually received and retained an equivalent amount from the Borrower under the relevant Loan Agreement.

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 or of a Relevant Event (as defined below), 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 then outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, (i) (in the case of an Event of Default in respect of a Note issued under a Senior Series only) declare all amounts payable under the Loan Agreement by the Borrower to be due and payable, (ii) (in the case of an Event of Default in respect of a Note issued under a Subordinated Series only) take the action permitted to be taken by the Issuer under the 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.

“**Relevant Event**” means the earlier of the failure by the Issuer to make any payment of principal or interest on the Notes when due or the Issuer becoming insolvent or bankrupt or unable to pay its debts, stopping or suspending payment of all or material part (in the opinion of the Trustee) of its debts, proposing or making a general assignment or any arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium is agreed or declared in respect of affecting all or (in the opinion of the Trustee) a material part of the debts of the Issuer or an order is made or an effective resolution is passed for the winding up or dissolution of the Issuer or the Issuer becomes subject to any insolvency, bankruptcy, *concordat préventif de faillite*, moratorium, controlled management (*gestion contrôlée*), general settlement with creditors, liquidation, reorganisation and any other similar legal proceedings affecting the Issuer or a *commissaire à la gestion contrôlée*, a *liquidateur*, a *commissaire*, a *curateur*, an *administrateur* or any similar officer is appointed as a consequence of the financial difficulties affecting the Issuer.

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 governing law of the Loan, 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.

Subject to the provisions of the Trust Deed, 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 or is made to correct a manifest error or an error which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Noteholders.

Subject to the provisions of the Trust Deed, 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 the Borrower 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. 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 the Borrower shall, having obtained the consent of the Borrower (if such substitution is not to be made at the request of the Borrower) 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 charged and assigned 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. 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 will become void unless 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.

12 INDEMNIFICATION OF TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction. The Trustee is entitled to enter into contracts or transactions with the Issuer, and/or the Borrower and any entity related to the Issuer, and/or the Borrower without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or for the performance by the Borrower 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.

13 REPLACEMENT OF NOTES

If any Note shall become mutilated, defaced, lost, stolen or destroyed it may, subject to applicable laws and regulations and stock exchange requirements, be replaced at the specified office of the relevant Registrar or at the specified office of the Paying Agent in London or the United States on payment of such costs, expenses, taxes and duties as may be incurred in connection therewith and on such terms as to evidence, security and indemnity and otherwise as may reasonably be required by or on behalf of the Issuer or the Trustee. Mutilated or defaced Notes must be surrendered before replacements will be issued.

14 NOTICES

All notices to the Noteholders shall be deemed to have been duly given if (i) posted to such holders at their respective addresses as shown on the Register and (ii) so long as the Notes are listed on the London Stock Exchange and the rules of that exchange so require, published in a daily newspaper of general circulation in London approved by the Trustee, currently expected to be the *Financial 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, 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 and 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 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 the Borrower 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 (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or 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 Loan Agreement as amended to secure amounts due on the Notes and such further 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.

17 GOVERNING LAW

The Notes, the Agency Agreement and the Trust Deed, including any non-contractual obligations arising out of or in connection with any of them, 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 Notes

Each Series of Notes will be evidenced on issue (i) in the case of Regulation S Notes, a Regulation S Global Note deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg and (ii) in the case of Rule 144A Notes, a Rule 144A Global Note deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC.

Beneficial interests in a Regulation S Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. See “— Book-Entry Procedures for the Global Notes”. By acquisition of a beneficial interest in a Regulation S Global Note, 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 and certified to the Principal Paying Agent 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, in which case the Principal Paying Agent shall notify each such relevant Dealer when all relevant Dealers have so certified (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 located outside the United States in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S. See “Transfer Restrictions”. Beneficial interests in a Rule 144A Global Note may only be held through DTC at any time. See “— Book-Entry Procedures for the Global Notes”. By acquisition of a beneficial interest in a Rule 144A Global Note, the purchaser thereof will be deemed to represent, among other things, that if it is a U.S. person (within the meaning of Regulation S), it is a QIB that is also a QP and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Agency Agreement. See “Transfer Restrictions”.

Beneficial interests in each Global Note will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement, and with respect to a Rule 144A Global Note, as set forth in Rule 144A, and the Rule 144A Notes will bear the legends set forth thereon regarding such restrictions set forth under “Transfer Restrictions”. A beneficial interest in a Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note in denominations greater than or equal to the minimum denominations applicable to interests in a Rule 144A Global Note 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 Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note 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 located outside the United States in an offshore transaction and in accordance with Regulation S.

Any beneficial interest in a Regulation S Global Note that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note will, upon transfer, cease to be an interest in the Regulation S Global Note and become an interest in the Rule 144A Global Note, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Note that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note will, upon transfer, cease to be an interest in the Rule 144A Global Note and become an interest in the Regulation S Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Notes will not be entitled to receive physical delivery of certificated Notes in definitive form (the “**Definitive Notes**”). The Notes are not issuable in bearer form.

Amendments to the Terms and Conditions

Each Global Note contains provisions that apply to the Notes that they represent, 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 will be made against presentation for endorsement by the Principal Paying Agent and, if no further payment falls to be made in respect of the

relevant Notes, surrender of such Global Note to or to the order of the Principal Paying 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, 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 and such Global Note 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 accountholders in substitution for delivery thereof as required by the Terms and Conditions of such Notes.

Meetings

The holder of each 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 may be exchangeable.

Trustee's Powers

In considering the interests of Noteholders while the relevant Global Note is 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 such Global Note and may consider such interests as if such accountholders were the holders of 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.

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 represented by the Global Notes and such Global Notes 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 Notes to the Principal Paying Agent for notation, the Issuer shall (subject to certain limitations on the obligation of payment of the Issuer in Condition 7) redeem the relevant proportion of each Global Note five business days after the expiration of the 30 day period detailed above and the Paying Agent will mark down the Global Notes in accordance with the terms of the Agency Agreement.

Exchange for Definitive Notes

Exchange

Each Global Note will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive, registered form if: (i) a Global Note is 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 which would not be suffered were the Notes in definitive form 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 for Definitive Notes 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 to or to the order of the Registrar or any Transfer Agent. In exchange for the relevant Global Note, 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 Definitive Notes 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 definitive Notes 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 shall be exchanged in full for definitive Notes and the Issuer will, at the cost of PSB (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 Definitive Notes 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 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 Global 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. Definitive Notes issued in exchange for a beneficial interest in a Rule 144A Global Note shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions”.

Legends

The holder of a Definitive Note 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 Definitive Note bearing the legend referred to under “Transfer Restrictions,” or upon specific request for removal of the legend on a Rule 144A Definitive Note, the Issuer will deliver only Rule 144A Definitive Notes 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 and the Registrar that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act.

Book-Entry Procedures for the Global Notes

For each Series of Notes evidenced by both a Regulation S Global Note and a Rule 144A Global Note, 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 hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in 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 the laws of the State of New York, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in Rule 144A Global Notes directly through DTC if they are Direct Participants in 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 Global Notes as to which such Participant or Participants has or have given such direction. However, in the circumstances described under “Exchange for Definitive Notes,” DTC will surrender the relevant Rule 144A Global Notes for exchange for individual Rule 144A Definitive Notes (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note representing 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 depository 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 representing 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 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 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, the common depository 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 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.

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 representing their ownership interests in such Notes, unless and until interests in any Global Note held within a clearing system are exchanged for Definitive Notes.

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 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 Agency Agreement), 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 DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Rule 144A Global Note 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 of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note. 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 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 DTC participant on the settlement date. Separate payment arrangements are required to be made between 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 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; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by a Rule 144A Global Note.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interest in Global Notes 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 Closing 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 Closing 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 Closing Date should consult their own advisers.

SUBSCRIPTION AND SALE

Summary of Dealer Agreement

Subject to the terms and on the conditions contained in a Dealer Agreement dated 14 April 2011 (the “**Dealer Agreement**”) between the Issuer, PSB, the Permanent Dealers and the Arrangers, 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 PSB 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

United States

The Notes and the corresponding Loans have not been and will not be registered under the Securities Act or 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 or not subject to 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 (i) as part of their distribution at any time or (ii) otherwise until after the completion of the distribution compliance period within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes (other than a sale pursuant to Rule 144A) during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States, or to or for the account of a U.S. person, by a dealer that is 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.

Terms used in the preceding paragraphs have the meanings given to them by Regulation S.

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 pursuant to Rule 144A only to persons whom they reasonably believe are QIBs and QPs who can represent that (a) they are QIBs within the meaning of Rule 144A who are also QPs, (b) they are not broker-dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers, (c) they are not a participant-directed employee plan, such as a 401(k) plan, (d) they are acting for their own account, or the account of one or more QIBs each of which is also a QP, (e) they are not formed for the purpose of investing in the Issuer or the Notes, (f) each account for which they are purchasing will hold and transfer at least U.S.\$200,000 in principal amount of Notes at any time, (g) they understand that the Issuer may receive a list of participants holding positions in its securities from one or more book-entry depositaries, and (h) they will provide notice of the transfer restrictions set forth in this Base Prospectus to any subsequent transferees.

This Base Prospectus has been prepared by the Issuer and PSB for use in connection with the offer and sale of the Notes outside the United States and the resale of the Notes in the United States in accordance with Rule 144A and for the listing of Notes on the London Stock Exchange, or other stock exchange specified in the Final Terms. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Base Prospectus does not constitute an offer to any person in the United States 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 to any U.S. person or to any other person within the United States, other than any QIB/QP and those persons, if any, retained to advise such non-U.S. person or QIB/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/QP and those persons, if any, retained to advise such non-U.S. person or QIB/QP, is prohibited.

See “Transfer Restrictions”.

United Kingdom

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- *No deposit taking:* in relation to any notes that must be redeemed before the first anniversary of the date of their issue: 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 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 agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; where the issue of the notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;
- *Financial promotion:* 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 would not, if the Issuer was not an authorized person, apply to the Issuer; and
- *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) pursuant to Italian securities legislation and, accordingly, each Manager represents and agrees that it has not offered or sold and will not offer or sell, any Notes in the Republic of Italy to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

For the purposes of this provision, the expression “offer of Notes to the public” in Italy means any communication, under the meaning of Article 1, paragraph 1, letter t) of Legislative Decree No. 58 of February 24, 1998, as amended (the “**Italian Financial Act**”), 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, including the placement through authorised intermediaries.

Each Manager represents and agrees that it will not offer, sell or deliver any Notes or distribute copies of any offering materials relating to the Notes in the Republic of Italy except (a) to “Qualified Investors” (*Investitori Qualificati*), as defined pursuant to Article 100 of the Italian Financial Act and Article 34-ter, paragraph 1 (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended (“**CONSOB Regulation**”), or (b) in any other circumstances where an express exemption from compliance with the restrictions on offers to the public applies, as provided under the Italian Financial Act or CONSOB Regulation.

Moreover, and subject to the foregoing, any such offer, sale or delivery of the Notes or any offering materials relating to the Notes in the Republic of Italy under (a) and (b) must be: (i) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”), the Italian Financial Act, CONSOB Regulation No. 16190, dated 29 October 2007, as amended; (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended, pursuant to which the Bank of Italy may request information on the offering or issue of securities in Italy; and (iii) in compliance with any other applicable notification requirement or limitation which may be imposed from time to time by CONSOB, the Bank of Italy, or other Italian authority.

Any investor purchasing the Notes is solely responsible for ensuring that any offer or resale of the Notes by such investor occurs in compliance with applicable Italian laws and regulations.

Article 100-bis of the Consolidated Financial Services Act affects the transferability of the Notes in Italy to the extent that any placement of the Notes is made solely with qualified investors and such Notes are then systematically

resold to non-qualified investors on the secondary market at any time in the 12 months following such placement. Should this occur without the publication of a prospectus, and outside of the application of one of the exemptions referred to above, retail purchasers of Notes are entitled to have such purchase declared void and to claim damages from any intermediary which sold them the Notes.

This Base Prospectus, any other document relating to the Notes, and the information contained herein are intended only for the use of its recipient and are not to be distributed to any third-party resident or located in Italy for any reason. No person resident or located in Italy other than the original recipients of this document may rely on it or its contents.

Russian Federation

Each of the Dealers has represented and agreed that the Notes will not be offered, transferred or sold as a 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.

Russian securities laws permit the placement and circulation (namely public circulation) of the Notes in Russia only upon fulfilment of certain procedures (which, *inter alia*, may include registration of the securities prospectus with the relevant Russian regulator) provided for under Russian law. Neither the issue of the Notes, nor a Russian securities prospectus (*prospect tsennih bumag*) in respect of the Notes has been, or is intended to be, registered with the relevant Russian regulator. The information provided in this Base Prospectus is not an offer, advertisement, or invitation to make offers, sell, exchange or otherwise transfer the Notes in the Russian Federation or 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.

Luxembourg

The Notes are not offered to the public in or from Luxembourg and each Dealer has represented and warranted and agreed that it will not offer the Notes or cause the offering of the Notes or contribute to the offering of the Notes to the public in or from Luxembourg, unless all the relevant legal and regulatory requirements concerning a public offer in or from Luxembourg have been complied with. In particular, this offer has not been and may not be announced to the public and offering material may not be made available to the public.

The Notes shall not be offered or sold within the territory of the Grand Duchy of Luxembourg, unless:

- a prospectus has been duly approved by the *Commission de Surveillance du Secteur Financier* (the “CSSF”) if Luxembourg is the home member state (as defined in the Law of 10 July 2005 on prospectuses for securities and implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading);
- if Luxembourg is not the home member state, the CSSF has been notified by the competent authority in the home member state that the prospectus has been duly approved; or
- the offer benefits from an exemption to, or constitutes a transaction not subject to, the requirement to publish a prospectus.

No offer of the Notes can be made to persons other than professional clients within the meaning of Annex III of the Luxembourg law of 5 April 1993 on the financial sector as amended by the Luxembourg law of 13 July 2007 on markets for financial instruments.

General

The Notes may only be issued to or subscribed by “professional investors” within the meaning of Annex II of the Markets in Financial Instruments Directive 2004/39/EEC of the European Parliament and of the Council of 21 April 2004 amending Council Directives 85/611/ECC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

Each Dealer has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which 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 PSB.

No action has or will be taken in any jurisdiction by the Issuer, PSB 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 PSB 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, PSB 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 Arrangers, the Dealers and their respective affiliates have engaged in transactions with PSB and other members of the Group (including, in some cases, credit agreements and credit lines) in the ordinary course of their banking business and the Arrangers and the Dealers performed various investment banking, financial advisory, and other services for PSB, for which they received customary fees, and the Arrangers, the Dealers and their respective affiliates may provide such services in the future.

TRANSFER RESTRICTIONS

Because of the following restrictions, Noteholders should consult legal counsel prior to making any offer, resale or other transfer of the Notes offered hereby.

Rule 144A Notes

Each purchaser of Rule 144A Notes, by accepting delivery of this Base Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

- If it is a U.S. Person within the meaning of Regulation S, it is (a) a QIB that is also a QP, (b) not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$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 for the account of one or more QIBs each of which is also a QP, (e) not formed for the purpose of investing in the Notes or the Issuer, and (f) aware, and each beneficial owner of such Notes has been advised, that the seller of such Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.
- It will, (a) along with each account for which it is purchasing, hold and transfer beneficial interests in the Rule 144A Notes in a principal amount that is not less than U.S.\$200,000 and (b) provide notice of these transfer restrictions 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 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 located outside the United States in an offshore transaction 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 or another jurisdiction 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 144A 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 at the time of its purchase and throughout the period in which it holds such Notes or any interest therein (a) it is not an employee benefit plan as described in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), subject to the provisions of Title I of ERISA, a plan described in Section 4975(e)(1) of the Code to which Section 4975 of the Code applies, or an entity whose underlying assets include plan assets by reason of a plan's investment in the entity and (b) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining the same foregoing representations and warranties from that person.
- It understands that the Rule 144A Global Note and any Definitive Notes issued in respect thereof, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:
 - THIS NOTE AND THE LOAN IN RESPECT THEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "**SECURITIES ACT**") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THIS NOTE 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 144A (A "**QIB**") 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 U.S.\$200,000 PRINCIPAL AMOUNT OF NOTES OR (2) IN AN OFFSHORE TRANSACTION TO A PERSON LOCATED OUTSIDE THE UNITED STATES 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. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER FROM IT OF THE NOTES IN RESPECT HEREOF OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. 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 THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES 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 U.S.\$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 THIS NOTE 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 THIS NOTE; (6) IT UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES 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 THIS NOTE IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S WHO IS LOCATED OUTSIDE THE UNITED STATES AND IS PURCHASING SUCH NOTE IN AN OFFSHORE TRANSACTION OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THIS NOTE 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% 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 THIS NOTE TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE ISSUER HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE INVESTMENT COMPANY ACT.
- EACH BENEFICIAL OWNER HEREOF REPRESENTS AND WARRANTS THAT FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST HEREIN (1) IT IS NOT AND WILL NOT BE A BENEFIT PLAN INVESTOR (AS DEFINED IN SECTION 3(42) OF THE U.S. EMPLOYEE RETIREMENT SECURITY ACT OF 1974, AS AMENDED), AND (2) IT WILL NOT SELL OR OTHERWISE TRANSFER ANY NOTE OR INTEREST THEREIN TO ANY PERSON WITHOUT FIRST OBTAINING THE SAME FOREGOING REPRESENTATIONS, WARRANTIES AND COVENANTS FROM THAT PERSON.
- THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THIS NOTE THAT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.
- It acknowledges that the Issuer, PSB, the Registrar, the Dealers and their 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, PSB and the Dealers. 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.

- It understands that Rule 144A Notes of a Series will be evidenced by a Rule 144A Global Note. Before any interest in a Rule 144A Global Note 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, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the 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 Regulation S Notes outside the United States, by accepting delivery of this Base Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

- It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer, PSB or a person acting on behalf of such an affiliate.
- It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB that is also a QP purchasing for its own account or for the account of a QIB that is also a QP 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.
- It understands that Regulation S Notes of a Series will be evidenced by a Regulation S Global Note. Before any interest in a Regulation S Global Note 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, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- It understands and acknowledges that its purchase and holding of such Notes constitutes a representation and agreement by it that at the time of its purchase and throughout the period it holds such Notes or any interest therein (a) it is not an employee benefit plan as described in Section 3(3) of ERISA, subject to the provisions of Title I of ERISA, a plan described in Section 4975(e)(1) of the Code to which Section 4975 of the Code applies, or an entity whose underlying assets include plan assets by reason of a plan's investment in the entity and (b) it will not sell or otherwise transfer any such Note or interest to any person without first obtaining these same foregoing representations and warranties from that person.
- 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 acknowledges that the Issuer, PSB, the Registrar, the Dealers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer, PSB and the Dealers. 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.

TAXATION

The following is a general description of certain tax considerations relating to the Notes and does not purport to be a comprehensive analysis of all tax considerations relating to the Notes. Prospective purchasers of any Series of Notes are advised to consult their own tax advisors as to the consequences of the purchase, ownership and disposition of any Series of Notes in light of their particular circumstances, including, but not limited to, the consequences of the receipt of interest and the sale or redemption of any Series of Notes. This summary is based upon the laws as in effect on the date of this Base Prospectus. Neither the Borrower nor the Issuer assume any obligation to update this summary after the date of issuance of the Notes for any such changes in the applicable laws. The information and analysis contained within this section are limited to tax issues, and prospective investors should not apply any information or analysis set out below to the other areas, including (but not limited to) the legality of transactions involving any Series of Notes.

Russian Taxation

General

The following is a summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of any Series of Notes as well as taxation of interest payments on any corresponding Loan. The summary is based on the laws of Russia in effect on the date of this Base Prospectus (where these laws are subject to changes which could occur frequently, at short notice and may have a retroactive effect). The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving any Series of Notes. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal level authorities of Russia, nor does it seek to address the availability of double tax treaty and the eligibility of double tax treaty relief in respect of any Series of Notes, or practical difficulties involved in claiming such double tax treaty relief.

Prospective investors should consult their own tax advisors regarding the tax consequences of investing in any Series of Notes in their own particular circumstances. No representation with respect to the Russian tax consequences relevant to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty and lack interpretive guidance resulting in different interpretations and inconsistent application thereon by various authorities in practice. Further, the substantive provisions of Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change (possibly with retroactive effect) and inconsistent application than in jurisdictions with more developed capital markets and tax systems. In practice, interpretation by different tax inspectorates in Russia may be inconsistent or contradictory, and may result in imposition of conditions, requirements or restrictions that are not explicitly stated by the law. Similarly, in the absence of binding precedent, court rulings on tax or other related matters by different courts relating to the same or similar circumstances may be also inconsistent or contradictory.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- a Noteholder who is an individual and does not satisfy the criteria for being a Russian tax resident as defined below (the “**Non-Resident Noteholder — Individual**”); or
- a legal entity or an organisation, in each case not organised under Russian law, which purchases, holds and disposes any Series of Notes otherwise than through a permanent establishment in Russia (the “**Non-Resident Noteholder — Legal Entity**”).

For the purposes of this summary, a “**Resident Noteholder**” means:

- a Noteholder who is an individual and satisfies the criteria for being a Russian tax resident. A “**Russian tax resident**” is an individual who is present in Russia in aggregate for 183 calendar days or more in any period comprised of 12 consecutive months. Presence in Russia is not considered interrupted if an individual departs for short periods (less than six months) for medical treatment or education purposes. Currently, the Tax Code is frequently interpreted by both tax authorities and taxpayers such that days of arrival should not be taken into account as opposed to days of departure when calculating the total number of days of presence of an individual in Russia and we are aware of a court case confirming this position. However there have been several incidents when the Ministry of Finance of the Russian Federation and the Federal Tax Service suggested a different methodology;
- a Russian legal entity or an organisation, that purchases, holds and disposes any series of Notes; or

- a legal entity or an organisation, in each case organised under a non-Russian law, that purchases, holds and disposes of the Notes through its permanent establishment in Russia.

For the purposes of this summary, the definitions “**Resident Noteholder**” and “**Non-Resident Noteholder**” in respect of individuals are taken at face value based on the wording of the tax law as currently written. In practice, however, the application of the above formal residency definition may differ based on the position of the tax authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, the tax authorities have expressed the view that an individual should be either resident or non-resident in Russia for the full calendar year and consequently even where the travel pattern dictates differing residency status for a part of the tax year, the application of the residency tax rate may in practice be disallowed. This situation may be altered by amendments to other articles of the Tax Code dealing with taxation of individuals, a change in the position of the tax authorities or by outcomes of tax controversy through the courts.

Tax residency rules and Russia’s rights with regard to taxation may be affected by the applicable double tax treaty. Based on published comment of the Russian authorities, it is anticipated that the Russian tax residency rules applicable to legal entities may change in the future. The Russian tax treatment of interest payments made by PSB to the Issuer (or to the Trustee, as the case may be) under any Loan Agreement may affect the Noteholders. See “— *Taxation of Interest on the Loan*” below.

Taxation of the Notes

Resident Noteholders

A Resident Noteholder will be subject to all applicable Russian taxes in respect of gains from disposition of the Notes of any Series and interest received on such Notes. Resident Noteholders should consult their own tax advisors with respect to their tax position regarding the Notes of any Series.

Non-Resident Noteholders

A Non-Resident Noteholder should not be subject to any Russian taxes in respect of payments of interest and repayments of principal on any Series of Notes received from the Issuer. A Non-Resident Noteholder also generally should not be subject to any Russian taxes in respect of any gain or other income realised on redemption, sale or other disposition of the Notes of any Series outside Russia, provided that the proceeds from such redemption, sale or other disposition are not received from a source within Russia.

However, in the absence of a clear definition of what constitutes income from source within Russia in case of sale or other disposition of securities, there is a risk that income from such disposition of the Notes of any Series may be considered as received from Russian source.

Taxation of Non-Resident Noteholders – Legal Entities

Acquisition of the Notes

The acquisition of the Notes by Non-Resident Noteholders – Legal Entities should not constitute a taxable event under Russian tax law. Consequently, acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders – Legal Entities.

Disposition of the Notes

In the event that proceeds from sale or other disposition of the Notes of any Series are received by a Non-Resident Noteholder — Legal Entity from a source within Russia, there should be no Russian tax on any gain on sale or other disposition of the Notes of any Series for a Non-Resident Noteholder – Legal Entity. However there is some residual uncertainty regarding tax treatment of the portion of the proceeds, if any, from disposition of the Notes of any Series that is attributable to accrued interest on the relevant Notes, which may be treated as interest income (i.e., different from capital on sale) and thus should be subject to withholding tax at a rate of 20% (even if disposal of the Notes of any Series results in a capital loss). Such tax may be reduced or eliminated under provisions of the applicable double tax treaty.

Non-Resident Noteholders — Legal Entities should consult their own tax advisors with respect to taxation of the Notes of any Series in Russia or elsewhere.

Taxation of Non-Resident Noteholders – Individuals

Acquisition of the Notes

Acquisition of the Notes by Non-Resident Noteholders—Individuals may constitute a taxable event pursuant to provisions of the Russian Tax Code relating to the material benefit (deemed income) received by individuals as a result of acquisition of securities. If the acquisition price of the Notes is below the lower margin of fair market value calculated under a specific procedure for the determination of market prices of securities for tax purposes, the difference may be subject to the Russian personal income tax at the rate of 30% (arguably is subject to reduction or elimination under the applicable double tax treaty).

Under the Russian tax legislation, taxation of income of Non-Resident Noteholders—Individuals will depend on whether this income would be qualified as is received from Russian or non-Russian sources. Although the Russian Tax Code does not contain any provisions in relation to how the related material benefit should be sourced, the tax authorities may infer that such income should be considered as Russian source income, if the Notes are purchased “in Russia”. In the absence of any additional guidance as to what should be considered as a purchase of securities “in Russia”, the Russian tax authorities may apply various criteria in order to determine the source of the related material benefit, including looking at the place of conclusion of acquisition transaction, the location of the Issuer, or other similar criteria.

Disposition of the Notes

Subject to any available tax treaty relief, the receipt of proceeds by a Non-Resident Noteholder — Individual from a source within Russia in respect of the gain from a disposition of Notes of any Series is likely to be treated as Russian-source income for personal income tax purposes and, as such, will be subject to Russian personal income tax at a rate of 30% on the gross amount of proceeds received less any available duly documented cost deduction (including the original purchase costs and other documented expenses related to the purchase, holding and sale of Notes). There is a risk that if the documentation supporting the cost deduction is deemed insufficient by the tax authorities, the deduction will be disallowed and the tax will apply to the gross amount of sales proceeds.

In certain circumstances if the disposal proceeds are paid to Non-Resident Noteholder – Individual by a licensed broker or an asset manager that is a Russian legal entity, or any other person (including a foreign company with an economically autonomous subdivision in Russia and an individual entrepreneur located in Russia), who carries out operations under an asset management agreement, a brokerage agreement, an agency agreement, a commission agreement or a commercial mandate agreement for the benefit of the Non-Resident Noteholder — Individual, the applicable personal income tax at the rate of 30% should be withheld at source by such person who will be considered as the tax agent. The amount of tax withheld should be calculated after taking into account documented deductions for the original purchase cost and related expenses on the purchase, holding and sale of Notes to the extent such deductions and expenses can be determined by the entity making the payment of income. The entity making the payment of income would be required to report to the Russian tax authorities the income realized by the Non-Resident Noteholder — Individual and tax withheld upon the sale of the Notes not later than April 1 of the year following the reporting year.

If tax is not withheld or when a sale is made to other types of legal entities, other organisations or individuals, generally no Russian personal income tax should be withheld at source by these persons. Non-Resident Noteholder-Individual would be then liable to file a tax return individually, report his or her Russian-source income realised and apply for a deduction of expenses related to the purchase, holding and sale of Notes, based on the provision of supporting documentation. The applicable tax would then have to be paid by the individual on the basis of the filed tax return.

Under certain circumstances gains received and losses incurred by a Non-Resident Noteholder—Individual as a result of the disposition of the Notes and other securities occurring within the same tax year may be aggregated for personal income tax purposes which would affect the total amount of income of the Non-Resident Noteholder—Individual subject to taxation in Russia.

There is a risk that any gain may be affected by changes in the exchange rate between the currency of acquisition of the Notes of any Series, the currency of disposition of the Notes and roubles. There is also some uncertainty regarding the treatment of the portion of the proceeds, if any, from a disposition of the Notes of any Series that is attributable to accrued interest on the relevant Notes. Subject to reduction or elimination under provisions of an applicable double tax treaty that are related to interest income, proceeds attributable to accrued interest may be taxed at a rate of 30%, even if the disposal of the Notes results in a capital loss.

Tax Treaty Relief

The Russian Federation has concluded double tax treaties with a number of countries and honours some double tax treaties concluded by the former Union of Soviet Socialist Republics. These double tax treaties may contain provisions allowing for the reduction or elimination of Russian tax due with respect to income received from a source within Russia by a Non-Resident Noteholder on a disposition of the Notes of any Series (if this income is treated as income from Russian sources). To obtain the benefit of such double tax treaty provisions, the Noteholder must comply with the certification, information and reporting requirements which are in force in Russia. Currently, a Non-Resident Noteholder — Legal Entity would need to provide the payer of income with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. However, the payer of income in practice may request additional documents confirming the eligibility of the Non-Resident Noteholder—Legal Entity to the benefits of the double tax treaty. The certificate should confirm that the respective Non-Resident Noteholder—Legal Entity is the tax resident of the relevant double tax treaty country (specifically for the purposes of the applicable double tax treaty). This certificate should be provided in an original or notarized copy, apostilled or legalised by a relevant competent authority and needs to be renewed on an annual basis. A notarised Russian translation of the certificate would be required. However, there can be no assurance that advance treaty relief will be available.

A Non-Resident Noteholder — Individual must, in order to enjoy the tax treaties benefits, provide to the tax authorities a tax residency certificate issued by the competent authorities in his/her country of residence for tax purposes and a confirmation of the relevant foreign tax authorities of income received and the tax payment made outside Russia on income with respect to which treaty benefits are claimed. Such requirements may be imposed even if they directly contradict provisions of the applicable double tax treaty. Technically, such requirements mean that a Non-Resident Noteholder — Individual cannot rely on the tax treaty until he or she pays the tax in the jurisdiction of his or her tax residency. Individuals in practice would therefore generally not be able to obtain advance treaty relief on receipt of proceeds from a source within Russia as it is very unlikely that the supporting documentation for the treaty relief can be provided to the Russian tax authorities and approval from the latter can be obtained before the receipt of income by Non-Resident Noteholder — Individual occurs.

Non-Resident Noteholders should consult their own tax advisors regarding possible tax treaty relief and procedures for obtaining such relief in practice with respect to any Russian taxes imposed on proceeds received by a Non-Resident Noteholder upon the acquisition, holding and disposition of the Notes of any Series.

Refund of Tax Withheld

For a Non-Resident Noteholder — Legal Entity for which double tax treaty relief is available, if Russian withholding tax on income was withheld at source, a claim for a refund of such tax can be filed within three years from the end of the tax period in which the tax was withheld.

For a Non-Resident Noteholder — Individual for whom double tax treaty relief is available, if Russian tax on income was withheld at the source, a claim for refund of such tax may be filed within one year after the end of the tax period in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming a Noteholder's right to obtain relief under a double tax treaty. Such documentation may not be explicitly required by the Tax Code. Obtaining a refund of Russian tax withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted in practice.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity or organization having no registered presence and/or permanent establishment in Russia are subject to Russian withholding tax at a rate of 20% subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice it has received, PSB believes that payments of interest to the Issuer on each Loan should not be subject to withholding tax 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 28 June 1993 (the “**Convention**”). However, there can be no assurance that advance relief will be available and/or that such relief will continue to be available during the term of each Loan particularly, if the legislative changes to the anti-avoidance mechanism with respect to double tax treaty benefits in cases where the ultimate beneficiaries of income do not reside in the relevant tax treaty jurisdictions are introduced to the Russian Tax Code (see “Risk Factors — Risks Relating to the Russian Legal System and Legislation — *Changes in the Russian tax system could adversely affect the Group's business*”).

For treaty relief from Russian withholding tax, preliminary approval from the Russian tax authorities is neither required nor possible. Moreover, the Russian tax authorities may subsequently scrutinize the Issuer's eligibility for treaty relief under the Convention during tax audits.

If interest under the relevant Loan becomes payable to the Trustee pursuant to the Trust Deed, any benefit of the Convention will cease and payments of interest will be subject to Russian withholding tax at a rate of 20% or such other rate as may be in force at the time of payment. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption or reduction under any double tax treaty with Russia under such circumstances. In such cases, Noteholders may seek reduction of the applicable withholding tax rate or elimination or a refund of withholding tax under double tax treaties entered into between their countries of residence and Russia, where such treaties exist and to the extent they are applicable. However, there is no assurance that in this case treaty relief will be available in practice.

If payments under any Loan are subject to any withholding of Russian tax (as a result of which the Issuer would reduce payments made under the corresponding Series of Notes, as the case may be, by the amount of such withholding), PSB is obliged (subject to certain conditions) to increase payments as may be necessary so that the net payments received by the Issuer and Noteholders will be equal to the amounts they would have received in the absence of such withholding. It should be noted, however, that notwithstanding the recent positive clarification of the Russian Ministry of Finance, the tax gross-up provisions may not be enforceable under Russian law. In the event that PSB fails to make increased payments, such failure would constitute an Event of Default pursuant to the relevant Loan Agreement. If PSB is obliged to increase payments, it may (without premium or penalty), subject to certain conditions, prepay such Loan in full. In such case, all outstanding Notes of the corresponding Series and the corresponding loan would each be redeemable at the principal amount outstanding with accrued but unpaid interest and any additional amounts, if any, to the date of redemption.

No value added tax will be payable in Russia in respect of interest and principal payments under each Loan.

EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)

Under Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), each Member State of the EU is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by paying agents, as defined in the Savings Directive, within its jurisdiction to an individual beneficial owner resident in, or certain limited types of entity established in, that other Member State. However, for a transitional period, Austria and Luxembourg may apply a withholding system unless they elect otherwise (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Savings Directive further prescribes that an individual subject to the withholding regime applied by the countries operating the withholding tax system should have the right to elect that the exchange of information procedures relating to interest and other similar income be applied instead. The current rate of withholding is 20% and it will be increased to 35% with effect from 1 July 2011.

The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange of information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted or agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by paying agents within their respective jurisdictions to an individual beneficial owner resident in, 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 countries and territories in relation to payments made by a paying agent in a Member State to an individual beneficial owner resident in, or certain limited types of entity established in, one of those countries or territories.

A proposal for amendments to the Savings Directive has been published, including a number of suggested changes which, if implemented, would broaden the scope of the rules described above. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment under a Note were to be made by a person in a Member State or another country or territory which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any law implementing or complying with, or introduced in order to conform to the Savings Directive, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts under the terms of such Note as a result of the imposition of such withholding tax. The Issuer is, however, required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Savings Directive or any such law.

Luxembourg Taxation

The following general summary is based upon the tax laws of Luxembourg as in effect on the date of this Base Prospectus and is subject to any change that may come into effect after that date.

The following is a general description of certain tax laws relating to the Notes and the tax position of the Noteholders. As such it does not purport to be a comprehensive description of all the Luxembourg tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder or beneficial owner of the Notes should consult its tax advisor as to the tax consequences of the purchase, ownership and disposition of the Notes in the light of their particular circumstances.

Luxembourg Tax Residency of the Noteholders

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding Tax

Under current Luxembourg tax law, payments of interest by the Issuer under the Notes will, with the possible exception of interest payments made to individual Noteholders and certain residual entities, be made free of 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 to the extent that such interest has been negotiated at arm's length and is not profit participating. There is also no Luxembourg withholding tax, with the possible exception of interest payments made to individual Noteholders and certain residual entities, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the Notes by the Issuer.

Luxembourg Non-Resident Individuals

Under the Luxembourg laws dated June 21, 2005 and effective from July 1, 2005 implementing the Savings Directive, and several agreements concluded between Luxembourg and certain dependent or associated territories of the EU, certain interest payments made by Luxembourg based paying agents (within the meaning of the Savings Directive) to individual Noteholders resident in another Member State or in certain dependent or associated territories of the EU and to certain residual entities could be subject to withholding tax unless the beneficiary opts for the procedure of exchange of information or for the tax certificate procedure.

Withholding tax or information exchange may also apply under agreements concluded by Luxembourg with certain non-EU countries.

The applicable withholding tax rate is currently 20% until June 30, 2011, increasing to 35% as at July 1, 2011. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries. See "EU Savings Directive on the Taxation of Savings Income in the Form of Interest Payments (Directive 2003/48/EC)".

Luxembourg Resident Individuals

Pursuant to the Luxembourg Law of December 23, 2005, starting from January 1, 2006, interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg-resident individual beneficial owners and certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognised in accordance with the Council Directive 85/611/EEC or for the exchange of information regime), are subject to a 10% withholding tax. For Luxembourg-resident individuals receiving the payment in the framework of their private estate, this 10% withholding tax represents the final tax liability on the interest income received.

Responsibility for the withholding of tax in accordance with the above-mentioned Luxembourg laws of June 21, 2005 and December 23, 2005 (and the agreements with certain associated or dependent territories of the EU or with certain non-EU countries) is assumed by the Luxembourg based paying agent within the meaning of these laws and not necessarily by the Issuer.

When used in the preceding paragraphs, "interest", "residual entity" and "paying agent" have the meanings given thereto in the Luxembourg Laws of June 21, 2005 and the Law of December 23, 2005.

Taxation of the Noteholders

A Noteholder who derives income from a Note or who realises a gain on the disposal or redemption of a Note will not be subject to Luxembourg taxation on income or capital gains (except for the potential application of the Savings Directive to interest payments) unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- such income or gain is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg.

Luxembourg resident individual Noteholders are however not subject to taxation on capital gain upon disposal of a Note, unless such a disposal precedes the acquisition of the Note or the Note is disposed of within six months of its date of acquisition. The Luxembourg tax treatment of the accrued and unpaid interest upon sale, redemption or exchange of the Notes should be addressed by the Noteholders' advisors depending on their particular circumstances.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

- the Noteholder is, or is deemed to be, a fully taxable company resident in Luxembourg; or
- such Noteholder is a non-resident company carrying out business activities through a permanent establishment or a permanent representative in Luxembourg and the Note is attributable to such permanent establishment.

Other Taxes

Luxembourg gift or inheritance taxes will not be levied on the transfer of a Note by way of gift by, or on the death of, a Noteholder unless:

- the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- the transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of death or gift, is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- such Note is attributable to an enterprise or part thereof which is carried on by a non-resident through a permanent establishment or a permanent representative in Luxembourg; or
- the gift is registered in Luxembourg, which is not mandatory.

There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the Issuer's obligations under the Notes. However, in the case of court proceedings in a Luxembourg court or the presentation of the documents relating to the Notes to an "autorité constituée", such court or "autorité constituée" may require registration thereof, in which case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan agreement will be subject to an ad valorem registration duty of 0.24% calculated on the amounts mentioned therein.

There is no Luxembourg VAT 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 VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from VAT does not apply with respect to such services.

United States Taxation

To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this Base Prospectus or any document referred to herein is not intended or written to be used, and cannot be used by prospective investors for the purpose of avoiding penalties that may be imposed on them under the United States Internal Revenue Code; (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters

addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

The following is a summary of certain United States federal income tax considerations that may be relevant to a holder or a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States or (ii) a domestic corporation or (iii) a domestic trust or (iv) an estate the income of which is subject to United States federal income taxation without regard to its source (a “**United States holder**”). This summary is based on the tax laws of the United States including the Internal Revenue Code of 1986, as amended, existing and proposed Treasury Regulations, published rulings and court decisions now in effect, all of which are subject to change, possibly with retroactive effect. This summary deals only with holders that will hold Notes as capital assets, and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, traders in securities electing to mark to market, persons that will hold Notes as a position in a straddle or conversion transaction, or as part of a “synthetic security” or other integrated financial transaction or persons that have a functional currency other than the U.S. dollar.

This summary deals only with Senior Series of Notes with a term of 30 years or less that are denominated in a single currency that is not a hyperinflationary currency. This summary should be read in conjunction with the discussion of tax consequences to holders in the applicable Final Terms. To the extent there is any inconsistency in the discussion of United States tax consequences to holders between this Base Prospectus and the applicable Final Terms, holders should rely on the tax consequences described in the applicable Final Terms instead of this Base Prospectus. Any special United States federal income tax considerations relevant to a particular issue of Notes will be provided in the applicable Final Terms for that issue.

Investors should consult their own tax advisers in determining the tax consequences to them of holding Notes, including the application to their particular situation of the United States federal income tax considerations discussed below, as well as the application of state, local, or foreign tax laws.

If a partnership (or any other entity treated as a partnership for United States 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 advisor regarding the specific consequences of the acquisition, ownership and disposition of the Notes.

Payments of Interest

Payments of “qualified stated interest” (as defined below under “**Original Issue Discount**”) on a Note will be taxable to a United States holder as ordinary interest income at the time that such payments are accrued or are received (in accordance with the United States holder’s method of tax accounting).

As discussed under “Russian Taxation,” a Russian withholding tax may be imposed on the interest payments made on the Notes and on the Loan under certain circumstances. If such tax is imposed, a United States holder will also be required to include in income as ordinary income any additional amounts paid on the Notes or on the Loan, notwithstanding that the United States holder does not in fact receive payment equal to such additional amounts. A United States holder generally will be entitled to deduct or credit such Russian withholding tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of its foreign taxes for a particular tax year). Interest income (including any Additional Amounts) on a Note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered “passive income”. The rules governing the foreign tax credit are complex. United States holders are urged to consult their tax advisers regarding the availability of the foreign tax credit under their particular circumstances.

If interest is paid on a debt instrument denominated in, or with payments determined by reference to, a currency other than the U.S. dollar (hereinafter “**Foreign Currency Notes**”), the amount of interest income realized by a United States holder that uses the cash method of tax accounting will be the U.S. dollar value of the applicable foreign currency payment, including the amount of any Russian withholding taxes thereon based on the exchange rate in effect on the date of receipt regardless of whether the payment in fact is converted into U.S. dollars. A United States holder that uses the accrual method of accounting for tax purposes will accrue interest income on the Note in the relevant foreign currency and translate the amount accrued into U.S. dollars 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 United States holder, the portion thereof within the United States holder’s taxable year), or, at the accrual basis United States holder’s election, at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. A United States holder that makes such election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the Internal Revenue Service (the “**IRS**”). A United States holder that uses the accrual method of accounting for tax purposes will

recognise foreign currency gain or loss, as the case may be, on the receipt of an interest payment made with respect to a Foreign Currency Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. This foreign currency gain or loss will be treated as ordinary income or loss but generally will not be treated as an adjustment to interest income received on the Note.

Purchase, Sale, Exchange and Retirement of Notes

Initially, a United States holder's tax basis in a Note generally equals the cost of such Note to such holder. A United States holder's tax basis will increase by any amounts that such holder is required to include in income under the rules governing original issue discount and market discount, and will decrease by the amount of any amortized premium and any payments other than qualified stated interest made on the note. (The rules for determining these amounts are discussed below.) In the case of a Foreign Currency Note, the cost of such Note to a United States holder will be the U.S. dollar value of the foreign currency purchase price on the date of purchase. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis United States holder (and, if it so elects, an accrual basis United States holder) will determine the U.S. dollar value of the cost of such Note by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The amount of any subsequent adjustments to a United States holder's tax basis in a Note in respect of original issue discount, market discount and premium denominated in a Specified Currency will be determined in the manner described under "Original Issue Discount" and "Premium and Market Discount" below. The conversion of U.S. dollars to a Specified Currency and the immediate use of the Specified Currency to purchase a Foreign Currency Note generally will not result in taxable gain or loss for a United States holder.

Upon the sale, exchange or retirement of a Note, a United States holder generally will recognise gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (less any accrued qualified stated interest, which will be taxable as such) and the United States holder's tax basis in such Note. If a United States holder receives a currency other than the U.S. dollar in respect of the sale, exchange or retirement of a Note, the amount realised will be the U.S. dollar value of the specified currency received calculated at the exchange rate in effect on the date the instrument is disposed of or retired. In the case of a Foreign Currency Note that is traded on an established securities market, a cash basis United States holder, and if it so elects, an accrual basis United States holder will determine the U.S. dollar value of the amount realised by translating such amount at the spot rate on the settlement date of the sale. The election available to accrual basis United States holders in respect of the purchase and sale of Foreign Currency Notes traded on an established securities market, discussed above, must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS.

Except as discussed below with respect to market discount, Short-Term Notes (as defined below) and foreign currency gain or loss, gain or loss recognised by a United States holder generally will be long-term capital gain or loss if the United States holder has held the Note for more than one year at the time of disposition. Long-term capital gains recognised by an individual holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income. Such gain or loss will generally be treated as U.S. source gain or loss for U.S. federal income tax purposes. Consequently, a United States holder may not be able to claim a credit for any Russian tax imposed upon a disposition of a Note with respect to an amount treated as gain for U.S. federal income tax purposes, unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

Gain or loss recognised by a United States holder on the sale, exchange or retirement of a Foreign Currency Note generally will be treated as U.S. source ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held such Note. This foreign currency gain or loss will not be treated as an adjustment to interest income received on the Notes.

Original Issue Discount

United States holders of Notes issued at a discount that is equal to or more than the product of one-fourth of one percent (0.25%) of the stated redemption price at maturity of the Notes multiplied by the number of full years to their maturity will be subject to the special tax accounting rules for obligations issued with original issue discount ("**OID**") provided by the Internal Revenue Code of 1986, as amended, and certain regulations promulgated thereunder (the "**OID Regulations**"). United States holders of such Notes ("**Original Issue Discount Notes**") should be aware that, as described in greater detail below, they generally must include OID in ordinary gross income for United States federal income tax purposes as it accrues, in advance of the receipt of cash attributable to that income.

In general, each United States holder of an Original Issue Discount Note, whether such holder uses the cash or the accrual method of tax accounting, will be required to include in ordinary gross income the sum of the "daily portions" of OID on the Note for all days during the taxable year that the United States holder owns the Note. The daily portions of OID on an Original Issue Discount Note are determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. Accrual periods may be any length and may vary in length over the term of an Original Issue Discount Note, provided that no accrual period is longer than one year and each scheduled payment of

principal or interest occurs on either the final day or the first day of an accrual period. In the case of an initial holder, the amount of OID on an Original Issue Discount Note allocable to each accrual period is determined by (a) multiplying the “adjusted issue price” (as defined below) of the Original Issue Discount Note at the beginning of the accrual period by the yield to maturity of that Note (appropriately adjusted to reflect the length of the accrual period) and (b) subtracting from that product the amount (if any) of qualified stated interest (as defined below) allocable to that accrual period. The yield to maturity of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. The “adjusted issue price” of an Original Issue Discount Note at the beginning of any accrual period will generally be the sum of its issue price and the amount of OID allocable to all prior accrual periods, reduced by the amount of all payments other than payments of qualified stated interest (if any) made with respect to such Note in all prior accrual periods. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually during the entire term of an Original Issue Discount Note at a single fixed rate of interest or, subject to certain conditions, a variable rate based on one or more interest indices. In the case of an Original Issue Discount Note that is a Floating Rate Note, both the yield to maturity and qualified stated interest will generally be determined for these purposes as though the Original Issue 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 Floating Rate Notes, the rate that reflects the yield that is reasonably expected for the Note. (Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index.). As a result of this “constant yield” method of including OID in income, the amounts includible in income by a United States holder in respect of an Original Issue Discount Note denominated in U.S. dollars generally are lesser in the early years and greater in the later years than the amounts that would be includible on a straight line basis.

A United States holder generally may make an election to include in its income its entire return on a Note (*i.e.*, the excess of all remaining payments to be received on the Note, including payments of qualified stated interest, over the amount paid by such United States holder for such Note) under the constant-yield method described above. For Notes purchased at a premium or bearing market discount in the hands of the United States holder, the United States holder making such election will also be deemed to have made the election (discussed below in “— *Premium and Market Discount*”) to amortize premium or to accrue market discount in income currently on a constant-yield basis. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the IRS.

In the case of an Original Issue Discount Note that is also a Foreign Currency Note, a United States holder should determine the U.S. dollar amount includible in income as OID for each accrual period by (a) calculating the amount of OID allocable to each accrual period in the applicable foreign currency using the constant-yield method described above, and (b) translating the amount of the foreign currency so derived at the average exchange rate in effect during that accrual period (or portion thereof within a United States holder’s taxable year) or, at the United States holder’s election (as described above under “— *Payments of Interest*”), at the spot rate of exchange on the last day of the accrual period (or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year), or at the spot rate of exchange on the date of receipt, if such date is within five business days of the last day of the accrual period. Because exchange rates may fluctuate, a United States holder of an Original Issue Discount Note that is also a Foreign Currency Note may recognise a different amount of OID income in each accrual period than would the holder of an otherwise similar Original Issue Discount Note denominated in U.S. dollars. All payments on an Original Issue Discount Note (other than payments of qualified stated interest) will generally be viewed first as payments of previously-accrued OID (to the extent thereof), with payments attributed first to the earliest-accrued OID, and then as payments of principal. Upon the receipt of an amount attributable to OID (whether in connection with a payment of an amount that is not qualified stated interest or the sale or retirement of the Original Issue Discount Note), a United States holder will recognise ordinary income or loss measured by the difference between the amount received (translated into U.S. dollars at the exchange rate in effect on the date of receipt or on the date of disposition of the Original Issue Discount Note, as the case may be) and the amount accrued (using the exchange rate applicable to such previous accrual).

A subsequent United States holder of an Original Issue Discount Note that purchases the Note at a cost less than its remaining redemption amount (as defined below), or an initial United States holder that purchases an Original Issue Discount Note at a price other than the Note’s issue price, also generally will be required to include in gross income the daily portions of OID, calculated as described above. However, if the United States holder acquires the Original Issue Discount Note at a price greater than its adjusted issue price, such holder is required to reduce its periodic inclusions of OID income to reflect the premium paid over the adjusted issue price. The “remaining redemption amount” for a Note is the total of all future payments to be made on the Note other than payments of qualified stated interest.

Floating Rate Notes generally will be treated as “variable rate debt instruments” under the OID Regulations. Accordingly, the stated interest on a Floating Rate Note generally will be treated as “qualified stated interest” and such a Note will not have OID solely as a result of the fact that it provides for interest at a variable rate. If a Floating Rate Note does not qualify as a “variable rate debt instrument,” such Note will be subject to special rules (the “**Contingent Payment Regulations**”) that govern the tax treatment of debt obligations that provide for contingent payments

(“**Contingent Debt Obligations**”). A detailed description of the tax considerations relevant to United States holders will be provided in the applicable Final Terms of any Notes that are subject to these rules.

Certain of the Notes may be subject to special redemption, repayment or interest rate reset features, as indicated in the applicable Final Terms. Notes containing such features may be subject to special rules that differ from the general rules discussed above. Purchasers of Notes with such features should carefully review the applicable Final Terms and should consult their own tax advisers with respect to such Notes.

Premium and Market Discount

A United States holder that purchases a Note at a cost greater than its remaining redemption amount (as defined in the third preceding paragraph) will be considered to have purchased the Note at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant yield method, over the remaining term of the Note. Such election, once made, generally applies to all bonds held or subsequently acquired by the United States holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A United States holder that elects to amortize such premium must reduce its tax basis in a Note by the amount of the premium amortized during its holding period. In the case of premium in respect of a Foreign Currency Note, a United States holder should calculate the amortization of such premium in the specified currency. Amortization deductions attributable to a period reduce interest payments in respect of that period and therefore are translated into U.S. dollars at the exchange rate used by the United States holder for such interest payments. Exchange gain or loss will be realized with respect to amortized bond premium on such a Note based on the difference between the exchange rate on the date or dates such premium is recovered through interest payments on the Note and the exchange rate on the date on which the United States holder acquired the Note. With respect to a United States holder that does not elect to amortize bond premium, the amount of bond premium will be included in the United States holder’s tax basis when the Note matures or is disposed of by the United States holder. Therefore, a United States holder that does not elect to amortize such premium and that holds the Note to maturity generally will be required to treat the premium as capital loss when the Note matures.

A United States holder that purchases an Original Issue Discount Note for an amount that is greater than its adjusted issue price as of the purchase date and less than or equal to its remaining redemption amount, will be considered to have purchased the Original Issue Discount Note at an “acquisition premium.” Under the acquisition premium rules, the amount of OID that the U.S. holder must include in its gross income with respect to the Original Issue Discount Note for any taxable year, or the portion of any taxable year during which the U.S. holder holds the Original Issue Discount Note, will be reduced (but not below zero) by the portion of the acquisition premium properly allocable to the period. If a United States holder purchases a Note at a price that is lower than its remaining redemption amount, or in the case of an Original Issue Discount Note, its adjusted issue price, by at least 0.25% of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Note will be considered to have “market discount” in the hands of that holder. In such case, gain realized on the disposition of the Note generally will be treated as ordinary income to the extent of the market discount that accrued on the Note while held by such United States holder. In addition, the United States holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the Note. In general terms, market discount on a Note will be treated as accruing ratably over the term of the Note, or, at the election of the holder, under a constant yield method. Market discount on a Foreign Currency Note will be accrued by a United States holder in the applicable foreign currency. The amount includible in income by a United States holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued, generally calculated at the exchange rate in effect on the date that the Note is disposed of by the United States holder.

A United States holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant yield basis), in lieu of treating a portion of any gain realized on a sale of a Note as ordinary income. If a United States holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply. Any accrued market discount on a Foreign Currency Note that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the United States holder’s taxable year). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

Short-Term Notes

The rules set forth above will also generally apply to Notes having maturities of not more than one year (“**Short-Term Notes**”), but with certain modifications.

First, the OID Regulations treat none of the interest on a Short-Term Note as qualified stated interest. Thus, all Short-Term Notes will be Original Issue Discount Notes. OID will be treated as accruing on a Short-Term Note ratably, or at the election of a United States holder, under a constant yield method.

Second, a United States holder of a Short-Term Note that uses the cash method of tax accounting and is not a bank, securities dealer, regulated investment company or common trust fund, and does not identify the Short-Term Note as part of a hedging transaction, will generally not be required to include OID in income on a current basis. Such a United States holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such Note until the maturity of the Note or its earlier disposition in a taxable transaction. In addition, such a United States holder will be required to treat any gain realized on a sale, exchange or retirement of the Note as ordinary income to the extent such gain does not exceed the OID accrued with respect to the Note during the period the United States holder held the Note. Notwithstanding the foregoing, a cash-basis United States holder of a Short-Term Note may elect to accrue original issue discount into income on a current basis (in which case the limitation on the deductibility of interest described above will not apply). A United States holder using the accrual method of tax accounting and certain cash-basis United States holders (including banks, securities dealers, regulated investment companies and common trust funds) generally will be required to include original issue discount on a Short-Term Note in income on a current basis.

Third, any United States holder (whether cash or accrual basis) of a Short-Term Note can elect to accrue the “acquisition discount,” if any, with respect to the Note on a current basis. If such an election is made, the OID rules will not apply to the Note. Acquisition discount is the excess of the remaining redemption amount of the Note at the time of acquisition over the purchase price. Acquisition discount will be treated as accruing ratably or, at the election of the United States holder, under a constant yield method based on daily compounding.

Finally, the market discount rules will not apply to a Short-Term Note.

Information Reporting and Backup Withholding

The Paying Agent will be required to file information returns with the IRS with respect to certain payments made to United States holders. In addition, certain United States holders of the Notes may be subject to backup withholding tax in respect of such payments if they do not provide an accurate taxpayer identification numbers to the Paying Agent, or in the case of interest payments, if they do not report in full interest income or make certain certifications.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against United States federal income tax liability of such United States holders provided the required information is furnished to the Internal Revenue Service.

Reportable Transactions

U.S. Treasury regulations require a U.S. taxpayer that participates in a “reportable transaction” to disclose such participation by filing Form 8886 with the IRS. A reportable transaction for this purpose includes a transaction in which a taxpayer recognizes a foreign exchange loss of more than a specific amount. A United States holder may be required to treat a foreign exchange loss incurred in respect of Notes denominated in a foreign currency as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.\$50,000 in a single taxable year if the United States holder is an individual or trust, or higher amounts for other non-individual United States holders). Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Notes.

Foreign Asset Reporting

For taxable years beginning after March 18, 2010, United States holders will be subject to reporting requirements with respect to the holding of certain foreign financial assets, including debt of foreign issuers, if the aggregate value of all such assets exceeds \$50,000. A United States holder should consult its own tax adviser regarding the application of the information reporting rules to the Notes and the application of the recently enacted legislation to its particular situation.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Series, subject only to the deletion of non-applicable provisions, is set out below.

Final Terms dated [•]

PSB FINANCE S.A. (the “Issuer”)

société anonyme with registered office at 2, Boulevard Konrad Adenauer,
L-1115 Luxembourg, RCS Luxembourg B-118.687

Issue of [Aggregate Principal Amount of Series]% [Title of Loan Participation Notes]
under a U.S.\$3,000,000,000 Programme for the Issuance of Loan Participation Notes by the Issuer
for the sole purpose of financing
a Loan to OPEN JOINT-STOCK COMPANY PROMSVYAZBANK (the “Borrower”)

PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 14 April 2011 [and the supplemental Base Prospectus dated [•]]⁴ which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Base Prospectus [as so supplemented]. Full information on the Issuer and the Borrower and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [and the supplemental base prospectus]. [The Base Prospectus [and the supplemental base prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]⁵

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 Conditions (the “**Conditions**”) set forth in the Base Prospectus dated [original date] [and the supplemental Prospectus dated [•]], as incorporated by reference in the Base Prospectus dated 14 April 2011. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the “**Prospectus Directive**”) and must be read in conjunction with the Base Prospectus dated 14 April 2011 [and the supplemental Base Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive, save in respect of the Conditions which are extracted from the Base Prospectus dated [original date] [and the supplemental Base Prospectus dated [•]] and are attached hereto. Full information on the Issuer and the Borrower and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus dated 14 April 2011 [and the supplemental Base Prospectus dated [•]]. [The Base Prospectus [and the supplemental Base Prospectus] [is] [are] available for viewing at [address] [and] [website] and copies may be obtained from [address].]⁵

[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 sub-paragraphs. 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	Issuer:	PSB FINANCE S.A.
2	Borrower:	[•]
3	Series Number:	[•]

⁴ Only include details of a supplemental base prospectus in which the Conditions have been amended for the purposes of all future issues under the Programme.

⁵ Article 14.2 of the Prospectus Directive provides that a Base Prospectus is deemed available to the public when, *inter alia*, made available in (i) printed form free of charge at the offices of the market on which securities are admitted to trading; OR (ii) at the registered office of the Issuer and at the offices of the Paying Agents; OR (iii) available in electronic form on the Issuer’s website. Article 16 of the Prospectus Directive requires that the same arrangements are applied to supplemental Prospectuses.

4	Specified Currency:	[●]
5	Aggregate Nominal Amount of Notes admitted to Trading:	[●]
6	Issue Price:	[●] per cent. of the aggregate principal amount of the Notes [plus accrued interest from [insert date] (if applicable)]
7	(i) Specified Denominations:	[●] ⁶
	(ii) Calculation Amount:	[●]
8	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[●]
9	Maturity Date:	<i>[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]</i>
10	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)]
11	Redemption/Payment Basis:	Redemption at par
12	Change of Interest or Redemption/Payment Basis:	<i>[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]</i>
13	(i) Status of the Notes:	Senior
	(ii) Status of the Loan:	[Senior/Subordinated]
	[(iii) Date [Board] approval for issuance of Notes obtained	[●] [and [●] respectively]] <i>[N.B. Only relevant where Board (or similar) authorisation is required for the particular Series of Notes]</i>
14	Method of distribution:	[Syndicated/Non-syndicated]
15	Financial Centres (Condition 7):	[●]

PROVISIONS RELATING TO INTEREST PAYABLE UNDER THE NOTES

16	Fixed Rate Note Provisions:	<i>[Applicable/Not Applicable](if not applicable, delete the remaining sub-paragraphs of this paragraph)</i>
	(i) Rate [(s)] of Interest:	[[●] per cent. per annum payable [annually/semi-annually] in arrear (in the case of a 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
	(iii) Fixed Coupon Amount [(s)]:	[●] per Calculation Amount
	(iv) Broken Amount:	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(v) Day Count Fraction (Condition 5):	[●] [30/360/ Actual/Actual(ICMA/ISDA)/other]

⁶ Notes (including Notes denominated in Sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

	(vi) Determination Date(s) (Condition 5):	[●] in each year <i>[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]</i> ⁷
	(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] <i>[If not applicable, delete the remaining sub-paragraphs of this paragraph]</i>
	(i) Interest Period(s):	[●]
	(ii) Specified Interest Payment Dates:	[●]
	(iii) Business Day Convention:	[Floating Rate Business Day Convention/ Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention/ other (give details)]
	(iv) Business Centre(s):	[●]
	(v) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ ISDA Determination/ other (give details)]
	(vi) Interest Period Date(s):	[Not Applicable/specify dates]
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation Agent):	[●]
	(viii) Screen Rate Determination:	As set out in the attached Loan Supplement
	(ix) ISDA Determination:	As set out in the attached Loan Supplement
	(x) Margin(s):	[[+/-] [●] per cent. per annum <i>(in the case of a Senior Series)</i>] [DETAILS OF INITIAL MARGIN TO BE SPECIFIED] <i>(in the case of a Subordinated Series)</i>
	(xi) Minimum Rate of Interest:	[●] per cent. per annum
	(xii) Maximum Rate of Interest:	[●] per cent. per annum
	(xiii) Day Count Fraction (Condition 5):	[●]
	(xiv) Rate Multiplier:	[●]
	(xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate 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 Calculation Amount
19	Early Redemption Amount(s) of each Note payable if the Loan should become repayable under the Loan Agreement prior to the Maturity Date:	[●] per Calculation Amount
GENERAL PROVISIONS APPLICABLE TO THE NOTES		
20	Put Option:	[Applicable]/[Not Applicable] <i>[if not applicable, delete the remaining sub-paragraph of this paragraph]</i>
	(i) Put Settlement Dates	[●]
21	Form of the Notes:	Registered Notes

⁷ Only to be completed for an issue where Day Count Fraction is Actual/Actual-ICMA.

- 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)

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 name]
- 25 Additional selling restrictions: [Not Applicable/give details]

GENERAL

- 26 Additional steps that may only be taken following approval by an Extraordinary Resolution in accordance with Condition 10: [Not Applicable/give details]
- 27 The aggregate principal amount of Notes issued has been translated into U.S. dollars at the rate of [●], producing a sum of (for Notes not denominated in U.S. dollars): [Not Applicable/U.S.\$[●]]

[LISTING AND ADMISSION TO TRADING APPLICATION]

These Final Terms comprise the final terms required to list and have admitted to trading the issue of Notes described herein pursuant to the U.S.\$[●] Programme for the Issuance of Loan Participation Notes of the Issuer for the purpose of financing loans to the Borrower.]

RESPONSIBILITY

The Issuer and the Borrower accept responsibility for the information contained in these Final Terms. [[●] has been extracted from [●]. Each of the Issuer and the Borrower 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 the Issuer:

By: _____

Duly authorised

By: _____

Duly authorised

Signed on behalf of the Borrower:

By: _____

Duly authorised

By: _____

Duly authorised

PART B — OTHER INFORMATION

1 LISTING

- (i) Listing: [London/other (*specify*)/None]
- (ii) Admission to trading: [Application has been made for the Notes to be admitted to trading on [●] with effect from [●].]
[Not Applicable]
- (iii) Estimate of total expenses related to admission to trading: [●]

2 RATINGS

- Ratings: The Notes to be issued have been rated:
[Moody's: [●]]
[[Other]: [●]]
(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)
[[Insert credit rating agency] is established in the European Union and is registered under Regulation (EU) No 1060/2009 (the “CRA Regulation”).]
[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the “CRA Regulation”).]
[[Insert credit rating agency] is established in the European Union and has applied for registration under Regulation (EU) No 1060/2009 (the “CRA Regulation”), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]
[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the “CRA Regulation”) but the rating issued by it is endorsed by [insert endorsing credit rating agency] which is established in the European Union and [is registered under the CRA Regulation] [has applied for registration under the CRA Regulation, although notification of the corresponding registration decision has not yet been provided by the relevant competent authority].]
[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009 (the “CRA Regulation”) but is certified in accordance with the CRA Regulation.]
In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before June 7, 2010 which has submitted an application for

registration in accordance with the CRA Regulation and such registration is not refused.

3 [NOTIFICATION]

The [include name of competent authority in EEA home Member State] [has been requested to provide/has provided — include first alternative for an issue which is contemporaneous with the establishment or update of the Programme and the second alternative for subsequent issues] the [include names of competent authorities of host Member States] with a certificate of approval attesting that the Prospectus has been drawn up in accordance with the Prospectus Directive.]

4 [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

If applicable, 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 is to be included. This may be satisfied by the inclusion of the following statement:

“Save as discussed in “Subscription and Sale,” so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”⁸

5 [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:

[•]

(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 Prospective Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above)

6 [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)]

7 OPERATIONAL INFORMATION

ISIN Code:

[•]

Common Code:

[•]

⁸ If there are material interests, but they are not discussed in “Subscription and Sale,” insert the section name where they are discussed instead. If there are no material interests, delete the whole of paragraph 4.

[CUSIP Code

[•]]

Any clearing system(s) other than Euroclear Bank SA/NV
[,] [and] Clearstream Banking société anonyme [and DTC]
and the relevant identification number(s):

[Not Applicable/*give name(s) and number(s) [and
addresses]*]

Delivery:

Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if
any):

[•]

* [THE FINAL FORM OF EITHER THE LOAN SUPPLEMENT (IN THE CASE OF A SENIOR SERIES)
OR THE SUBORDINATED LOAN AGREEMENT, INCLUDING THE CORRESPONDING
SUBORDINATED LOAN SUPPLEMENT (IN THE CASE OF A SUBORDINATED SERIES) WILL BE
ATTACHED]

GENERAL INFORMATION

- (1) 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.
- (2) The listing of the Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Series of the Notes which is to be admitted to the Official List and to trading on the Market will be admitted separately as and when issued, subject only to the issue of a temporary or permanent Global Note in respect of each Series. The listing of the Programme in respect of the Notes is expected to be granted on or before 20 April 2011. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions on the Market will normally be effected for delivery on the third working day after the day of the transaction. However, unlisted Notes may be issued pursuant to the Programme.
- (3) For so long as the Programme is in existence, copies (and English translations where the documents in question are not in English) of the following documents may be obtained free of charge in physical form at the specified offices of the Trustee and the Paying Agent in London during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):
 - the latest audited consolidated financial statements of PSB;
 - the latest unaudited interim condensed consolidated financial statements of PSB; and
 - the latest audited financial statements of the Issuer.

and copies of the following documents will be available for inspection in physical form at the specified offices of the Trustee and the Paying Agent in London during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted):

- the charter of PSB and the Articles of Incorporation of the Issuer;
- the Principal Trust Deed in respect of the Notes (including the forms of the Global Notes and definitive Notes);
- the Agency Agreement;
- the Facility Agreement (in relation to any Senior Series) and any executed Subordinated Loan Agreement (in relation to any Subordinated Series);
- each Final Terms for Notes which are listed on the London 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, PSB 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 Base Prospectus.

PSB does not prepare financial statements in accordance with U.S. GAAP.

- (4) Since 31 December 2010, there has been no significant change in the financial or trading position of PSB or of the Group.
- (5) Since 31 December 2010, there has been no material adverse change in the prospects of PSB.
- (6) Since the date of the incorporation of the Issuer on 3 August 2006, there has been no material adverse change in the financial position and prospects of the Issuer except for its issues on 23 August 2006 of U.S.\$45,000,000 loan participation notes (which were redeemed on 20 October 2006); on 20 October 2006 of U.S.\$125,000,000

loan participation notes and U.S.\$200,000,000 loan participation notes; on 20 March 2007 of U.S.\$100,000,000 loan participation notes; on 20 July 2007 of U.S.\$100,000,000 loan participation notes, the proceeds of each of which were lent to PSB; in January 2008 of U.S.\$100,000,000 loan participation notes in respect of a remarketing of the notes issued 20 July 2007; in June 2008, of €15,000,000 senior loan participation notes under the Programme described herein; in July 2008, of U.S.\$150,000,000 senior loan participation notes under the Programme described herein; in November 2009, of U.S.\$200,000,000 loan participation notes under the Programme described herein; and in July 2010, of U.S.\$200,000,000 senior loan participation notes under the Programme described herein each as described under “The Issuer — Financial Statements and Operations” on page 138 of this Base Prospectus; and the Issuer has no subsidiaries.

- (7) No consents, approvals, authorisations or orders of any regulatory authorities are required by PSB under the laws of the Russian Federation for PSB to enter into and perform its obligations under any Loan Agreement.
- (8) No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of Luxembourg for the issue and performance of the corresponding Series of Notes.
- (9) Since the date of the incorporation of the Issuer, the Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had in the recent past, significant effects on the Issuer’s financial position or profitability.
- (10) Neither PSB nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which PSB is aware), during the 12 months preceding the date of this Base Prospectus which may have, or have had in the recent past, significant effects on PSB and/or the Group’s financial position or profitability.
- (11) The Trust Deed provides, amongst other things, that the Trustee may act or rely upon the opinion or advice of, or upon a certificate or other information from, any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding the fact that such opinion, advice, certificate or other information contains a monetary or other limit on the liability of any such persons in respect thereof.
- (12) The EU Transparency Obligations Directive was published in the Official Journal of the European Communities on 31 December 2004, and was due to be incorporated into the national laws of the EU member states by 20 January 2007. The Directive was implemented in the United Kingdom. If, in the Issuer’s view, it was implemented in a manner that is unduly burdensome for it and/or the Borrower, it may, subject to the provisions of the Trust Deed, seek a listing for the Notes on an alternative stock exchange.
- (13) To the extent applicable, each of PSB and the Issuer must comply with the U.K. Listing Authority’s continuing obligations rules in respect of securities admitted to the Official List. Neither PSB nor the Issuer intends otherwise to provide post-issuance transaction information regarding any Series of Notes or Loan or the performance of PSB.

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PROMSVYAZBANK

Consolidated financial statements
for the year ended
31 December 2010

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Independent Auditor's Report

To the Shareholders and Board of Directors of OAO "Promsvyazbank":

- 1 We have audited the accompanying consolidated financial statements of OAO "Promsvyazbank" and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of income, 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 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 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

15 March 2011
Moscow, Russian Federation

Promsvyazbank
Consolidated Statement of Financial Position as at 31 December 2010
(expressed in thousands of Russian Roubles – refer to note 2)

	Notes	2010	2009
ASSETS			
Cash and cash equivalents	4	45 182 249	108 322 648
Obligatory reserves with central banks	5	3 015 876	3 149 729
Placements with banks and other financial institutions	6	12 122 032	5 075 800
Financial assets at fair value through profit or loss	7	46 004 572	41 751 838
Amounts receivable under reverse repurchase agreements	8	15 949 846	10 080 301
Loans to customers	9	310 947 643	266 421 579
Investments available for sale	10	2 203 213	35 083
Investments held to maturity	11	3 966 911	7 204 938
Assets held for sale	12	5 944 765	2 600 001
Other assets	13	2 513 778	2 100 315
Current income tax prepayments		612 254	660 877
Deferred tax asset	22	1 065 008	600 326
Property and equipment	14	25 598 772	23 207 942
TOTAL ASSETS		475 126 919	471 211 377
LIABILITIES			
Financial liabilities at fair value through profit or loss	15	1 593 384	1 252 225
Deposits and balances from banks and other financial institutions	16	59 677 877	64 780 390
Amounts payable under repurchase agreements	17	2 790 016	60 697
Current accounts and deposits from customers	18	297 046 845	289 548 839
Own securities issued	19	32 127 497	43 654 712
Other borrowed funds	20	12 802 195	13 819 410
Other liabilities	21	2 439 590	1 800 988
Current income tax payable		948	27 341
Deferred tax liability	22	55 645	313 033
Subordinated borrowings	23	21 817 689	17 748 361
TOTAL LIABILITIES		430 351 686	433 005 996
EQUITY			
Share capital	24	11 511 052	10 062 544
Share premium		17 303 093	13 319 695
Additional paid-in-capital		81 919	1 056 102
Revaluation reserve for property		2 717 232	2 353 907
Revaluation reserve for investments available for sale		(80 230)	160
Retained earnings		13 242 167	11 147 632
Total equity attributable to owners of the parent		44 775 233	37 940 040
Non-controlling interest		-	265 341
TOTAL EQUITY		44 775 233	38 205 381
TOTAL LIABILITIES AND EQUITY		475 126 919	471 211 377

Approved by the Management Board on 15 March 2011.

 Konstandian A. G.
President


 Volchenko A. U.
First Vice-president

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Promsvyazbank
Consolidated Income Statement for the year ended 31 December 2010
(expressed in thousands of Russian Roubles – refer to note 2)

	Notes	2010	2009
Interest income		46 321 190	54 599 926
Interest expense		(25 712 013)	(28 870 960)
Net interest income	25	20 609 177	25 728 966
Fee and commission income	26	7 559 980	7 012 078
Fee and commission expense	27	(1 522 700)	(1 406 846)
Net fee and commission income		6 037 280	5 605 232
Net (loss)/gain on financial instruments at fair value through profit or loss and (loss)/gain on early redemption of senior loan participation notes	28	(350 153)	1 114 182
Net foreign exchange gain		614 460	375 892
Other income and expense	29	1 309 893	1 006 066
Operating income		28 220 657	33 830 338
Loan impairment charge	9	(10 335 714)	(20 841 815)
Other impairment charge	30	(82 578)	(93 531)
Net loss on revaluation of property	14	(68 021)	(457 918)
General and administrative expenses	31	(14 854 862)	(13 062 679)
		(25 341 175)	(34 455 943)
Profit/(loss) before tax		2 879 482	(625 605)
Income tax expense	32	(402 333)	(248)
Profit/(loss) after tax		2 477 149	(625 853)
Profit/(loss) attributable to:			
Owners of the parent		2 477 149	(625 853)

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The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Promsvyazbank**Consolidated Statement of Comprehensive Income for the year ended 31 December 2010***(expressed in thousands of Russian Roubles – refer to note 2)*

	Notes	2010	2009
Profit/(loss) after tax		2 477 149	(625 853)
Other comprehensive income			
Revaluation of property	14	454 156	(1 025 030)
Income tax related to revaluation of property		(90 831)	205 006
Revaluation of investments available for sale		(100 488)	83 503
Income tax related to revaluation of investments available for sale		20 098	(16 702)
Other comprehensive income/(loss), net of tax		282 935	(753 223)
Total comprehensive income/(loss)		2 760 084	(1 379 076)
Total comprehensive income/(loss) attributable to:			
Owners of the parent		2 760 084	(1 386 139)
Non-controlling interest		-	7 063

Promsvyazbank
Consolidated Statement of Cash Flows for the year ended 31 December 2010
(expressed in thousands of Russian Roubles – refer to note 2)

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		44 144 863	44 473 551
Fees and commission received		7 706 584	6 913 901
Interest paid		(25 630 390)	(29 201 950)
Fee and commission paid		(1 462 494)	(1 479 007)
Net (payments)/ receipts from financial instruments at fair value through profit or loss		(698 628)	386 230
Net payments from foreign exchange transactions		(978 519)	(246 298)
Other income received		1 158 445	1 008 358
General and administrative expenses paid		(13 229 753)	(12 636 205)
		11 010 108	9 218 580
Decrease/(Increase) in operating assets			
Obligatory reserves with central banks		133 837	(2 157 588)
Placements with banks and other financial institutions		(8 118 293)	(2 688 024)
Financial assets at fair value through profit or loss		(4 118 300)	(27 635 262)
Amounts receivable under reverse repurchase agreements		(5 869 384)	(5 504 956)
Loans to customers		(54 644 128)	31 858 934
Other assets		(608 466)	(147 960)
Increase/(decrease) in operating liabilities			
Financial liabilities at fair value through profit or loss		1 144 126	358 461
Deposits and balances from banks and other financial institutions		(2 277 723)	(50 920 850)
Amounts payable under repurchase agreements		2 728 643	(792 440)
Current accounts and deposits from customers		9 566 249	57 040 884
Promissory notes and certificates of deposit		(1 006)	8 617 354
Other liabilities		23 162	(58 136)
		(51 031 175)	17 188 997
Net cash (used in)/from operating activities before income tax		(51 031 175)	17 188 997
Income tax paid		(1 172 907)	(261 880)
		(52 204 082)	16 927 117
Cash flows/(used in) from operations			
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of NCI and subsidiaries, net of cash acquired	44	(1 548 666)	(624 038)
Disposal of investments available for sale		63 635	239 086
Purchases of investments available for sale		(2 329 214)	(31 845)
Purchases of investments held to maturity		(1 491 850)	(1 490 779)
Redemption of investments held to maturity		4 785 931	2 951 181
Purchases of property and equipment		(3 308 867)	(4 349 348)
Disposals of property and equipment		238 639	57 974
Purchases of assets held for sale		(3 344 764)	(2 600 001)
		(6 935 156)	(5 847 770)
Cash flows used in investing activities			
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior loan participation notes and domestic bonds		7 366 076	10 494 962
Repayment of senior loan participation notes and domestic bonds		(18 214 245)	(15 179 518)
Repayment of other borrowed funds		(10 437 489)	(15 514 855)
Proceeds from other borrowed funds		9 669 025	3 592 575
Repayment of subordinated borrowings		(2 379 696)	(1 217 756)
Proceeds from subordinated borrowings		6 048 840	5 775 020
Proceeds from issuance of share capital		5 431 906	-
		(2 515 583)	(12 049 572)
Cash flows used in financing activities			
Net decrease in cash and cash equivalents		(61 654 821)	(970 225)
Effect of changes in exchange rates on cash and cash equivalents		(1 485 578)	3 569 663
Cash and cash equivalents at the beginning of the year	4	108 322 648	105 723 210
Cash and cash equivalents at the end of the year	4	45 182 249	108 322 648

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Promsvyazbank
Consolidated Statement of Changes in Equity for the year ended 31 December 2010
(expressed in thousands of Russian Roubles – refer to note 2)

	Attributable to owners of the parent								
	Share capital	Share premium	Additional paid-in- capital	Revaluation reserve for property	Revaluation reserve for investments available for sale	Retained earnings	Total	Non- controlling interest	Total equity
Balance at 1 January 2009	10 062 544	13 319 695	1 167 515	3 192 346	(66 641)	11 773 411	39 448 870	525 714	39 974 584
Total comprehensive loss/(income)	-	-	-	(827 087)	66 801	(625 853)	(1 386 139)	7 063	(1 379 076)
Acquisition of subsidiary (note 44)	-	-	-	-	-	(8 253)	(8 253)	-	(8 253)
Purchase of non-controlling interest of subsidiaries	-	-	-	-	-	-	-	(390 792)	(390 792)
Sale of non-controlling interest of subsidiary	-	-	(111 413)	(11 352)	-	8 327	(114 438)	123 356	8 918
Balance at 1 January 2010	10 062 544	13 319 695	1 056 102	2 353 907	160	11 147 632	37 940 040	265 341	38 205 381
Total comprehensive income/(loss)	-	-	-	363 325	(80 390)	2 477 149	2 760 084	-	2 760 084
Share issue	1 448 508	3 983 398	-	-	-	-	5 431 906	-	5 431 906
Purchase of non-controlling interest of subsidiary	-	-	(974 183)	-	-	(382 614)	(1 356 797)	(265 341)	(1 622 138)
Balance at 31 December 2010	11 511 052	17 303 093	81 919	2 717 232	(80 230)	13 242 167	44 775 233	-	44 775 233

1 Background

Principal activities

Promsvyazbank Group (the “Group” or “Promsvyazbank”) consists of various legal entities formed under the laws of the Russian Federation (the “RF”) and other countries (Refer to note 2 for the list of subsidiaries). OAO Promsvyazbank (the “Bank”), which is the parent company of the Group, was initially established in the Russian Federation as a limited liability company converting subsequently to a closed joint-stock company in July 2001 and finally to an open joint-stock company in September 2007. The Bank was granted a banking license for operations in roubles on 12 May 1995. The Bank’s operations were expanded to include transactions with all types of foreign currencies and transactions with individuals in foreign currencies on 30 December 1996 and 31 December 1997, respectively.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”). The Bank holds a full (general) banking license from the CBR and is also authorised by the CBR to trade in precious metals. In October 2004, the CBR accepted the Bank into the state deposit insurance system. In addition, the Group holds licenses from the Federal Service for Financial Markets (the “FSFM”) to act as a broker, dealer, custodian and a securities manager in the Russian securities market. The Group also holds a license from the FSFM as a commodities exchange broker to trade futures and options.

The Group’s principal activities are currently in commercial banking. These activities consist of corporate, small and medium entities (“SME”) and retail banking. Corporate banking includes deposit taking and lending to corporate borrowers, factoring, settlements, cash operations, documentary transactions. Corporate banking services also include trade and project finance. SME banking includes deposit taking and lending to small and medium entities, settlements and cash operations. Retail banking includes deposit taking and retail lending, money transfer and banking card services, foreign exchange and cash operations with individuals, asset management.

The Group also offers investment banking services, including corporate finance, debt and equity capital markets, brokerage, repo transactions and securities trading, foreign exchange, precious metals and banknote operations.

The table below summarises information about the branch network.

	2010	2009
Branches	47	49
Full-service sub-branches	130	114
Retail and SME sub-branches	72	72
Representative offices	4	4
Total number of offices	253	239

As at 31 December 2010 the Bank operated 46 branches (2009: 48 branches) located within the Russian Federation and a branch located in Limassol (Cyprus). As at 31 December 2010 representative offices are located in the Russian Federation, China, India and Ukraine.

The Bank’s head office is registered at the following address: 109052, Smirnovskaya 10, Moscow, Russian Federation.

Alexander Levkovskiy resigned his position of President and Chairman of the Management Board of the Group on 3 September 2010. Artem Konstandian, First Vice-president of the Group was appointed as President and Chairman of the Management Board of the Group. Appointment was approved by the Board of Directors and CBR.

Shareholders as at 31 December 2010 and 2009

	2010	2009
<i>Promsvyaz Capital B. V.*</i>	72.93%	84.68%
<i>Commerzbank Auslandsbanken Holding AG</i>	15.32%	15.32%
<i>European Bank for Reconstruction and Development</i>	11.75%	-
	100.00%	100.00%

* - Promsvyaz Capital B. V. (Netherlands) is owned by Peters International N. V. (Netherlands). Mr D. N. Ananyev and Mr A. N. Ananyev each beneficially own 50% of Peters International N.V.

These consolidated financial statements were authorized for issue on 15 March 2011 by the Management Board. The entity's management have the power to amend the financial statements after issue.

Russian business environment

The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The 2008 global financial crisis followed by a considerable decline of global commodity prices has had a severe effect on the Russian economy, but the timely adoption of sufficient stimulus package by the Government helped the economy to return back to growth already in 2009. The steps taken by the Russian Government were aimed at stimulation of internal demand in the economy and helping the systemically important industries to overcome the consequences of the global economic crisis, whilst keeping the currently moderate budget deficit under control. The national reserve fund that's been formed by the excessive oil revenues during the buoyant times and is being replenished now, helps the Russian economy to overcome the difficulties during the crisis times. Albeit Russia remains dependent upon global commodity prices, considerable efforts are being taken by the government to diversify and modernize the economy.

The banking system is still experiencing the effects of the crisis and has not fully recovered. 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. The amount of provision for impaired loans is based on management's appraisals of these assets at the end of the reporting period after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Some 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. However, improved international raw material prices in 2010 as well as increased demand and purchasing power, and business recovery led to increased sales and consequently increased revenues of the borrowers from certain sectors of the economy.

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 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.

2 Basis of preparation

Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available for sale investments for which fair value can be reliably measured are stated at fair value, and buildings are revalued periodically.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). The functional currency for each group company is determined as the currency of the primary economic environment in which the company operates. Management determined the RUB as the functional currency for the Bank, group companies domiciled in the Russian Federation and group companies domiciled outside of the Russian Federation, because it reflects the economic substance of the underlying events and circumstances. The RUB is also the presentation currency for the purpose of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Consolidated companies

The consolidated financial statements include the following principal subsidiaries of the Bank:

Name	Country of Incorporation	Main Activity	Consolidated as at 31 December 2010, %	Consolidated as at 31 December 2009, %
PSB Finance S.A.	Luxembourg	Financial Activity	100%	100%
OOO “UK Promsvyaz”	Russian Federation	Financial Activity	100%	100%
OOO “Open Leasing Company”	Russian Federation	Leasing	100%	100%
OOO “Promsvyazfactoring”	Russian Federation	Factoring	100%	100%
OOO “Saint-Petersburg International Banking Conference”	Russian Federation	Services	100%	-
Promsvyaz Finance PLC	Ireland	Financial Activity	-	100%
OAD “Volgoprombank”	Russian Federation	Banking Activity	-	100%
OAD “Nizhny Novgorod Bank”	Russian Federation	Banking Activity	-	100%
OAD “Yarsotsbank”	Russian Federation	Banking Activity	-	61.9%

Promsvyaz Finance PLC and *PSB Finance S.A.* are special purpose entities established to facilitate issues of debt securities (refer to notes 19 and 23). The entities are not owned by the Group and the control arises through the predetermination of the entities’ activities.

OOO “UK Promsvyaz”

The principal activity of OOO “UK Promsvyaz” is asset management. The Group directly controls 100% of this entity.

OOO “*Open Leasing Company*” was established by the Group in July 2007. The Group controls 100% of OOO “Open Leasing Company”.

OOO “Promsvyazfactoring”

In December 2009 the Group acquired control over OOO “Promsvyazfactoring” (OOO “PSF”) through an option agreement dated 31 December 2009 with its owner which is a related party of the Group’s shareholders. Under the terms of this agreement the Group has the unconditional right to buy 100% of the share capital in OOO “PSF” for cash of RUB 5 500 thousand for a period of 5 years starting from the date of the option agreement (refer to note 44).

OOO “*Saint-Petersburg International Banking Conference*” was established by the Group in December 2010. The Group controls 100% of OOO “Saint-Petersburg International Banking Conference”.

OAD “Yarsotsbank”

At the end of December 2008 the Group purchased 51.3% of the share capital of OAD “Yarsotsbank” from third parties. The acquisition was made to assist in the stabilization of the banking sector in Russia and to expand the Group’s regional network. During the year ended 31 December 2009 the Group purchased an additional 10.6% of the share capital of OAD “Yarsotsbank” from third parties. During the year ended 31 December 2010 the Group purchased from the third parties 38.1% of the share capital of OAD “Yarsotsbank”. In November 2010 the Group was reorganized and OAD “Yarsotsbank” was merged with OAD “Promsvyazbank”.

ОАО “Volgoprombank”

The Group obtained control over ОАО “Volgoprombank” on 23 June 2008 through the signing a call option with Promsvyaz Capital B.V. (parent company of the Bank). This call option gave the Bank the right to acquire 95.5% of the share in ОАО “Volgoprombank” from 23 June 2008 for a year. Also, from this date more than half of the members of the Board of Directors of ОАО “Volgoprombank” were nominated by the Bank. In April 2009 Promsvyaz Capital B.V. sold 9.8% of ОАО “Volgoprombank” shares to third parties. The conditions of the option agreement were amended accordingly and furthermore the option period prolonged until the end of 2010. In September 2009 the Group acquired from third parties 14.3% of the share capital in ОАО “Volgoprombank” in addition to the 85.7% share held under the option agreement. On 11 February 2010 the Group exercised the option and in May 2010 the Group was reorganized and ОАО “Volgoprombank” was merged with ОАО “Promsvyazbank”.

ОАО “Nizhny Novgorod Bank”

At the end of December 2008 the Group purchased 85.1% of the share capital of ОАО “Nizhny Novgorod Bank” from third parties. The acquisition was made to assist in the stabilization of the banking sector in Russia and to expand the Group’s regional network. In June 2009 the Group purchased an additional 14.1% of the share capital of ОАО “Nizhny Novgorod Bank” and in August 2009 the Group purchased the remaining 0.8% share. In May 2010 the Group was reorganized and ОАО “Nizhny Novgorod Bank” was merged with ОАО “Promsvyazbank”.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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

- Loan impairment estimates and accrual on recoverable amount - note 9;
- Building revaluation estimates - note 14;
- Deferred tax assets – note 22.

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely than the deferred tax asset will be fully realized.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied. Changes in accounting policies are described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities

The Group has established a number of special purpose entities (“SPE”) to facilitate the Group’s issue of debt securities. The Group does not have any direct or indirect shareholdings in these entities and control arises through the predetermination of the entities’ activities.

Acquisitions and disposals of subsidiaries

The purchase method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. 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 acquire 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 equity 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 owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of profit or loss on the date of disposal.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are recorded directly in equity attributable to the owners of the parent.

These consolidated financial statements were prepared using the predecessor accounting method in case the transaction is executed with related party. Under this method, the comparative balances of the Group as at 31 December 2010 and 2009 were prepared by adding assets and liabilities of consolidated companies (refer to note 2) to the assets and liabilities of the Bank and eliminating the intercompany balances. Comparatives in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement on cash flows of the Group were prepared based on balances reported by the Bank in its financial statements as at 31 December 2010 and 2009 prepared in accordance with IFRS, by adding amounts reported in the income statement, statement of comprehensive income, after elimination of intercompany balances. Any difference between the carrying amount of net assets and the consideration for acquisition is accounted for in these consolidated financial statements as an adjustment to retained earnings within equity. The consolidation of consolidated companies basically affected the amount of the premises and equipment recorded on the consolidated statement of the financial position.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. 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 operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained. Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Non-controlling interest

Non-controlling interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent company.

Non-controlling interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to owners of the parent company. Non-controlling interest in the profit or loss is separately disclosed in the consolidated income statement.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation of monetary assets and liabilities are recognised in profit or loss.

	31 December 2010	31 December 2009
RUB / 1 USD	30.4769	30.2442
RUB / 1 EUR	40.3331	43.3883

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group considers cash and nostro accounts with the CBR, as well as nostro accounts and placements with banks and other financial institutions with an original maturity less than one month to be cash and cash equivalents. The minimum reserve deposits with central banks are not considered to be a cash equivalent due to restrictions on their withdrawability.

Financial instruments

Classification

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

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

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

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

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

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

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available for sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

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

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

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

The Group analyzes financial instruments by designation of rating agency. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating. The following table presents rating classification based on international long-term credit ratings:

Classification	Standard & Poor's	Moody's	Fitch
Rated AAA	AAA	Aaa1	AAA
Rated from AA- to AA+	AA+	Aa1	AA+
Rated from AA- to AA+	AA	Aa2	AA
Rated from AA- to AA+	AA-	Aa3	AA-
Rated A- to A+	A+	A1	A+
Rated A- to A+	A	A2	A
Rated A- to A+	A-	A3	A-
Rated from BBB- to BBB+	BBB+	Baa1	BBB+
Rated from BBB- to BBB+	BBB	Baa2	BBB
Rated from BBB- to BBB+	BBB-	Baa3	BBB-
Rated from BB- to BB+	BB+	Ba1	BB+
Rated from BB- to BB+	BB	Ba2	BB
Rated from BB- to BB+	BB-	Ba3	BB-
Rated from B- to B+	B+	B1	B+
Rated from B- to B+	B	B2	B
Rated from B- to B+	B-	B3	B-
Rated below B-	CCC+	Caa1	CCC+
Rated below B-	CCC	Caa2	CCC
Rated below B-	CCC-	Caa3	CCC-
Rated below B-	CC	Ca	CC
Rated below B-	C	C	C
Rated below B-	SD	-	SD
Rated below B-	D	-	D

Recognition

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

Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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

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

Gains and losses on subsequent measurement

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

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

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

Derecognition

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

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

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

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

Spot and derivative financial instruments

Derivative financial instruments include swaps, forward transactions in foreign exchange and precious metals.

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

Changes in the fair value of spot and derivative financial instruments are recognised immediately in profit or loss.

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

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings and land which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings and land are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings and land being revalued. A revaluation increase on a building and land is recognised directly in consolidated statement of comprehensive income except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of buildings and land is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in consolidated statement of comprehensive income, in which case it is recognised directly in consolidated statement of comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Fixtures and fittings	7 years
Office equipment	6 years
Vehicles	5 years
Leasehold improvements	5 years
Computers	4 years
Other	5 years

Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, other receivables, unquoted promissory notes, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements and investments held to maturity ("loans and receivables"). The Group reviews its financial assets carried at amortised cost to assess impairment on a regular basis. Financial assets carried at amortised cost are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of financial assets carried at amortised cost and that event (or events) has had an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

In 2010 the Group stopped accruing of the interest income on loans overdue for more than 365 days due to the low probability of those loans recoverability. In 2009 the Group accrued interest income on loans overdue for more than 365 days. The Group continues accruing interest income on loans overdue for more than 180 days but less than 365 days as the Group believes that the recoverability of such loans is probable.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

Share capital

Share premium

Share premium represents the excess of consideration received for an issue of the Bank's shares over the nominal value of shares issued.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income 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 expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Amendments to standards adopted before their effective date

- (a) The Group adopted the amendment to IFRS 7, Financial instruments: Disclosures, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies 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. Refer to note 9.

New standards and interpretations effective for annual periods on or after 1 January 2010

The following new standards and interpretations became effective for the Group from 1 January 2010:

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 Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010.

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.

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 recognised 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 for the year 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.

The following new standards and interpretations became effective for annual periods beginning on or after 1 January 2010 which did not have any impact on the financial statements of the Group:

- **IFRIC 17, Distributions of Non-Cash Assets to Owners** (effective for annual periods beginning on or after 1 July 2009),
- **IFRIC 18, Transfers of Assets from Customers** (effective for annual periods beginning on or after 1 July 2009).
- **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).
- **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).
- **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).
- **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).

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 and which the Group has not early adopted.

Classification of Rights Issues - Amendment to IAS 32 (issued on 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.

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 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 profit or loss 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 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. 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 amendments to have any effect on its consolidated financial statements.

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 does not expect the amendments to 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 recognise 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 amendment is not expected to have material impact on the Group's consolidated financial statements.

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 (this amendment was early adopted by the Group); 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 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.

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 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 does not expect the amendments to 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.

4 Cash and cash equivalents

	2010	2009
Cash	12 653 525	9 735 375
Due from the Central Bank of the RF – nostro accounts	12 009 806	27 121 926
Deposits with the Central Bank of the RF	900 074	10 000 000
Placements with banks and other financial institutions with an original maturity less than one month:		
Rated AAA	-	1 814 663
Rated from AA- to AA+	705 151	19 565 699
Rated A- to A+	10 804 942	34 165 625
Rated BBB	2 720 412	1 670 158
Rated from BB- to BB+	154 955	-
Rated from B- to B+	1 354 964	114 072
Not rated	3 878 420	4 135 130
Total cash and cash equivalents	45 182 249	108 322 648

Maturity, currency and interest rate analyses of cash and cash equivalents are disclosed in notes 34 and 42. Fair value of cash and cash equivalents is disclosed in note 41.

As at 31 December 2010 and 2009 cash equivalents are neither past due nor impaired.

5 Obligatory reserves with central banks

	2010	2009
Minimum reserve deposit with the Central Bank of the RF	2 567 026	2 671 991
Minimum reserve deposit with the Central Bank of Cyprus	448 850	477 738
Total obligatory reserves with central banks	3 015 876	3 149 729

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit.

Maturity, currency and interest rate analyses of obligatory reserves with central banks are disclosed in notes 34 and 42. Fair value of obligatory reserves with central banks is disclosed in note 41.

6 Placements with banks and other financial institutions

	2010	2009
Rated BBB	9 340	1 524
Rated from B- to B+	12 001 028	5 059 987
Not rated	111 664	14 289
Total placements with banks and other financial institutions	12 122 032	5 075 800

Maturity, currency and interest rate analyses of placements with banks are disclosed in notes 34 and 42. Fair value of placements with banks and other financial institutions is disclosed in note 41.

Concentration of placements with banks and other financial institutions

As at 31 December 2010 and 2009, placements with banks, which individually comprised more than 10% of total placements with banks, are as follows:

	2010	2009
Bank 1	4 436 641	-
Bank 2	3 186 062	4 782 787
Bank 3	2 730 818	-
Bank 4	1 580 153	-
	11 933 674	4 782 787

As at 31 December 2010 and 2009 placements with banks and other financial institutions are neither past due nor impaired.

7 Financial assets at fair value through profit or loss

The following tables present an analysis by rating agency designation of securities. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating:

	Rated from BBB- to BBB+	Rated from BB- to BB+	Rated from B- to B+	Not rated	Total at 31 December 2010
Unpledged					
<i>Financial assets held for trading</i>					
<i>Debt and other fixed-income instruments</i>					
Corporate bonds	3 180 526	2 913 825	2 567 893	3 051 595	11 713 839
Russian Government Federal bonds (OFZ)	10 812 845	-	-	-	10 812 845
Corporate Eurobonds	4 359 359	1 623 791	899 987	-	6 883 137
Central Bank of the Russian Federation bonds (OBR)	4 717 356	-	-	-	4 717 356
Promissory notes	2 303 991	439 379	1 752 785	89 644	4 585 799
Russian municipal and regional bonds	1 661 500	187 885	407 321	-	2 256 706
Russian municipal and regional Eurobonds	1 363 588	-	-	-	1 363 588
<i>Equity investments</i>					
Corporate shares	-	-	-	9	9
<i>Spot and derivative financial instruments</i>					
Foreign currency and precious metals contracts	-	-	-	122 258	122 258
<i>Designated at fair value through profit or loss</i>					
Corporate shares - listed	-	-	-	262 887	262 887
Total unpledged financial assets at fair value through profit or loss	28 399 165	5 164 880	5 627 986	3 526 393	42 718 424
Pledged under sale and repurchase agreements					
<i>Financial assets held for trading</i>					
Corporate bonds - listed	1 499 349	-	21	-	1 499 370
Corporate Eurobonds	1 410 237	-	-	-	1 410 237
Russian municipal and regional bonds	376 541	-	-	-	376 541
Total financial assets at fair value through profit or loss pledged under sale and repurchase agreements	3 286 127	-	21	-	3 286 148
Total financial assets at fair value through profit or loss	31 685 292	5 164 880	5 628 007	3 526 393	46 004 572

	Rated from BBB- to BBB+	Rated from BB- to BB+	Rated from B- to B+	Not rated	Total at 31 December 2009
Unpledged					
Financial assets held for trading					
<i>Debt and other fixed- income instruments</i>					
Corporate bonds	5 467 006	1 893 508	2 072 488	3 291 859	12 724 861
Corporate Eurobonds	8 357 960	1 307 899	1 929 214	-	11 595 073
Promissory notes	4 536 007	854 982	1 189 392	4	6 580 385
Russian Government Federal bonds (OFZ)	5 239 011	-	-	-	5 239 011
Russian municipal and regional bonds	3 128 997	98 448	394 056	-	3 621 501
Central Bank of the Russian Federation bonds (OBR)	1 701 823	-	-	-	1 701 823
Russian Federation Eurobonds	6 289	-	-	-	6 289
<i>Equity investments</i>					
Corporate shares	-	-	-	6	6
Spot and derivative financial instruments					
Foreign currency and precious metals contracts	-	-	-	75 288	75 288
Designated at fair value through profit or loss					
Corporate shares - listed	-	-	-	143 796	143 796
Total unpledged financial assets at fair value through profit or loss	28 437 093	4 154 837	5 585 150	3 510 953	41 688 033
Pledged under sale and repurchase agreements					
Financial assets held for trading					
Corporate bonds - listed	47 835	14 002	-	-	61 837
Russian Government Federal bonds (OFZ)	1 968	-	-	-	1 968
Total financial assets at fair value through profit or loss pledged under sale and repurchase agreements	49 803	14 002	-	-	63 805
Total financial assets at fair value through profit or loss	28 486 896	4 168 839	5 585 150	3 510 953	41 751 838

As at 31 December 2010 and 2009 financial assets at fair value through profit or loss are neither past due nor impaired.

Corporate bonds are securities issued by medium and large Russian companies and banks denominated in Russian Roubles.

Corporate Eurobonds are interest-bearing securities denominated in U.S. Dollars and Euros and issued primarily by large Russian companies.

Promissory notes represent debt securities denominated in Russian Roubles issued by Russian banks and companies.

Russian Government Federal bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Russian municipal and regional bonds are interest-bearing securities issued by Russian municipal and regional authorities denominated in Russian Roubles.

Central Bank of the Russian Federation bonds (OBR) are Russian Rouble denominated securities issued by the Central Bank of the Russian Federation.

The following table provides details of debt trading securities as at 31 December 2010:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Mini-mum	Maxi-mum	Mini-mum	Maxi-mum
Corporate bonds	April 2011	October 2017	6.47%	19.00%	3.89%	53.76%
Corporate Eurobonds	February 2011	November 2025	2.63%	12.00%	1.5%	10.62%
Promissory notes	January 2011	January 2012	-*	-*	5.71%	9.75%
Russian Government Federal bonds (OFZ)	January 2011	February 2036	4.59 %	11.9%	1.69%	8.01%
Russian municipal and regional bonds	June 2011	June 2022	7.00%	15.00%	5.89%	8.52%
Central Bank of the Russian Federation bonds (OBR)	March 2011	March 2011	-*	-*	3.82%	3.82%
Russian municipal and regional eurobonds	October 2011	October 2011	6.45%	6.45%	2.18%	2.18%

* - discount-bearing securities

The following table provides details of debt trading securities as at 31 December 2009:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Mini-mum	Maxi-mum	Mini-mum	Maxi-mum
Corporate bonds	January 2010	November 2019	7.10%	19.00%	1.60%	17.41%
Corporate Eurobonds	January 2010	June 2035	1.18%	13.50%	1.47%	130.48%
Promissory notes	January 2010	December 2010	—*	—*	0%	38.58%
Russian Government Federal bonds (OFZ)	January 2010	February 2036	5.80 %	12.00%	3.67%	9.16%
Russian municipal and regional bonds	March 2010	September 2016	7.00%	16.00%	6.09%	10.07%
Central Bank of the Russian Federation bonds (OBR)	March 2010	March 2010	—*	—*	7.70%	7.70%
Russian Federation Eurobonds	March 2030	March 2030	7.50%	7.50%	6.47%	6.47%

* - discount-bearing securities

Equity instruments represent ordinary shares issued primarily by large Russian companies.

For information on spot and derivative financial instruments refer to note 36.

Maturity, currency and interest rate analyses of financial assets at fair value through profit or loss are disclosed in notes 34 and 42. The information on related party balances is disclosed in note 43.

8 Amounts receivable under reverse repurchase agreements

The Group purchases financial instruments under agreements to resell them at future dates. The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to banks and customers. As at 31 December 2010 and 2009, amounts lent to banks and customers were as follows:

	2010	2009
Amounts receivable from banks and other financial institutions		
Rated BBB	165 330	-
Rated from BB- to BB+	46 622	500 057
Rated from B- to B+	4 156 076	971 488
Not rated	5 739 943	5 293 888
Total amounts receivable from banks and other financial institutions	10 107 971	6 765 433
Amounts receivable from customers		
Rated from BB- to BB+	329 752	-
Rated from B- to B+	336 333	299 099
Not rated	5 175 790	3 015 769
Total amounts receivable from customers	5 841 875	3 314 868
Total amounts receivable under reverse repurchase agreements	15 949 846	10 080 301

As at 31 December 2010 and 2009 amounts receivable under reverse repurchase agreements are neither past due nor impaired.

Repurchase and reverse repurchase agreements has no terms which limit sale and purchase of the securities pledged as collateral.

Maturity, currency and interest rate analyses of amounts receivable under reverse repurchase agreements are disclosed in notes 34 and 42. Fair value of amounts receivable under reverse repurchase agreements is disclosed in note 41.

Collateral

As of 31 December 2010 and 2009, amounts receivable under reverse repurchase agreements are collateralised by the following securities:

	Fair value 2010	Fair value 2009
Russian corporate bonds	7 219 485	5 249 210
Russian Government Federal bonds (OFZ)	3 862 878	2 980 383
Promissory notes issued by Russian banks	3 043 874	805 375
Russian corporate shares	1 864 858	320 760
Russian municipal and regional bonds	1 105 454	1 732 058
Promissory notes issued by Russian companies	418 605	-
	17 515 154	11 087 786

9 Loans to customers

	2010	2009
Commercial loans		
Loans to corporate clients not involved in international business	223 967 823	183 376 169
Loans to corporate clients involved in international business	36 309 270	31 944 501
Factoring loans	29 102 961	26 845 661
Loans to small and medium enterprises	26 704 789	22 533 997
Total commercial loans	316 084 843	264 700 328
Loans to individuals		
Consumer loans	18 658 332	22 752 208
Auto loans	8 318 508	11 320 973
Credit cards	2 254 720	3 564 941
Mortgage loans	1 963 008	1 982 384
Loans to VIP clients	1 205 372	253 044
Express-loans	135 393	693 504
Total loans to individuals	32 535 333	40 567 054
Gross loans to customers	348 620 176	305 267 382
Impairment allowance	(37 672 533)	(38 845 803)
Net loans to customers	310 947 643	266 421 579

Movements in the loan impairment allowance for the years ended 31 December 2010 and 2009 were as follows:

	2010	2009
Balance at the beginning of the year	38 845 803	18 510 140
Net charge for the year	10 335 714	20 841 815
Reclassification from promissory notes	277 865	-
Acquisition of subsidiaries	-	117 745
Sale of loans	(8 710 053)	(147 080)
Write-offs	(3 076 796)	(476 817)
Balance at the end of the year	37 672 533	38 845 803

As at 31 December 2010 interest accrued on impaired loans net of impairment allowance amounts to RUB 6 163 975 thousand (2009: RUB 3 281 712 thousand).

Non-performing loans comprise loans with principal or/and interest overdue by more than 90 days (except for loans to individuals and SME for which partial repayment of overdue principal or/and interest took place during last quarter of the year ended 31 December 2010) and loans restructured as a result of the borrowers' inability to repay. The analysis of non-performing loans as at 31 December by loan groups is presented below:

	2010	2009
Loans to corporate clients	20 303 056	23 249 326
Loans to small and medium enterprises	3 704 520	3 028 160
Loans to individuals	8 076 613	11 278 485
Total non-performing loans	32 084 189	37 555 971

Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Loans to corporate clients not involved in international business				
Total loans for which no impairment has been identified	163 930 593	(1 110 656)	162 819 937	0.68%
Impaired loans:				
- Impaired, but not overdue	44 757 163	(6 978 401)	37 778 762	15.59%
- Overdue less than 30 days	1 497 096	(1 004 957)	492 139	67.13%
- Overdue 30-89 days	384 186	(58 509)	325 677	15.23%
- Overdue 90-179 days	2 478 067	(1 024 840)	1 453 227	41.36%
- Overdue 180-360 days	1 771 066	(1 070 334)	700 732	60.43%
- Overdue more than 360 days	9 149 652	(6 214 544)	2 935 108	67.92%
Total impaired loans	60 037 230	(16 351 585)	43 685 645	27.24%
Total loans to corporate clients not involved in international business	223 967 823	(17 462 241)	206 505 582	7.80%
Loans to corporate clients involved in international business				
Total loans for which no impairment has been identified	30 067 743	(206 141)	29 861 602	0.69%
Impaired loans:				
- Impaired, but not overdue	4 417 572	(635 427)	3 782 145	14.38%
- Overdue less than 30 days	47 987	(7 414)	40 573	15.45%
- Overdue less than 30-89 days	20 172	(3 026)	17 146	15.00%
- Overdue 90-179 days	587 516	(108 499)	479 017	18.47%
- Overdue 180-360 days	4 468	(652)	3 816	14.59%
- Overdue more than 360 days	1 163 812	(397 292)	766 520	34.14%
Total impaired loans	6 241 527	(1 152 310)	5 089 217	18.46%
Total loans to corporate clients involved in international business	36 309 270	(1 358 451)	34 950 819	3.74%
Factoring loans				
Total loans for which no impairment has been identified	22 730 688	(133 187)	22 597 501	0.59%
Impaired loans:				
- Impaired, but not overdue	1 011 001	(311 277)	699 724	30.79%
- Overdue less than 30 days	115 305	(36 705)	78 600	31.83%
- Overdue 30-89 days	97 492	(37 971)	59 521	38.95%
- Overdue 90-179 days	241 496	(73 101)	168 395	30.27%
- Overdue 180-360 days	1 458 651	(478 082)	980 569	32.78%
- Overdue more than 360 days	3 448 328	(2 974 136)	474 192	86.25%
Total impaired loans	6 372 273	(3 911 272)	2 461 001	61.38%
Total factoring loans	29 102 961	(4 044 459)	25 058 502	13.90%
Loans to small and medium enterprises				
Total loans for which no impairment has been identified	21 150 040	(47 871)	21 102 169	0.23%
Impaired loans:				
- Overdue less than 30 days	306 130	(50 962)	255 168	16.65%
- Overdue 30-89 days	183 099	(123 496)	59 603	67.45%
- Overdue 90-179 days	308 988	(253 500)	55 488	82.04%
- Overdue 180-360 days	698 725	(568 049)	130 676	81.30%
- Overdue more than 360 days	4 057 807	(3 231 152)	826 655	79.63%
Total impaired loans	5 554 749	(4 227 159)	1 327 590	76.10%
Total loans to small and medium enterprises	26 704 789	(4 275 030)	22 429 759	16.01%
Total commercial loans	316 084 843	(27 140 181)	288 944 662	8.59%

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Loans to corporate clients not involved in international business				
Total loans for which no impairment has been identified	137 013 979	(2 872 388)	134 141 591	2.10%
Impaired loans:				
- Impaired, but not overdue	27 101 631	(2 955 689)	24 145 942	10.91%
- Overdue less than 30 days	2 520 984	(427 913)	2 093 071	16.97%
- Overdue 30-89 days	1 709 995	(750 137)	959 858	43.87%
- Overdue 90-179 days	5 311 534	(2 387 213)	2 924 321	44.94%
- Overdue 180-360 days	3 953 221	(2 660 406)	1 292 815	67.30%
- Overdue more than 360 days	5 764 825	(4 041 577)	1 723 248	70.11%
Total impaired loans	46 362 190	(13 222 935)	33 139 255	28.52%
Total loans to corporate clients not involved in international business	183 376 169	(16 095 323)	167 280 846	8.78%
Loans to corporate clients involved in international business				
Total loans for which no impairment has been identified	25 608 857	(561 859)	25 046 998	2.19%
Impaired loans:				
- Impaired, but not overdue	4 059 891	(410 267)	3 649 624	10.11%
- Overdue less than 30 days	52 870	(5 181)	47 689	9.80%
- Overdue less than 30-89 days	112 869	(43 509)	69 360	38.55%
- Overdue 90-179 days	1 502 227	(582 254)	919 973	38.76%
- Overdue 180-360 days	231 689	(28 750)	202 939	12.41%
- Overdue more than 360 days	376 098	(329 252)	46 846	87.54%
Total impaired loans	6 335 644	(1 399 213)	4 936 431	22.08%
Total loans to corporate clients involved in international business	31 944 501	(1 961 072)	29 983 429	6.14%
Factoring loans				
Total loans for which no impairment has been identified	19 081 324	(986 309)	18 095 015	5.17%
Impaired loans:				
- Impaired, but not overdue	2 105 490	(269 231)	1 836 259	12.79%
- Overdue less than 30 days	136 584	(55 078)	81 506	40.33%
- Overdue 30-89 days	268 711	(87 016)	181 695	32.38%
- Overdue 90-179 days	637 575	(410 110)	227 465	64.32%
- Overdue 180-360 days	2 187 967	(1 812 662)	375 305	82.85%
- Overdue more than 360 days	2 428 010	(2 039 068)	388 942	83.98%
Total impaired loans	7 764 337	(4 673 165)	3 091 172	60.19%
Total factoring loans	26 845 661	(5 659 474)	21 186 187	21.08%
Loans to small and medium enterprises				
Total loans for which no impairment has been identified	18 069 355	(313 541)	17 755 814	1.74%
Impaired loans:				
- Overdue less than 30 days	163 905	(31 416)	132 489	19.17%
- Overdue 30-89 days	444 958	(316 546)	128 412	71.14%
- Overdue 90-179 days	860 091	(774 073)	86 018	90.00%
- Overdue 180-360 days	1 643 872	(1 459 717)	184 155	88.80%
- Overdue more than 360 days	1 351 816	(1 183 781)	168 035	87.57%
Total impaired loans	4 464 642	(3 765 533)	699 109	84.34%
Total loans to small and medium enterprises	22 533 997	(4 079 074)	18 454 923	18.10%
Total commercial loans	264 700 328	(27 794 943)	236 905 385	10.50%

As at 31 December 2010 and 2009 there are no loans to customers which are past due but not impaired.

The credit quality of loans for which no impairment has been identified is not homogeneous due to the variety of industry risks and financial conditions associated with the borrowers.

The Group estimates loan impairment for the commercial loan portfolio for which no individual impairment triggers has been identified based on the past loss experience and factoring in the current economic conditions.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows the Group would receive on loans granted differs by plus/minus one percent, the loan impairment on corporate loans as of 31 December 2010 would be RUB 2 889 447 thousand lower/higher (2009: RUB 2 367 691 thousand).

Analysis of collateral

There is a special Collateral Department which is responsible for managing all types of collateral accepted by the Group for the commercial loan portfolio. The policies and procedures for valuing and managing collateral comprise two stages.

The first stage is related to the decision-making process about the granting of a loan or acquisition of a financial asset, which are subject to credit risk. At this stage, the Collateral Department performs an examination of proposed collateral, which includes preparation of a package of documents related to collateral, physical inspection of collateral, verification of any encumbrances, assessment of fair value of collateral and forecasting of possible changes in the fair value of collateral.

The second stage is related to monitoring and managing of collateral that has already been accepted by the Group. This stage includes regular monitoring of the collateral and reassessment of its fair value.

The table below summarizes the amount of impaired commercial loans analysed by type of collateral, rather than the fair value of the collateral itself:

	2010	2009
Loans collateralized by pledge of real estate	17 720 859	20 949 250
Loans collateralized by pledge of inventories	455 402	769 554
Loans collateralized by pledge of equipment	1 812 746	2 393 275
Loans collateralized by cash or promissory notes of the Group	5 425	30 500
Unsecured loans and loans collateralized by guarantees	58 211 347	40 785 875
	<u>78 205 779</u>	<u>64 928 454</u>
Less: allowance for impairment losses	<u>(25 642 326)</u>	<u>(23 060 846)</u>
Total impaired commercial loans	<u>52 563 453</u>	<u>41 867 608</u>

As at 31 December 2010 the amount of allowance for impairment losses for commercial loans if collateral was not taken into account would have been higher by RUB 3 346 935 thousand.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2010 are as follows:

	Loans to corporate clients not involved in international business	Loans to corporate clients involved in international business	Factoring loans	Loans to small and medium enterprises	Total
Loan impairment allowance as at 1 January	16 095 323	1 961 072	5 659 474	4 079 074	27 794 943
Loan impairment charge	5 971 331	(602 621)	193 999	368 532	5 931 241
Reclassification of bonds	277 865	-	-	-	277 865
Sale of loans	(3 663 487)	-	(58 404)	(85 526)	(3 807 417)
Loans written off as uncollectible	(1 218 791)	-	(1 750 610)	(87 050)	(3 056 451)
Loan impairment allowance as at 31 December	17 462 241	1 358 451	4 044 459	4 275 030	27 140 181

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2009 are as follows:

	Loans to corporate clients not involved in international business	Loans to corporate clients involved in international business	Factoring loans	Loans to small and medium enterprises	Total
Loan impairment allowance as at 1 January	7 146 722	1 675 497	2 096 005	1 383 214	12 301 438
Loan impairment charge	9 267 600	510 157	3 460 526	2 760 987	15 999 270
Acquisition of subsidiaries	-	-	117 745	-	117 745
Sale of loans	(252 235)	(224 582)	-	-	(476 817)
Loans written off as uncollectible	(66 764)	-	(14 802)	(65 127)	(146 693)
Loan impairment allowance as at 31 December	16 095 323	1 961 072	5 659 474	4 079 074	27 794 943

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2010:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Consumer loans				
- Not past due	10 728 543	(13 072)	10 715 471	0.12%
- Overdue less than 30 days	391 568	(13 048)	378 520	3.33%
- Overdue 30-89 days	365 838	(40 397)	325 441	11.04%
- Overdue 90-179 days	577 818	(113 542)	464 276	19.65%
- Overdue 180-360 days	980 764	(479 502)	501 262	48.89%
- Overdue more than 360 days	5 613 801	(5 508 817)	104 984	98.13%
Total consumer loans	18 658 332	(6 168 378)	12 489 954	33.06%
Auto loans				
- Not past due	3 682 752	(3 046)	3 679 706	0.08%
- Overdue less than 30 days	229 513	(4 571)	224 942	1.99%
- Overdue 30-89 days	203 320	(13 370)	189 950	6.58%
- Overdue 90-179 days	343 464	(48 249)	295 215	14.05%
- Overdue 180-360 days	387 658	(160 212)	227 446	41.33%
- Overdue more than 360 days	3 471 801	(3 419 940)	51 861	98.51%
Total auto loans	8 318 508	(3 649 388)	4 669 120	43.87%
Credit cards				
- Not past due	1 529 517	(5 965)	1 523 552	0.39%
- Overdue less than 30 days	65 065	(3 771)	61 294	5.80%
- Overdue 30-89 days	42 656	(9 744)	32 912	22.84%
- Overdue 90-179 days	46 485	(15 269)	31 216	32.85%
- Overdue 180-360 days	140 506	(89 208)	51 298	63.49%
- Overdue more than 360 days	430 491	(415 537)	14 954	96.53%
Total credit cards	2 254 720	(539 494)	1 715 226	23.93%
Mortgage loans				
- Not past due	1 495 068	(141)	1 494 927	0.01%
- Overdue less than 30 days	46 549	(156)	46 393	0.34%
- Overdue 30-89 days	41 751	(1 196)	40 555	2.86%
- Overdue 90-179 days	19 925	(1 249)	18 676	6.27%
- Overdue 180-360 days	44 057	(3 165)	40 892	7.18%
- Overdue more than 360 days	315 658	(43 024)	272 634	13.63%
Total mortgage loans	1 963 008	(48 931)	1 914 077	2.49%
Express-loans				
- Not past due	8 031	(11)	8 020	0.14%
- Overdue less than 30 days	1 160	(25)	1 135	2.16%
- Overdue 30-89 days	1 310	(67)	1 243	5.11%
- Overdue 90-179 days	1 386	(277)	1 109	19.99%
- Overdue 180-360 days	4 591	(3 219)	1 372	70.12%
- Overdue more than 360 days	118 915	(117 304)	1 611	98.65%
Total express-loans	135 393	(120 903)	14 490	89.30%
Loans to VIP clients				
- Not past due	1 199 555	(1 476)	1 198 079	0.12%
- Overdue less than 30 days	938	(39)	899	4.16%
- Overdue 30-89 days	31	(9)	22	29.03%
- Overdue 90-179 days	1 808	(836)	972	46.24%
- Overdue 180 - 360 days	2 881	(2 740)	141	95.11%
- Overdue more than 360 days	159	(158)	1	99.37%
		-		
Total loans to VIP clients	1 205 372	(5 258)	1 200 114	0.44%
Total loans to individuals	32 535 333	(10 532 352)	22 002 981	32.37%

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Consumer loans				
- Not past due	13 885 294	(56 555)	13 828 739	0.41%
- Overdue less than 30 days	474 187	(41 601)	432 586	8.77%
- Overdue 30-89 days	649 214	(179 929)	469 285	27.21%
- Overdue 90-179 days	767 246	(410 438)	356 808	53.49%
- Overdue 180-360 days	2 075 014	(1 627 019)	447 995	78.41%
- Overdue more than 360 days	4 901 253	(4 714 150)	187 103	96.18%
Total consumer loans	22 752 208	(7 029 692)	15 722 516	30.90%
Auto loans				
- Not past due	7 113 148	(11 240)	7 101 908	0.16%
- Overdue less than 30 days	201 471	(7 195)	194 276	3.57%
- Overdue 30-89 days	255 019	(33 969)	221 050	13.32%
- Overdue 90-179 days	378 809	(100 985)	277 824	26.66%
- Overdue 180-360 days	1 124 027	(539 844)	584 183	48.03%
- Overdue more than 360 days	2 248 499	(1 457 421)	791 078	64.82%
Total auto loans	11 320 973	(2 150 654)	9 170 319	19.00%
Credit cards				
- Not past due	1 865 001	(15 548)	1 849 453	0.83%
- Overdue less than 30 days	200 794	(24 683)	176 111	12.29%
- Overdue 30-89 days	179 199	(63 937)	115 262	35.68%
- Overdue 90-179 days	174 631	(107 957)	66 674	61.82%
- Overdue 180-360 days	386 027	(352 615)	33 412	91.34%
- Overdue more than 360 days	759 289	(752 064)	7 225	99.05%
Total credit cards	3 564 941	(1 316 804)	2 248 137	36.94%
Mortgage loans				
- Not past due	1 499 778	(14)	1 499 764	0.00%
- Overdue less than 30 days	41 266	(23)	41 243	0.06%
- Overdue 30-89 days	68 511	(102)	68 409	0.15%
- Overdue 90-179 days	64 248	(238)	64 010	0.37%
- Overdue 180-360 days	146 168	(5 271)	140 897	3.61%
- Overdue more than 360 days	162 413	(21 511)	140 902	13.24%
Total mortgage loans	1 982 384	(27 159)	1 955 225	1.37%
Express-loans				
- Not past due	125 237	(1 363)	123 874	1.09%
- Overdue less than 30 days	5 352	(816)	4 536	15.25%
- Overdue 30-89 days	8 840	(3 911)	4 929	44.24%
- Overdue 90-179 days	14 449	(9 905)	4 544	68.55%
- Overdue 180-360 days	112 061	(99 096)	12 965	88.43%
- Overdue more than 360 days	427 565	(411 460)	16 105	96.23%
Total express-loans	693 504	(526 551)	166 953	75.93%
Loans to VIP clients				
- Not past due	253 044	-	253 044	0.00%
Total loans to VIP clients	253 044	-	253 044	0.00%
Total loans to individuals	40 567 054	(11 050 860)	29 516 194	27.24%

The Group estimates loan impairment based on its past historical loss experience on these types of loans. Management estimates losses based on historic loss migration pattern for the past 18 months and adjusts such statistics to reflect the current market environment.

Changes in these estimates could affect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows the Group would receive on loans granted differs by plus/minus one percent, the loan impairment on retail loans as of 31 December 2010 would be RUB 220 030 thousand lower/higher (2009: RUB 296 525 thousand).

Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying car. Credit cards and express loans are not secured.

Management believes that at inception total fair value of collateral received from individuals is higher than amount of loans to individuals portfolios.

As at 31 December 2010 the amount of allowance for impairment losses for loans to individuals if collateral was not taken into account would have been higher by RUB 310 550 thousand.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2010 are as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Express- loans	Loans to VIP clients	Total
Loan impairment allowance as at 1 January	7 029 692	2 150 654	1 316 804	27 159	526 551	-	11 050 860
Loan impairment charge	2 031 426	1 498 734	371 619	21 772	475 664	5 258	4 404 473
Sale of loans	(2 872 395)	-	(1 148 929)	-	(881 312)	-	(4 902 636)
Loans written off as uncollectible	(20 345)	-	-	-	-	-	(20 345)
Loan impairment allowance as at 31 December	6 168 378	3 649 388	539 494	48 931	120 903	5 258	10 532 352

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2009 are as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Express-loans	Loans to VIP clients	Total
Loan impairment allowance as at 1 January	3 764 163	1 676 876	436 634	18 852	311 427	750	6 208 702
Loan impairment charge	3 265 916	473 778	880 170	8 307	215 124	(750)	4 842 545
Loans written off as uncollectible	(387)	-	-	-	-	-	(387)
Loan impairment allowance as at 31 December	7 029 692	2 150 654	1 316 804	27 159	526 551	-	11 050 860

Industry and geographical analysis of the loan portfolio

Loans to customers as at 31 December are issued to customers operating in the following economic sectors:

	2010		2009	
Loans to individuals	32 535 333	9.33%	40 703 314	13.29%
Commercial loans				
Food production and food trade	41 839 408	12.00%	31 520 679	10.33%
Durables trade	29 828 249	8.56%	29 135 308	9.54%
Real estate management	25 268 664	7.25%	21 851 138	7.16%
Other non-food trade	24 625 054	7.06%	16 467 046	5.39%
Metallurgy	17 547 390	5.03%	6 372 755	2.09%
Wood processing	17 003 255	4.88%	14 908 613	4.88%
Finance, leasing and insurance	14 856 701	4.26%	15 246 935	4.99%
Residential real estate construction	14 393 654	4.13%	12 299 301	4.03%
Construction materials	13 636 347	3.91%	10 413 349	3.41%
Transport	11 102 278	3.18%	10 693 542	3.50%
Industrial real estate construction	10 271 321	2.95%	1 532 678	0.50%
Commercial real estate construction	9 848 081	2.82%	11 657 174	3.82%
Car trade	8 873 737	2.55%	7 166 243	2.35%
Services	8 656 766	2.48%	9 485 255	3.11%
Agriculture	7 399 895	2.12%	11 637 177	3.81%
Chemical production	7 209 486	2.07%	6 971 046	2.28%
Information technology	5 765 990	1.65%	9 633 912	3.16%
Pharmaceutical	5 155 879	1.48%	4 176 671	1.37%
Energy	4 810 261	1.38%	1 949 423	0.64%
Machinery	4 660 964	1.34%	7 929 351	2.60%
Luxury industry	3 895 770	1.12%	1 887 922	0.62%
Oil industry	3 494 014	1.00%	1 980 883	0.65%
Telecommunications	3 309 792	0.95%	5 258 964	1.72%
Defence industry	2 913 027	0.84%	1 123 297	0.37%
Media	2 534 753	0.73%	2 341 338	0.77%
State and Local Authorities	2 321 202	0.67%	2 205 077	0.72%
Other	14 862 905	4.26%	8 718 991	2.90%
	348 620 176	100.00%	305 267 382	100.00%
Provision for impairment	(37 672 533)		(38 845 803)	
Total loans to customers	310 947 643		266 421 579	

Loans as at 31 December are granted to customers in the following geographical areas:

	2010	2009
Russian Federation		
Moscow and Moscow region	196 671 696	165 554 801
Siberia	44 428 624	41 613 796
Central Chernozem and Central region	31 184 508	30 654 427
Volgo-Viatskiy and Volga region	22 973 265	20 259 448
North-Western and North region	18 687 213	15 958 471
South region	17 715 101	19 889 554
Urals	9 978 456	5 367 093
Far East	6 981 313	5 969 792
	348 620 176	305 267 382
Impairment allowance	(37 672 533)	(38 845 803)
Total loans to customers	310 947 643	266 421 579

Significant credit exposures

As at 31 December 2010 and 2009 the Group had 9 borrowers or groups of related borrowers, whose loan balances exceed 10% of equity. The gross value of exposures as of 31 December 2010 and 2009 are RUB 55 050 227 thousand and RUB 49 360 423 thousand, respectively, or 15.8% and 16.2% of gross loans to customers.

Loan maturities

The maturity of the loan portfolio is presented in note 34, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans, it is likely that many of the loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Maturity, currency and interest rate analyses of loans to customers are disclosed in notes 34 and 42. The information on related party balances is disclosed in note 43. Fair value of loans to customers is disclosed in note 41.

Net investment in leases

Included within loans to customers as of 31 December 2010 and 2009 are net investment in leases. As of 31 December 2010 and 2009, the gross investment in leases and the related unearned finance income and impairment allowance are as follows:

	2010	2009
Gross investment in leases	1 936 809	1 102 693
Unearned finance income	(512 082)	(443 266)
Net investment in leases	1 424 727	659 427
Impairment allowance	(24 012)	(27 478)
Net investment in leases less impairment allowance	1 400 715	631 949

An analysis of net investment in lease by type of assets is presented below:

	2010	2009
Equipment	823 509	400 130
Transport	598 283	257 174
Other	2 935	2 123
Net investment in leases	1 424 727	659 427
Impairment allowance	(24 012)	(27 478)
Net investment in leases less impairment allowance	1 400 715	631 949

The contractual maturity of the net investment in leases as of 31 December 2010 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
Less than one year	1 041 398	(245 543)	(20 431)	775 424
One year to five years	895 411	(266 539)	(3 581)	625 291
	1 936 809	(512 082)	(24 012)	1 400 715

The contractual maturity of the net investment in leases as of 31 December 2009 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
Less than one year	505 447	(223 111)	(9 146)	273 190
One year to five years	597 246	(220 155)	(18 332)	358 759
	1 102 693	(443 266)	(27 478)	631 949

10 Investments available for sale

	2010	2009
<i>Closed unit investment funds</i>		
Land, St.-Petersburg (ownership – 49%)	1 337 700	-
Land and building, Yaroslavl (ownership – 49%)	611 232	-
Corporate bonds of Russian companies (ownership – 48%)	-	29 140
	1 948 932	29 140
<i>Equity investments</i>		
Corporate shares	254 281	5 943
Total investments available for sale	2 203 213	35 083

At 31 December 2010 closed unit investment fund mainly invests in buildings and other property.

At 31 December 2009 closed unit investment fund mainly invests in corporate bonds that are securities issued by Russian companies denominated in Russian Roubles.

Maturity and currency analyses of investments available for sale are disclosed in note 34. The information on related party balances is disclosed in note 43.

11 Investments held to maturity

The following table presents an analysis by rating agency designation of debt investments held to maturity as at 31 December. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating.

	<u>Rated from BBB- to BBB+</u>	<u>Rated from BB- to BB+</u>	<u>Not rated</u>	<u>Impaired</u>	<u>Total at 31 December 2010</u>
Investments held to maturity					
Russian Government Federal bonds (OFZ)	3 516 870	-	-	-	3 516 870
Corporate bonds	-	54 556	272 675	30 108	357 339
Corporate Eurobonds	14 597	42 761	-	35 344	92 702
Total investments held to maturity	3 531 467	97 317	272 675	65 452	3 966 911

	<u>Rated from BBB- to BBB+</u>	<u>Rated from BB- to BB+</u>	<u>Rated from B- to B+</u>	<u>Not rated</u>	<u>Impaired</u>	<u>Total at 31 December 2009</u>
Investments held to maturity						
Russian Government Federal bonds (OFZ)	5 992 075	-	-	-	-	5 992 075
Corporate bonds	-	108 295	673 691	151 186	145 770	1 078 942
Corporate Eurobonds	28 819	42 401	-	-	62 701	133 921
Total investments held to maturity	6 020 894	150 696	673 691	151 186	208 471	7 204 938

As at 31 December 2010 and 2009 the Group individually evaluated assets held to maturity for impairment and found that financial instruments with carrying value of RUB 65 453 thousand and RUB 208 471 thousand, respectively, are impaired either due to the significant deterioration in financial position of the issuers indicating their potential inability to fulfill obligation on repayment of principal falling due on the following year. The debt securities are not collateralised.

Movements in the allowance for impairment losses for the years ended 31 December 2010 and 2009 are disclosed in note 30.

The following table provides details of debt investments held to maturity as at 31 December 2010:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Russian Government Federal bonds (OFZ)	May 2011	July 2013	5.80%	6.10%	6.15%	10.93%
Corporate bonds	September 2011	July 2013	8.05%	14.00%	9.04%	14.59%
Corporate Eurobonds	June 2011	March 2017	4.25%	9.25%	(1.71%)	12.6%

The following table provides details of debt investments held to maturity as at 31 December 2009:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Russian Government Federal bonds (OFZ)	January 2010	July 2013	5.80%	10.00%	5.52%	10.93%
Corporate bonds	January 2010	June 2012	7.55%	18.00%	9.04%	16.57%
Corporate Eurobonds	March 2010	March 2012	6.13%	13.75%	9.55%	14.14%

Included in investment held to maturity as at 31 December 2010 and 2009 are debt investments with carrying value of RUB 2 339 449 thousand and RUB 5 405 149 thousand, respectively, which were reclassified into this category in July 2008 following amendments to IAS 39.

As at 31 December 2010 and 2009 investments held to maturity are not past due.

Maturity, currency and interest rate analyses of investments held to maturity are disclosed in notes 34 and 42. Fair value of investments held to maturity is disclosed in note 41.

12 Assets held for sale

	2010	2009
Office building, Moscow	2 322 717	-
Land, St.-Petersburg region	1 500 000	1 500 000
Office building, Moscow	1 100 001	1 100 001
Land, St.-Petersburg	1 022 047	-
Total assets held for sale	5 944 765	2 600 001

During January-February 2011 the Group has signed final agreements with third parties to sell certain items of property acquired in December 2009. The following table shows these item's sale prices according to sale agreement together with their carrying value as of 31 December 2010:

	<u>Carrying value</u>	<u>Sale Price</u>
Land, St.-Petersburg region	1 500 000	1 698 740
Office building, Moscow	1 100 001	1 201 120

Assets held for sale are measured at the lower of cost or fair value less costs to sell.

Assets held for sale are included in the International business, investments and financial markets operating segment.

Maturity and currency analyses of assets held for sale are disclosed in note 34. Fair value of assets held for sale is disclosed in note 41.

13 Other assets

	<u>2010</u>	<u>2009</u>
Other financial assets:		
Securities lending operations	564 554	429 359
Accrued commission income	145 029	144 048
Commissions on guarantees	33 173	43 509
Plastic card receivables	5 276	38 818
	<u>748 032</u>	<u>655 734</u>
Other non-financial assets:		
Advances and prepayments	979 392	619 583
Equipment purchased for leases	285 474	409 476
Lease equipment for sale	259 254	50 255
Value added tax (VAT)	223 613	188 185
Deferred expenses	197 293	160 458
Other	34	16 624
Impairment allowance	(179 314)	-
	<u>1 765 746</u>	<u>1 444 581</u>
Total other assets	<u><u>2 513 778</u></u>	<u><u>2 100 315</u></u>

Maturity and currency analyses of other financial assets are disclosed in note 34. The information on related party balances is disclosed in note 43. Fair value of other financial assets is disclosed in note 41.

As at 31 December 2010 and 2009 other financial assets are not past due nor impaired.

Movements in the allowance for impairment losses for the years ended 31 December 2010 and 2009 are disclosed in note 30.

14 Property and equipment

	Buildings and land	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
Cost/Revalued amount									
At 1 January 2010	11 423 166	1 712 235	1 897 308	303 845	311 084	811 343	6 828	9 140 095	25 605 904
Additions and transfers	246 773	261 849	180 259	27 391	27 148	30 989	1 052	3 087 197	3 862 658
Disposals and transfers	(158 198)	(20 511)	(46 224)	(18 404)	(13 347)	(4 564)	(621)	(553 791)	(815 660)
Elimination of accumulated depreciation of revalued assets	(248 829)	-	-	-	-	-	-	-	(248 829)
Revaluation recognized in other comprehensive income	454 156	-	-	-	-	-	-	-	454 156
Revaluation recognized in profit or loss	(68 021)	-	-	-	-	-	-	-	(68 021)
At 31 December 2010	11 649 047	1 953 573	2 031 343	312 832	324 885	837 768	7 259	11 673 501	28 790 208
Depreciation and amortisation									
At 1 January 2010	-	754 262	823 512	165 428	124 412	526 373	3 975	-	2 397 962
Depreciation charge (note 31)	249 691	368 912	295 378	53 330	40 459	110 661	1 190	-	1 119 621
Disposals	(862)	(14 090)	(33 193)	(16 582)	(9 583)	(2 715)	(293)	-	(77 318)
Elimination of accumulated depreciation of revalued assets	(248 829)	-	-	-	-	-	-	-	(248 829)
At 31 December 2010	-	1 109 084	1 085 697	202 176	155 288	634 319	4 872	-	3 191 436
Carrying value at 31 December 2010	11 649 047	844 489	945 646	110 656	169 597	203 449	2 387	11 673 501	25 598 772

Promsvyazbank
Notes to the consolidated financial statements – year ended 31 December 2010
(expressed in thousands of Russian Roubles – refer to note 2)

	Buildings and land	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
Cost/Revalued amount									
At 1 January 2009	12 751 260	1 031 295	1 583 180	308 242	273 926	762 172	7 795	6 443 053	23 160 923
Additions and transfers	443 502	702 198	364 189	13 662	49 200	79 276	278	2 897 664	4 549 969
Disposals and transfers	(6 751)	(21 258)	(50 061)	(18 059)	(12 042)	(30 105)	(1 245)	(200 622)	(340 143)
Elimination of accumulated depreciation of revalued assets	(281 897)	-	-	-	-	-	-	-	(281 897)
Revaluation recognized in other comprehensive income	(1 025 030)	-	-	-	-	-	-	-	(1 025 030)
Revaluation recognized in profit or loss	(457 918)	-	-	-	-	-	-	-	(457 918)
At 31 December 2009	11 423 166	1 712 235	1 897 308	303 845	311 084	811 343	6 828	9 140 095	25 605 904
Depreciation and amortisation									
At 1 January 2009	-	520 857	601 014	123 128	94 128	405 136	3 441	-	1 747 704
Depreciation charge (note 31)	282 022	253 495	259 662	57 087	37 912	127 933	1 260	-	1 019 371
Disposals	(125)	(20 090)	(37 164)	(14 787)	(7 628)	(6 696)	(726)	-	(87 216)
Elimination of accumulated depreciation of revalued assets	(281 897)	-	-	-	-	-	-	-	(281 897)
At 31 December 2009	-	754 262	823 512	165 428	124 412	526 373	3 975	-	2 397 962
Carrying value at 31 December 2009	11 423 166	957 973	1 073 796	138 417	186 672	284 970	2 853	9 140 095	23 207 942

During 2008 and 2010 the Group acquired the investment rights for 29 530 square meters of an office building under construction by a Russian developer. The total amount invested in the construction as at 31 December 2010 is RUB 10 615 690 thousand (2009: RUB 8 244 504 thousand) and the Group has capital commitments in respect of this construction in the amount of USD 8 million (RUB 239 640 thousand) payable in 2011.

At 31 December 2010 and 2009 the following equipment held under finance leases:

	Computers and software	Office equipment	Vehicles	Total
Carrying amount at 31 December 2010	57 546	104 008	73 221	234 775
Carrying amount at 31 December 2009	29 210	78 105	48 937	156 252

Finance lease liabilities are disclosed in note 18.

Revalued assets

Buildings and land were independently valued at 31 December 2010. The valuation was carried out by the independent firm of appraisers. Centr nezavisimoy expertizi OOO “Invest Proect”, which hold recognised and relevant professional qualifications and which have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the market approach, based upon an analysis of the results of comparable sales and/or offer of similar buildings.

The appraisers apply various adjustment factors to market prices of similar buildings to make them comparable with the Groups’ buildings and land. These adjustments could effect the value of the buildings and land. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2010 would be RUB 1 164 905 thousand (2009: RUB 1 142 317 thousand) higher/lower.

The carrying value of land and buildings as of 31 December 2010, if the buildings would not have been revalued, would be RUB 9 315 779 thousand (2009: RUB 9 436 013 thousand).

15 Financial liabilities at fair value through profit or loss

	2010	2009
Trading liabilities	1 502 587	358 461
Spot and derivative financial instruments	90 797	893 764
Total financial liabilities at fair value through profit or loss	1 593 384	1 252 225

For information on the spot and derivative financial instruments refer to note 36.

Trading liabilities represent short position on Russian Federation Eurobonds.

Maturity and currency analyses of financial liabilities at fair value through profit or loss are disclosed in note 34.

16 Deposits and balances from banks and other financial institutions

	2010	2009
Term deposits from local banks	17 570 624	1 402 234
Trade finance	16 767 032	13 114 615
Long-term finance	11 085 493	14 768 138
Vostro accounts	7 663 852	8 339 427
Term deposits from foreign banks	6 590 876	21 299 320
Term deposits from the CBR	-	5 856 656
Total deposits and balances from banks and other financial institutions	59 677 877	64 780 390

Trade finance and long-term finance represent funds to be used in documentary credit transactions. Trade finance is used for financing working capital of clients through documentary letters of credit. Long-term finance is used to finance targeted assets of clients through documentary letters of credit.

Maturity, currency and interest rate analyses of deposits and balances from banks and other financial institutions are disclosed in notes 34 and 42. Fair value of deposits and balances from banks and other financial institutions is disclosed in note 41. Covenants related to the deposits and banks from other financial institutions is disclosed in note 37.

Concentration of deposits and balances from banks and other financial institutions

As of 31 December 2010 the ten largest aggregate balances of deposits and balances from banks and other financial institutions (except for term deposits from the CBR) amount to RUB 28 620 230 thousand or 48% of total deposits and balances from banks and other financial institutions excluding term deposits from the CBR (2009: RUB 29 625 653 thousand or 50.3%).

17 Amounts payable under repurchase agreements

	2010	2009
Amounts payable to banks and other financial institutions	2 386 129	17 659
Amounts payable to customers	403 887	43 038
Total amounts payable under repurchase agreements	2 790 016	60 697

Maturity, currency and interest rate analyses of amounts payable under repurchase agreements are disclosed in notes 34 and 42. Fair value of amounts payable under repurchase agreements is disclosed in note 41.

Securities pledged

As at 31 December 2010 and 2009, the Group pledged certain securities as collateral under repurchase agreements (refer to note 8).

18 Current accounts and deposits from customers

	2010	2009
Current accounts and demand deposits		
- Corporate	68 413 408	55 365 566
- Retail	20 854 482	11 029 832
Term deposits		
- Corporate	120 964 334	138 153 403
- Retail	86 814 621	85 000 038
Total current accounts and deposits from customers	297 046 845	289 548 839

As at 31 December 2010 and 2009 the corporate term deposits include finance lease liabilities in amount of RUB 19 613 thousand and RUB 124 737 thousand, respectively (note 14).

Maturity, currency and interest rate analyses of current accounts and deposits from customers are disclosed in notes 34 and 42. The information on related party balances is disclosed in note 43. Fair value of current accounts and deposits from customers is disclosed in note 41.

Blocked accounts

As at 31 December 2010, the Group maintained customer deposit balances of RUB 3 362 102 thousand (2009: RUB 3 806 545 thousand) that are blocked as collateral for loans and off-balance sheet credit instruments.

Concentrations of current accounts and deposits from customers

As at 31 December 2010 the ten largest aggregate balances of current account and deposits from customers amount to RUB 83 347 660 thousand or 28% of total current accounts and deposits from customers (2009: RUB 92 453 053 thousand or 31.9% of total current accounts and deposits from customers).

Funds were attracted from the customers operating in the following economic sectors as at 31 December:

	2010		2009	
	Amount	%	Amount	%
Retail	107 669 103	36.25%	96 029 870	33.17%
Corporate customers				
State and local authorities and public organisations	42 341 936	14.25%	23 417 920	8.09%
Energy and mineral resources	37 402 026	12.59%	44 078 110	15.22%
Finance and investment	31 230 413	10.51%	26 135 255	9.03%
Trade and commerce	24 045 185	8.09%	22 998 156	7.94%
Development and construction	15 194 667	5.12%	26 445 668	9.13%
Transport and other services	11 735 505	3.95%	9 863 415	3.41%
Manufacturing	7 690 356	2.59%	18 934 164	6.54%
Media and telecommunications	6 771 555	2.28%	9 358 854	3.23%
IT and science	4 965 896	1.67%	5 481 419	1.89%
Food production and agriculture	1 437 191	0.48%	828 632	0.29%
Other	6 563 012	2.21%	5 977 376	2.06%
Total current accounts and deposits from customers	297 046 845	100.00%	289 548 839	100.00%

19 Own securities issued

	2010	2009
Promissory notes	20 632 071	20 986 966
Senior loan participation notes	8 650 527	16 423 635
Domestic bonds	2 781 695	6 229 540
Certificates of deposit	63 204	14 571
Total own securities issued	32 127 497	43 654 712

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 rates from 0.2% p.a. to 25.3% p.a. and maturity dates from January 2011 to September 2015.

Senior loan participation notes comprise notes issued through Promsvyaz Finance PLC and PSB Finance S.A. (refer to note 2).

The table below provides a summary of all senior loan participation notes issued as at 31 December:

Special purpose entity used for issue	Issue date	Maturity date	Coupon rate	Commen- tary	2010	2009
PSB Finance S.A.	October 2006 March 2007	October 2011	8.75%	Non- subordinated	5 414 106	6 360 433
PSB Finance S.A.	July 2008	July 2013	10.75%	Non- subordinated	3 236 421	4 181 394
Promsvyaz Finance PLC	October 2005	October 2010	8.75%	Non- subordinated	-	5 881 808
Total senior loan participation notes					8 650 527	16 423 635

During the year ended 31 December 2010 the Group purchased from the market senior loan participation notes amounting to USD 154 879 thousand (RUB 4 720 232 thousand). The loss on the repurchase of these senior loan participation notes was RUB 183 862 thousand (refer to note 28).

During the year ended 31 December 2009 the Group purchased from the market senior loan participation notes amounting to USD 204 462 thousand (RUB 6 231 368 thousand). The gain on the repurchase of these senior loan participation notes was RUB 755 417 thousand (refer to note 28).

During the years ended 31 December 2010 and 2009 the Group sold senior loan participation notes amounting to USD 79 650 thousand and USD 172 790 thousand, respectively.

The table below provides a summary of domestic bonds issued as at 31 December:

Issue date	Maturity date	Current coupon rate	2010	2009
May 2007	May 2012	7.75%	1 499 624	4 575 562
June 2008	June 2013	8.25%	1 282 071	1 653 978
Total domestic bonds			2 781 695	6 229 540

In May 2010 the Group redeemed at nominal value RUB 4 087 086 thousand of the RUB 4.5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued RUB 1 073 301 thousand of such bonds.

In December 2010 the Group redeemed at nominal value RUB 3 853 202 thousand of the RUB 5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued RUB 3 483 577 thousand of such bonds.

In December 2009 the Group redeemed at nominal value RUB 3 493 867 thousand of the RUB 5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued RUB 1 713 492 thousand of such bonds.

Maturity, currency and interest rate analyses of own securities issued are disclosed in notes 34 and 42. The information on related party balances is disclosed in note 43. Fair value of own securities issued is disclosed in note 41.

20 Other borrowed funds

	2010	2009
Syndicated loans	7 550 513	8 966 992
Other borrowed funds	5 251 682	4 852 418
Total other borrowed funds	12 802 195	13 819 410

In April 2010 the Group repaid the first tranche of a syndicated loan from the European Bank for Reconstruction and Development amounting to USD 232 000 thousand (RUB 7 237 333 thousand). And in June the Group repaid in advance the remaining part of the syndicated loan.

In June 2010 the Group borrowed USD 250 000 thousand (RUB 7 798 850) as a syndicated loan from the European Bank for Reconstruction and Development.

In November and December 2010 the Group borrowed RUB 1 900 000 thousand from the Russian Bank for Development.

Maturity, currency and interest rate analyses of other borrowed funds are disclosed in notes 34 and 42. Fair value of other borrowed funds is disclosed in note 41. Covenants related to other borrowed funds is disclosed in note 37.

21 Other liabilities

	2010	2009
Other financial liabilities:		
Financial guarantees	741 458	571 320
Plastic card payables	135 422	75 259
Other accrued liabilities	109 899	61 183
Payables on factoring deals	60 144	49 345
	1 046 923	757 107
Other non-financial liabilities:		
Employee compensation payable	1 006 085	371 064
Taxes payable	255 348	329 572
Prepayments and advances received	120 822	187 127
Obligations under option agreements	5 500	83 477
Provision for guarantees and letters of credit issued	4 455	58 501
Liability to purchase leasing equipment	143	9 050
Other	314	5 090
	1 392 667	1 043 881
Total other liabilities	2 439 590	1 800 988

Maturity and currency analyses of other financial liabilities are disclosed in note 34. The information on related party balances is disclosed in note 43. Fair value of financial liabilities is disclosed in note 41.

22 Deferred tax asset/liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2010 and 2009.

These deductible temporary differences are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Financial assets at fair value through profit or loss	27 159	216 121	(37 948)	(13 056)	(10 789)	203 065
Amounts receivable under reverse repurchase agreements	-	-	(771)	(713)	(771)	(713)
Loans to customers	1 260 838	480 791	(49 588)	(37 605)	1 211 250	443 186
Investments available for sale	20 057	560	-	-	20 057	560
Investments held to maturity	13 134	-	-	(6 443)	13 134	(6 443)
Other assets	93 904	31 009	-	(3 722)	93 904	27 287
Property and equipment	-	-	(422 500)	(538 650)	(422 500)	(538 650)
Financial liabilities at fair value through profit or loss	-	65 906	-	-	-	65 906
Deposits and balances from banks and other financial institutions	-	-	(15 532)	(18 584)	(15 532)	(18 584)
Amounts payable under repurchase agreements	13	-	-	(191)	13	(191)
Own securities issued	-	-	(11 179)	(41 118)	(11 179)	(41 118)
Other borrowed funds	-	-	(25 769)	(39 128)	(25 769)	(39 128)
Other liabilities	193 035	192 116	-	-	193 035	192 116
Subordinated borrowings	-	-	(35 490)	-	(35 490)	-
Net tax asset/(liability)	1 608 140	986 503	(598 777)	(699 210)	1 009 363	287 293
Comprising of:						
Deferred tax asset					1 065 008	600 326
Deferred tax liability					(55 645)	(313 033)

Movement of tax effect in temporary differences during the year ended 31 December 2010:

	Balance as at 1 January 2010	Recognised in profit or loss	Recognised in other comprehen- sive income	Balance as at 31 December 2010
Financial assets at fair value through profit or loss	203 065	(213 854)	-	(10 789)
Amounts receivable under reverse repurchase agreements	(713)	(58)	-	(771)
Loans to customers	443 185	768 065	-	1 211 250
Investments available for sale	560	(601)	20 098	20 057
Investments held to maturity	(6 443)	19 577	-	13 134
Other assets	27 287	66 617	-	93 904
Property and equipment	(538 650)	206 981	(90 831)	(422 500)
Financial liabilities at fair value through profit or loss	65 906	(65 906)	-	-
Deposits and balances from banks and other financial institutions	(18 584)	3 052	-	(15 532)
Amounts payable under repurchase agreements	(191)	204	-	13
Own securities issued	(41 118)	29 939	-	(11 179)
Other borrowed funds	(39 128)	13 359	-	(25 769)
Other liabilities	192 117	918	-	193 035
Subordinated borrowings	-	(35 490)	-	(35 490)
	287 293	792 803	(70 733)	1 009 363

Movement of tax effect in temporary differences during the year ended 31 December 2009:

	Balance as at 1 January 2009	Recognised in profit or loss	Recognised in other comprehensive income	Acquisition of subsidiaries	Balance as at 31 December 2009
Financial assets at fair value through profit or loss	195 397	7 668	-	-	203 065
Amounts receivable under reverse repurchase agreements	(927)	214	-	-	(713)
Loans to customers	(32 065)	468 241	-	7 010	443 186
Investments available for sale	17 251	11	(16 702)	-	560
Investments held to maturity	(38 228)	31 785	-	-	(6 443)
Other assets	66 952	(39 665)	-	-	27 287
Property and equipment	(1 074 475)	330 819	205 006	-	(538 650)
Financial liabilities at fair value through profit or loss	(23 918)	89 824	-	-	65 906
Deposits and balances from banks and other financial institutions	(11 687)	(6 897)	-	-	(18 584)
Amounts payable under repurchase agreements	556	(747)	-	-	(191)
Own securities issued	(37 975)	(3 143)	-	-	(41 118)
Other borrowed funds	(36 358)	(2 770)	-	-	(39 128)
Other liabilities	199 326	(7 210)	-	-	192 116
	(776 151)	868 130	188 304	7 010	287 293

23 Subordinated borrowings

	2010	2009
Subordinated loan participation notes	21 817 689	15 286 818
Subordinated loan from European Bank of Reconstruction and Development	-	1 551 047
Subordinated loan from Reserve Invest Limited	-	910 496
Total other borrowed funds	21 817 689	17 748 361

In July 2010 the Group issued subordinated loan participation notes with a nominal value of USD 200 000 thousand (RUR 6 095 380 thousand) which mature in 2016 and bear interest at 11.25% per annum.

Maturity, currency and interest rate analyses of subordinated borrowings are disclosed in notes 34 and 42. Fair value of subordinated borrowings is disclosed in note 41.

24 Share capital

Issued capital

	Balance as at 1 January 2010
Number of ordinary shares	899 450 000 000
Nominal amount per share, RUB	0.01
Nominal amount, RUB thousand	8 994 500
Inflation adjusted amount, RUB thousand	10 062 544

On 9 February 2010 the Central Bank of the Russian Federation registered an additional issue of 144 850 846 000 shares with a nominal value of RUB 1 448 508 thousand and a share premium amounting to RUB 3 983 398 thousand. All issued ordinary shares are fully paid.

	Balance as at 31 December 2010
Number of ordinary shares	1 044 300 846 000
Nominal amount per share, RUB	0.01
Nominal amount, RUB thousand	10 443 008
Inflation adjusted amount, RUB thousand	11 511 052

On 16 March 2009 the shareholders decided to split the ordinary shares which have a nominal value of RUB 50 000 each into 5 000 000 ordinary shares with a nominal value of RUB 0.01 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the shareholders.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, reserves available for distribution amount to RUB 5 906 410 thousand (2009: RUB 5 657 446 thousand).

25 Net interest income

	2010	2009
Interest income		
Loans to customers	40 651 403	50 401 496
Financial assets at fair value through profit or loss	3 229 142	2 481 705
Placements with banks and other financial institutions and cash and cash equivalents	1 377 981	541 021
Reverse repurchase agreements	719 663	519 270
Investments held to maturity	343 001	656 434
Total interest income	46 321 190	54 599 926

	2010	2009
Interest expense		
Current accounts and deposits from customers	16 983 882	16 493 528
Own securities issued	3 283 850	4 264 295
Deposits and balances from banks and other financial institutions	2 489 136	5 394 376
Subordinated borrowings	2 111 376	1 625 715
Other borrowed funds	708 163	884 046
Repurchase agreements	135 606	209 000
Total interest expense	25 712 013	28 870 960
Net interest income	20 609 177	25 728 966

26 Fee and commission income

	2010	2009
Commission on documentary operations	2 306 537	2 037 213
Money transfer fees	1 576 281	1 235 835
Commission for servicing plastic cards	1 344 236	1 182 891
Commission for operations with cash	819 649	756 987
Commission on foreign currency operations	775 188	1 019 587
Commission on undrawn loan commitments	212 635	104 115
Investment banking fees	121 584	100 848
Commission on banknote operations	103 311	220 729
Securities trading fees	99 883	137 212
Cash collection fees	90 213	97 541
Agent fees	11 583	48 415
Other	98 880	70 705
Total fee and commission income	7 559 980	7 012 078

27 Fee and commission expense

	2010	2009
Commission for servicing plastic cards	446 932	309 125
Commission on foreign currency operations	267 120	154 812
Commission on documentary operations	247 780	386 762
Money transfer fees	240 865	236 457
Agent fees	147 221	124 694
Cash collection fees	95 891	71 547
Commission on banknote operations	48 939	94 371
Securities trading fees	25 427	26 725
Other	2 525	2 353
Total fee and commission expense	1 522 700	1 406 846

28 Net (loss)/gain on financial instruments at fair value through profit or loss and (loss)/gain on early redemption of senior loan participation notes

	2010	2009
Net (loss)/gain on early redemption of senior loan participation notes (note 19)	(183 862)	755 417
Net (loss)/gain on debt securities - trading	(282 900)	368 436
Net (loss)/gain on equity securities - trading	(21)	19 787
Net gain on equity instruments - designated upon initial recognition as at fair value through profit or loss	119 091	113 140
Net loss on interest rate swaps	(2 461)	(142 598)
Net (loss)/gain on financial instruments at fair value through profit or loss and (loss)/gain on early redemption of senior loan participation notes	(350 153)	1 114 182

Interest income on debt instruments is included in interest income on financial assets at fair value through profit or loss (refer to note 25).

29 Other income and expense

	2010	2009
Other income:		
Gain from sale of loans to customers	1 215 934	-
Net gain on purchase of interest in subsidiaries	151 448	149 023
Fines and penalties received	41 388	857 516
Dividend income	7 574	1 943
Gain from sale of property	-	13 830
Other income	277 187	223 405
	1 693 531	1 245 717
Other expense:		
Contributions under obligatory deposit insurance	(383 638)	(239 651)
Total other income and expense	1 309 893	1 006 066

30 Allowance for other impairment losses

The movements in allowance for other impairment losses were as follows:

	Investments available for sale (note 10)	Investments held to maturity (note 11)	Other assets (note 13)	Guarantees (note 37)	Total
31 December 2008	3 109	7 990	-	74 073	85 172
Other impairment charge	-	109 103	-	(15 572)	93 531
31 December 2009	3 109	117 093	-	58 501	178 703
Other impairment charge	(3 109)	(88 731)	228 464	(54 046)	82 578
Write-off of assets	-	-	(49 150)	-	(49 150)
31 December 2010	-	28 362	179 314	4 455	212 131

31 General and administrative expenses

	2010	2009
Employee compensation	8 771 795	7 577 385
Depreciation (note 14)	1 119 621	1 019 371
Occupancy (note 38)	702 831	796 951
Taxes other than income tax	700 414	689 394
Office repairs, maintenance and supply	656 758	593 299
Communications and information services	626 555	570 848
Insurance	491 454	503 975
Security	389 984	335 231
Advertising and marketing	375 115	392 408
Transportation	193 355	179 147
Charity and sponsorship	132 429	134 657
Professional services	52 020	64 154
Other	642 531	205 859
Total general and administrative expenses	14 854 862	13 062 679

Charity and sponsorship expenses include grants to the Russian Society of Invalids, hospices, hospitals, culture institutions and to the Russian Orthodox Church.

32 Income tax expense

	2010	2009
Current tax expense		
Current year	(1 195 136)	(868 378)
Deferred tax benefit		
Origination and reversal of temporary differences (note 22)	(792 803)	868 130
Total income tax expense	402 333	(248)

The applicable tax rate for current and deferred tax is 20%.

Reconciliation of effective tax rate:

	2010	%	2009	%
(Loss)/profit before tax	2 879 481		(625 605)	
Theoretical income tax (benefit)/expense at the statutory rate	575 896	20.0%	(125 121)	20.0%
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Non deductible expenses including charity expenses	124 572	4.3%	104 777	(16.7%)
- Income on government securities taxed at different rates	(54 511)	(1.9%)	(36 559)	5.8%
- Previous year income tax	(142 789)	(5.0%)	-	-
- Effect of income earned by the branch in Cyprus	38 562	1.3%	52 663	(8.4%)
- Effect of acquisition of subsidiaries	-	-	(29 805)	4.8%
- Other differences	(139 397)	(4.8%)	34 293	(5.5%)
Income tax expense	402 333	14.0%	248	0.0%

33 Analysis by segment

The Group is organized into four main reportable operating segments. The segments are identified on the basis of organizational structure and types of clients. Each operating segment involves areas of business that are under control and responsibility of one of the Management Board members. Internal management reports are reviewed by the Management Board on a periodical basis and by the Board of Directors on a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking – this operating segment includes the following services provided to legal entities (excluding small and medium size enterprises): settlements and money transfer; deposit taking; issuance of promissory notes and certificates of deposit; trade and long-term finance; commercial lending; overdraft lending; factoring; leasing; letters of credit; guarantees; foreign exchange services; cash collection; currency conversion; all transactions with precious metals.
- Retail banking – this operating segment includes the following services provided to retail customers: settlements and money transfer; deposit taking and lending to individuals (excluding VIP clients); foreign exchange services; banking card products; settlement and cash services.

- International business, investments and financial markets – this operating segment includes the following services provided to banks and other financial institutions, state and local authorities, VIP clients (individuals): deposit taking; borrowings from banks and other financial institutions; issuance of domestic bonds, loan participation notes and promissory notes on the market; repo transactions; interbank lending; syndicated and subordinated borrowings; lending to state and local authorities and VIP clients (individuals); trading and brokerage in securities; foreign exchange (except currency conversion for clients); trading in derivatives; export letters of credit; guarantees; banknote operations; depositary services; settlements and money transfer.
- Small and medium size enterprises - this operating segment includes the following services provided to small and medium size enterprises: commercial lending; deposit taking; issuance of promissory notes; money transfer; guarantees; brokerage in securities; foreign exchange services.

The Group does not allocate equity between segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries. Information on segment income tax expense in the tables below is presented for information purposes.

The intersegment revenue from other segments related to exchange of the resources between segments are calculated on the basis of a transfer pricing system, in accordance with which the prices of the internal placement/funding depend on the currency and term of placement/funding.

The Group does not allocate obligatory reserves with central banks, net book value of property and equipment, and current and deferred tax assets and liabilities between the segments to determine segment assets/liabilities. These captions are included in “Reconciling items” category in the reconciliation of the total segment assets/liabilities to total assets/liabilities of the Group. Other assets and liabilities are included in “Reconciling items” category when they cannot reasonably be distributed among the segments. “Reconciling items” category also includes assets/liabilities and attributable income/expense relating to assets and liabilities internal management operations performed by Group’s Treasury Department.

General and administrative expenses are allocated between the segments on the basis of an activity-based costing model that identifies activities and assigns the cost of each activity’s resources to all products and services according to their actual consumption.

The Group allocates income tax benefit/expense using the financial result of each segment and the overall effective tax rate of each subsidiary. Segment breakdown of assets and liabilities as at 31 December 2010 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Reconciling items	Total
Cash and cash equivalents	3 536 155	3 822 498	5 786 406	-	32 037 190	45 182 249
Obligatory reserves with central banks	-	-	-	-	3 015 876	3 015 876
Placements with banks and other financial institutions	-	-	12 112 692	-	9 340	12 122 032
Financial assets at fair value through profit or loss	-	-	41 287 207	-	4 717 365	46 004 572
Amounts receivable under reverse repurchase agreements	-	-	9 599 684	-	6 350 162	15 949 846
Loans to customers	264 218 648	20 802 867	3 496 369	22 429 759	-	310 947 643
Investments available for sale	-	-	2 203 213	-	-	2 203 213
Investments held to maturity	-	-	868 394	-	3 098 517	3 966 911
Assets held for sale	-	-	5 944 765	-	-	5 944 765
Other assets	122 547	5 680	575 157	3 404	1 806 990	2 513 778
Current income tax prepayments	-	-	-	-	612 254	612 254
Deferred tax asset	-	-	-	-	1 065 008	1 065 008
Property and equipment	-	-	-	-	25 598 772	25 598 772
Total assets	267 877 350	24 631 045	81 873 887	22 433 163	78 311 474	475 126 919
Financial liabilities at fair value through profit or loss	-	-	1 593 384	-	-	1 593 384
Deposits and balances from banks and other financial institutions	18 676 388	266 863	35 144 292	-	5 590 334	59 677 877
Amounts payable under repurchase agreements	-	-	2 062 365	-	727 651	2 790 016
Current accounts and deposits from customers	127 419 983	64 851 187	82 843 305	21 932 370	-	297 046 845
Own securities issued	9 522 228	-	22 400 736	204 533	-	32 127 497
Other borrowed funds	-	-	12 802 195	-	-	12 802 195
Other liabilities	820 228	146 624	26 479	12 436	1 433 823	2 439 590
Current income tax payable	-	-	-	-	948	948
Deferred tax liability	-	-	-	-	55 645	55 645
Subordinated borrowings	-	-	21 817 689	-	-	21 817 689
Total liabilities	156 438 827	65 264 674	178 690 445	22 149 339	7 808 401	430 351 686

Segment breakdown of assets and liabilities as at 31 December 2009 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Reconciling items	Total
Cash and cash equivalents	310 690	3 165 183	3 306 028	-	101 540 747	108 322 648
Obligatory reserves with central banks	-	-	-	-	3 149 729	3 149 729
Placements with banks and other financial institutions	-	-	799 651	-	4 276 149	5 075 800
Financial assets at fair value through profit or loss	-	-	40 733 985	-	1 017 853	41 751 838
Amounts receivable under reverse repurchase agreements	-	-	781 484	-	9 298 817	10 080 301
Loans to customers	215 838 586	29 263 150	2 864 920	18 454 923	-	266 421 579
Investments available for sale	35 083	-	-	-	-	35 083
Investments held to maturity	-	-	3 155 879	-	4 049 059	7 204 938
Assets held for sale	-	-	2 600 001	-	-	2 600 001
Other assets	50 305	39 096	456 545	-	1 554 369	2 100 315
Current income tax prepayments	-	-	-	-	660 877	660 877
Deferred tax asset	-	-	-	-	600 326	600 326
Property and equipment	-	-	-	-	23 207 942	23 207 942
Total assets	216 234 664	32 467 429	54 698 493	18 454 923	149 355 868	471 211 377
Financial liabilities at fair value through profit or loss	-	-	1 062 892	-	189 333	1 252 225
Deposits and balances from banks and other financial institutions	31 931 655	287 892	20 929 270	-	11 631 573	64 780 390
Amounts payable under repurchase agreements	-	-	-	-	60 697	60 697
Current accounts and deposits from customers	151 215 992	60 094 772	59 208 507	17 127 538	1 902 030	289 548 839
Own securities issued	7 581 954	-	35 755 011	317 747	-	43 654 712
Other borrowed funds	-	-	13 819 410	-	-	13 819 410
Other liabilities	350 842	-	205 307	5 132	1 239 707	1 800 988
Current income tax payable	-	-	-	-	27 341	27 341
Deferred tax liability	-	-	-	-	313 033	313 033
Subordinated borrowings	-	-	17 748 361	-	-	17 748 361
Total liabilities	191 080 443	60 382 664	148 728 758	17 450 417	15 363 714	433 005 996

Segment information for the reportable business segments for the year ended 31 December 2010 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Reconcil- ing items	Total
Interest income	29 304 099	6 308 365	5 230 128	4 423 435	1 055 163	46 321 190
Interest expense	(7 673 523)	(4 764 963)	(12 802 442)	(230 151)	(240 934)	(25 712 013)
Net interest income	21 630 576	1 543 402	(7 572 314)	4 193 284	814 229	20 609 177
Net revenue from other segments	(10 802 992)	2 601 585	12 574 686	(1 605 434)	(2 767 845)	-
Fee and commission income	4 011 171	2 147 815	350 349	1 037 970	12 675	7 559 980
Fee and commission expense	(465 857)	(799 486)	(158 118)	(49 397)	(49 842)	(1 522 700)
Net fee and commission income	3 545 314	1 348 329	192 231	988 573	(37 167)	6 037 280
Net loss on financial instruments at fair value through profit or loss and loss on early redemption of senior loan participation notes	-	-	(732 533)	-	382 380	(350 153)
Net foreign exchange gain	345 739	-	473 610	29 010	(233 899)	614 460
Other income and expense	849 073	185 282	12 150	82 015	181 373	1 309 893
Operating income of the segment	15 567 710	5 678 598	4 947 830	3 687 448	(1 660 929)	28 220 657
Loan impairment charge	(5 700 997)	(4 399 215)	133 030	(368 532)	-	(10 335 714)
Other impairment charge	39 185	-	57 548	3	(179 314)	(82 578)
Loss on revaluation of property	-	-	-	-	(68 021)	(68 021)
General and administrative expenses	(4 241 496)	(5 987 981)	(1 143 591)	(3 007 819)	(473 975)	(14 854 862)
Operating expenses	(9 903 308)	(10 387 196)	(953 013)	(3 376 348)	(721 310)	(25 341 175)
Profit/(loss) before income tax	5 664 402	(4 708 598)	3 994 817	311 100	(2 382 239)	2 879 482
Income tax (charge)/benefit	(791 453)	657 905	(558 174)	(43 468)	332 857	(402 333)
Profit/(loss) for the year after tax	4 872 949	(4 050 693)	3 436 643	267 632	(2 049 382)	2 477 149
Revenue of the segment	34 510 082	8 641 462	6 066 237	5 572 430	1 015 312	55 805 523

Segment information for the reportable business segments for the year ended 31 December 2009 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Reconcil- ing items	Total
Interest income	38 334 765	7 500 357	4 675 116	4 089 688	-	54 599 926
Interest expense	(10 154 070)	(3753 364)	(14 584 448)	(208 509)	(170 569)	(28 870 960)
Net interest income	28 180 695	3 746 993	(9 909 332)	3 881 179	(170 569)	25 728 966
Net revenue from other segments	(13 539 017)	(1 406 685)	12 425 163	(1 756 713)	4 277 252	-
Fee and commission income	3 229 695	2 378 826	648 477	684 521	70 559	7 012 078
Fee and commission expense	(445 815)	(512 315)	(430 796)	(15 704)	(2 216)	(1 406 846)
Net fee and commission income	2 783 880	1 866 511	217 681	668 817	68 343	5 605 232
Net gain on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes	20 221	-	1 093 961	-	-	1 114 182
Net foreign exchange gain	336 390	-	39 502	-	-	375 892
Other income and expense	563 394	170 755	(63 317)	135 219	200 015	1 006 066
Operating income of the segment	18 345 563	4 377 574	3 803 658	2 928 502	4 375 041	33 830 338
Loan impairment charge	(12 987 450)	(4 843 295)	(250 083)	(2 760 987)	-	(20 841 815)
Other impairment charge	(16 170)	-	(90 502)	(3)	13 144	(93 531)
Loss on revaluation of property General and administrative expenses	-	-	-	-	(457 918)	(457 918)
Operating expenses	(16 373 639)	(9 961 259)	(1 329 706)	(4 644 456)	(2 146 883)	(34 455 943)
Profit/(loss) before income tax	1 971 924	(5 583 685)	2 473 952	(1 715 954)	2 228 158	(625 605)
Income tax (charge)/benefit	(200 006)	410 306	(134 882)	160 276	(235 942)	(248)
Profit/(loss) for the year after tax	1 771 918	(5 173 379)	2 339 070	(1 555 678)	1 992 216	(625 853)
Revenue of the segment	28 998 349	8 888 696	18 882 219	3 154 687	4 551 202	64 475 153

Analysis of revenues by products and services

The Group's revenues are analysed by products and services in notes 25 (Net interest income), note 26 (fee and commission income) and in note 29 (other income and expense).

Information about major customers

Substantially all revenues from external customers relate to residents of the Russian Federation. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10 per cent of revenues. Substantially all non-current assets are located in the Russian Federation.

34 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit risk (including country and counterparty risk), market risk, which includes price, interest rate and currency risks, and liquidity risk.

2010 had passed with uncertainty and turbulence on currency, equity, debt, commodities and other markets. The significant uncertainty in the development of global markets and the world economy affected the Russian economy and lead to stress situations in many areas. The consequence is a strengthening of the risk management role in business processes.

In 2010 there was active introduction of culture and principles of management of the risks, based on the known world practice and recommendations of Basel Committee on Banking Supervision.

The complex valuation of all significant types of risk, regular development of existing management models of separate types of risks and existing systems of limits and restrictions, timely actualization of all necessary internal documents, have allowed to increase activity in all key business segments of the Group. At the same time the Group possesses reasonable levels of risk.

Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Board of Directors has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Vice-president - Head of Credit Risk Management and the Head of the Financial and Retail Risk Department of the Bank are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. They report directly to the First Vice-president of the Bank, responsible for Finance, Risk Management and operations, and indirectly to the Board of Directors.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee.

Both external and internal risk factors are identified and managed throughout the Group's organizational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Credit Risk Department, Credit Risk Monitoring Department and Financial and Retail Risk Department monitor financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

In 2010 the Group launched a project to prepare integrated risk reporting for all types of banking risks. For these purposes, models of estimation, quantitative and qualitative key performance indicators of risk have been developed. For risks which were estimated at medium and high levels, the Group developed mitigation plans.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the President of the Bank. Market risk limits are approved by ALCO based on recommendations of the Financial and Retail Risk Department and Treasury.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Interest rate risk is the risk of incurring losses and/or gains on financial instruments sensitive to interest rate changes due to change in market interest rates. As a result interest payments may substantially exceed interest receipts.

The management of interest rate risk for the banking book is different compared to interest rate management in respect of the trading portfolios. Banking book interest risks covers all balance sheet instruments sensitive to interest rate changes. The trading book includes debt instruments (bonds, Eurobonds, promissory notes etc.) measured at their fair values through profit or loss.

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. The Financial and Retail Risk Department monitors on a monthly basis and sets limits for the level of mismatch of interest rate repricing that may be undertaken.

The management of interest rate risk for the banking book by monitoring interest rate gaps is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios.

Interest rate repricing risk

An analysis of sensitivity of net (loss)/profit and equity to interest rate repricing risk based on a most likely scenario of a 200 basis points (bp) and 100 bp symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities (except for current accounts and demand deposits that are considered to have negligible and stable interest rates) existing as at 31 December 2010 and 2009, respectively, is as follows:

2010		2009	
200 bp parallel increase	200 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
(97 699)	116 098	367 771	(114 874)

Fair value interest rate risk

An analysis of sensitivity of the net (loss)/profit and equity as a result of changes in fair value of debt securities due to changes in the interest rates (also known as price value basis point (“PVBP”) based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 200 bp and 100 bp, respectively, rise or fall in all yield curves is as follows:

2010		2009	
200 bp parallel increase	200 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
(982 880)	982 880	(472 560)	472 560

Total effect of interest rate risk is as follows:

2010		2009	
200 bp parallel increase	200 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
(1 080 579)	1 098 978	(104 789)	357 686

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The table below summarizes the exposure to interest rate risk, as at 31 December 2010. Included in the tables are the financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents	17 185 004	-	-	-	-	27 997 245	45 182 249
Obligatory reserves with central banks	448 850	-	-	-	-	2 567 026	3 015 876
Placements with banks and other financial institutions	2 695 667	2 598 827	6 818 780	8 758	-	-	12 122 032
Financial assets at fair value through profit or loss	1 779 229	11 136 406	9 159 138	21 713 166	1 831 481	385 152	46 004 572
Amounts receivable under reverse repurchase agreements	15 949 846	-	-	-	-	-	15 949 846
Loans to customers	49 338 469	109 810 827	54 694 203	89 413 509	7 690 635	-	310 947 643
Investments available for sale	-	-	-	-	-	2 203 213	2 203 213
Investments held to maturity	-	1 049 615	3 536	2 878 416	35 344	-	3 966 911
Other financial assets	-	-	-	-	-	748 032	748 032
Total financial assets	87 397 065	124 595 675	70 675 657	114 013 849	9 557 460	33 900 668	440 140 374
Financial liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1 593 384	1 593 384
Deposits and balances from banks and other financial institutions	23 071 255	25 929 572	10 220 892	456 158	-	-	59 677 877
Amounts payable under repurchase agreements	2 790 016	-	-	-	-	-	2 790 016
Current accounts and deposits from customers	117 374 558	87 235 044	72 247 031	20 190 212	-	-	297 046 845
Own securities issued	1 528 659	12 076 537	10 234 755	8 287 546	-	-	32 127 497
Other borrowed funds	786	6 996 854	749 660	5 054 895	-	-	12 802 195
Other financial liabilities	-	-	-	-	-	1 046 923	1 046 923
Subordinated borrowings	530 454	130 855	-	12 107 795	9 048 585	-	21 817 689
Total financial liabilities	145 295 728	132 368 862	93 452 338	46 096 606	9 048 585	2 640 307	428 902 426
		(7 773)					
Interest rate sensitivity gap	(57 898 663)	187	(22 776 681)	67 917 243	508 875	31 260 361	11 237 948
		(7 773)					
Net position on interest bearing assets and liabilities	(57 898 663)	187	(22 776 681)	67 917 243	508 875	31 260 361	11 237 948

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The table below summarizes the exposure to interest rate risk, as at 31 December 2009. Included in the tables are the financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Non interest bearing	Total
Financial assets							
Cash and cash equivalents	65 730 554	-	-	-	-	42 592 094	108 322 648
Obligatory reserves with central bank	477 738	-	-	-	-	2 671 991	3 149 729
Placements with banks and other financial institutions	54 440	5 005 204	14 896	1 260	-	-	5 075 800
Financial assets at fair value through profit or loss	2 450 870	11 595 953	8 762 231	17 261 403	1 462 291	219 090	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	-	-	-	10 080 301
Loans to customers	39 014 553	88 410 254	54 797 613	77 041 937	7 157 222	-	266 421 579
Investments available for sale	-	29 140	-	-	-	5 943	35 083
Investments held to maturity	2 343 922	1 614 762	1 045 719	2 200 535	-	-	7 204 938
Other financial assets	-	-	-	-	-	655 734	655 734
Total financial assets	120 152 378	106 655 313	64 620 459	96 505 135	8 619 513	46 144 852	442 697 650
Financial liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1 252 225	1 252 225
Deposits and balances from banks and other financial institutions	15 648 355	27 219 386	15 274 644	6 638 005	-	-	64 780 390
Amounts payable under repurchase agreements	59 091	781	825	-	-	-	60 697
Current accounts and deposits from customers	96 014 730	97 762 987	82 566 657	13 204 465	-	-	289 548 839
Own securities issued	3 436 096	18 633 170	9 490 596	12 089 816	5 034	-	43 654 712
Other borrowed funds	5 790	12 043 101	-	1 770 519	-	-	13 819 410
Other financial liabilities	-	-	-	-	-	757 107	757 107
Subordinated borrowings	1 108 058	1 680 682	-	6 008 494	8 951 127	-	17 748 361
Total financial liabilities	116 272 120	157 340 107	107 332 722	39 711 299	8 956 161	2 009 332	431 621 741
Interest rate sensitivity gap	3 880 258	(50 684 794)	(42 712 263)	56 793 836	(336 648)	44 135 520	11 075 909
Net off-balance sheet position on interest bearing assets and liabilities	-	3 024 420	(3 024 420)	-	-	-	-
Net position on interest bearing assets and liabilities	3 880 258	(47 660 374)	(45 736 683)	56 793 836	(336 648)	44 135 520	11 075 909

Geographical concentration

Assets and liabilities are classified depending on the country in which the counterparties are located. Balances with off-shore companies of Russian counterparties are allocated to the caption Russian Federation. Cash is allocated based on the country in which it is physically held. Own securities issued are allocated based on the country of the first holder.

The geographical concentration of financial assets and financial liabilities as of 31 December 2010 is as follows:

	Russian Federation	Non-OECD countries	OECD countries	Total
Financial assets				
Cash and cash equivalents	31 590 796	575 950	13 015 503	45 182 249
Obligatory reserves with central banks	2 567 026	448 850	-	3 015 876
Placements with banks and other financial institutions	458	12 121 574	-	12 122 032
Financial assets at fair value through profit or loss	45 739 484	201 890	63 198	46 004 572
Amounts receivable under reverse repurchase agreements	15 003 685	946 161	-	15 949 846
Loans to customers	310 947 643	-	-	310 947 643
Investments available for sale	2 197 713	-	5 500	2 203 213
Investments held to maturity	3 966 911	-	-	3 966 911
Other financial assets	183 478	-	564 554	748 032
Total financial assets	412 197 194	14 294 425	13 648 755	440 140 374
Financial liabilities				
Financial liabilities at fair value through profit or loss	1 037 488	5 880	550 016	1 593 384
Deposits and balances from banks and other financial institutions	21 255 141	5 281 368	33 141 368	59 677 877
Amounts payable under repurchase agreements	1 642 229	-	1 147 787	2 790 016
Current accounts and deposits from customers	272 703 247	20 962 503	3 381 095	297 046 845
Own securities issued	25 010 287	1 483 195	5 634 015	32 127 497
Other borrowed funds	2 806 701	-	9 995 494	12 802 195
Other financial liabilities	1 046 923	-	-	1 046 923
Subordinated borrowings	6 025 075	1 798 161	13 994 453	21 817 689
Total financial liabilities	331 527 091	29 531 107	67 844 228	428 902 426
Net position as at 31 December 2010	80 670 103	(15 236 682)	(54 195 473)	11 237 948

The geographical concentration of financial assets and financial liabilities as of 31 December 2009 was as follows:

	Russian Federation	Non-OECD countries	OECD countries	Total
Financial assets				
Cash and cash equivalents	51 118 441	1 467 009	55 737 198	108 322 648
Obligatory reserves with central banks	2 671 991	477 738	-	3 149 729
Placements with banks and other financial institutions	-	5 075 800	-	5 075 800
Financial assets at fair value through profit or loss	41 715 323	23 281	13 234	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	10 080 301
Loans to customers	266 421 579	-	-	266 421 579
Investments available for sale	29 167	-	5 916	35 083
Investments held to maturity	7 204 938	-	-	7 204 938
Other financial assets	226 375	-	429 359	655 734
Total financial assets	379 468 115	7 043 828	56 185 707	442 697 650
Financial liabilities				
Financial liabilities at fair value through profit or loss	247 562	35 317	969 346	1 252 225
Deposits and balances from banks and other financial institutions	11 695 090	13 983 848	39 101 452	64 780 390
Amounts payable under repurchase agreements	60 697	-	-	60 697
Current accounts and deposits from customers	269 796 214	15 522 244	4 230 381	289 548 839
Own securities issued	29 887 019	4 665 480	9 102 213	43 654 712
Other borrowed funds	1 776 309	-	12 043 101	13 819 410
Other financial liabilities	757 107	-	-	757 107
Subordinated borrowings	3 639 344	1 547 768	12 561 249	17 748 361
Total financial liabilities	317 859 342	35 754 657	78 007 742	431 621 741
Net position as at 31 December 2009	61 608 773	(28 710 829)	(21 822 035)	11 075 909

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. In addition to the total open foreign exchange position limit, position limits on each currency, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for net off balance sheet foreign exchange positions in order to mitigate market risk for currency trading.

The Group is exposed to currency risk due to the fact that its assets and liabilities are denominated in different currencies as well as due to existence of open currency positions resulting from foreign currency transactions. The Group manages currency risk by ensuring maximum possible correspondence between the currency of its assets and the currency of its liabilities by currency within established limits. In respect of currency risk, management reviews the currency position and sets limits on the level of exposure by currency and in total for both end of banking day and intra-day positions, which are monitored daily.

The following table shows the currency structure of financial assets and financial liabilities as at 31 December 2010:

	RUB	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	23 968 729	12 647 595	4 428 368	4 137 557	45 182 249
Obligatory reserves with central banks	2 567 027	-	448 849	-	3 015 876
Placements with banks and other financial institutions	14 494	5 605 817	6 501 721	-	12 122 032
Financial assets at fair value through profit or loss	36 310 744	5 695 180	3 979 340	19 308	46 004 572
Amounts receivable under reverse repurchase agreements	15 949 846	-	-	-	15 949 846
Loans to customers	180 809 109	107 291 732	22 198	648 187	310 947 643
Investments available for sale	2 197 714	-	5 499	-	2 203 213
Investments held to maturity	3 874 209	92 702	-	-	3 966 911
Other financial assets	137 764	590 505	19 337	426	748 032
Total financial assets	265 829 636	131 923 531	37 581 729	4 805 478	440 140 374
Financial liabilities					
Financial liabilities at fair value through profit or loss	1 020 926	558 638	6 666	7 154	1 593 384
Deposits and balances from banks and other financial institutions	21 613 417	22 249 044	15 523 536	291 880	59 677 877
Amounts payable under repurchase agreements	1 642 229	1 147 787	-	-	2 790 016
Current accounts and deposits from customers	205 236 349	58 505 159	29 484 504	3 820 833	297 046 845
Own securities issued	22 538 569	9 361 557	227	-	32 127 497
Other borrowed funds	2 806 700	9 995 495	-	-	12 802 195
Other financial liabilities	858 243	167 886	20 644	150	1 046 923
Subordinated borrowings	-	21 817 689	-	-	21 817 689
Total financial liabilities	255 716 433	123 803 255	45 262 721	4 120 017	428 902 426
Net on balance sheet position as at 31 December 2010	10 113 203	8 120 276	(7 680 992)	685 461	11 237 948
Net off balance sheet position as at 31 December 2010	7 298 131	(12 649 946)	5 723 363	(371 548)	-
Net on and off balance sheet positions as at 31 December 2010	17 411 334	(4 529 670)	(1 957 629)	313 913	11 237 948
Guarantees issued as at 31 December 2010	52 680 003	9 128 742	1 068 351	12 197	62 889 293
Other credit related commitments as at 31 December 2010	39 143 100	17 406 422	4 709 490	61 364	61 320 376

The following table shows the currency structure of financial assets and financial liabilities as at 31 December 2009:

	RUB	USD	EUR	Other	Total
Financial assets					
Cash and cash equivalents	35 312 781	35 890 076	36 360 605	759 186	108 322 648
Obligatory reserves with central banks	2 671 991	-	477 738	-	3 149 729
Placements with banks and other financial institutions	19 458	4 810 064	246 278	-	5 075 800
Financial assets at fair value through profit or loss	30 080 767	6 643 128	4 779 739	248 204	41 751 838
Amounts receivable under reverse repurchase agreements	10 065 812	14 489	-	-	10 080 301
Loans to customers	135 845 198	106 729 949	23 324 690	521 742	266 421 579
Investments available for sale	29 167	-	5 916	-	35 083
Investments held to maturity	7 071 017	133 921	-	-	7 204 938
Other financial assets	617 190	11 045	26 947	552	655 734
Total financial assets	221 713 381	154 232 672	65 221 913	1 529 684	442 697 650
Financial liabilities					
Financial liabilities at fair value through profit or loss	8 896	1 234 478	8 609	242	1 252 225
Deposits and balances from banks and other financial institutions	12 747 135	26 721 540	24 932 757	378 958	64 780 390
Amounts payable under repurchase agreements	60 697	-	-	-	60 697
Current accounts and deposits from customers	174 973 780	64 495 346	49 543 600	536 113	289 548 839
Own securities issued	20 184 568	20 466 409	3 003 735	-	43 654 712
Other borrowed funds	1 776 309	12 043 101	-	-	13 819 410
Other financial liabilities	593 815	106 384	56 908	-	757 107
Subordinated borrowings	1 551 047	16 197 314	-	-	17 748 361
Total financial liabilities	211 896 247	141 264 572	77 545 609	915 313	431 621 741
Net on balance sheet position as at 31 December 2009	9 817 134	12 968 100	(12 323 696)	614 371	11 075 909
Net off balance sheet position as at 31 December 2009	6 792 278	(16 714 612)	10 577 182	(654 848)	-
Net on and off balance sheet positions as at 31 December 2009	16 609 412	(3 746 512)	(1 746 514)	(40 477)	11 075 909
Guarantees issued as at 31 December 2009	31 808 398	5 082 622	1 546 338	-	38 437 358
Other credit related commitments as at 31 December 2009	18 053 878	12 456 205	2 626 032	-	33 136 115

The following table presents an analysis of sensitivity of net (loss)/profit and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a percentage change in all foreign currencies to Russian Rouble exchange rate. Currency risk has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is estimated by management and is contained within the risk reports provided to key management personnel.

	2010	2009
Appreciation of USD against RUB (2010: 2%; 2009: 3%)	(72 475)	(91 091)
Depreciation of USD against RUB (2010: 2%; 2009: 3%)	72 475	91 091
Appreciation of EUR against RUB (2010: 5%; 2009: 3%)	(78 305)	(42 147)
Depreciation of EUR against RUB (2010: 5%; 2009: 3%)	78 305	42 147
Appreciation of other currencies against RUB (2010: 2%; 2009: 3%)	5 023	(1 325)
Depreciation of other currencies against RUB (2010: 2%; 2009: 3%)	(5 023)	1 325

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

In addition to the total equity trading position limit, position limits on each issuer, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for its equity trading portfolio in order to mitigate market risk.

An analysis of sensitivity of net (loss)/profit and equity to changes in securities prices based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 3% increase in all securities prices is as follows:

	2010	2009
Corporate shares at fair value through profit or loss	6 309	3 451

Credit risk

Credit risk is the risk of financial losses occurring as a result of default by a borrower or counterparty on the obligations to the Group. The Group has policies and procedures for the identification, assessment, control and management of credit risk, and also all necessary related regulations and methodologies, including those in respect of the borrower's financial condition. Governing bodies involved in implementation of the credit policy are the Credit Committee, the Committee on Assets and Liabilities Management and the Management Board. These bodies establish crediting principles, make decisions on specific credit projects, set limits for counterparties, and also determine aggregate limits for instruments exposed to credit risk.

The credit policy establishes:

- principles of arrangement of credit process and types of lending limits;
- basic requirements of the clients;
- lending priorities, including the priority sectors of the economy to be credited;
- risks not accepted by the Group.

Corporate

In the 2010 the Group has been implementing a project of reengineering the loan process and credit risk management for corporate clients.

To improve the credit analysis of clients the Group has started to develop guidelines for analysis of customer characteristics of different industries and activities. The Group also introduced simplified procedures for the analysis of separate group of customers, which has good financial and economic position, and procedures for certain types of loan products, which has low level of credit risk for the Group.

In order to transition to a quantifiable measure of credit risk and to use a risk-pricing system the Group has developed a new model of internal credit ratings of corporate clients. The model is a formal assessment of a client's ability to execute its financial obligations. In the 2011 the model will operate in test conditions, and then the model will be fully implemented in .

Taking into account positive changes of the macroeconomic conditions, recovery of market competition in 2010, the Group clarified priority industries for the purpose of lending, adjusted requirements to the financial condition of customers and collaterals they provide, reviewed the composition and level of portfolio limits.

The project on modernization of the monitoring system established for corporate customers credit limits in 2010 was formalized interaction between departments in collecting and consolidating information on the controlled of limits developed by the order of the detection of violations committed by customers. Provide a safety and structured storage and processing of information on assigned credit limit, with reduced time costs for maintaining the relevant databases.

Monitoring of the lending limits established for clients is conducted on a continuing basis from the time of approval until the termination of the period of the limit. The purpose of monitoring of lending limits is:

- timely detection of a breach by the client of the conditions of the established lending limit;
- identification of possible increase in the level of credit risk of the client;
- compliance with the regulatory requirements established by the CBR regarding the regular assessment of credit risk.

Small and medium business

Regarding the lending to clients of small and medium business, decision-making resides with the Credit Committee of Small and Medium Business. Furthermore, Heads of credit departments may be assigned individual lending approval limits depending on the level of the employee's competence.

The duties of the subdivision in-charge of Credit Risk Management for Small and Medium Business includes ongoing review of policies and assessment of products to understand credit risks, review of standard contracts, and also the monitoring of the credit portfolio of small and medium business.

In 2010 the Group reacted in time to the change in market conditions, having adjusted the credit policy for small and medium business. The Group tightened the conditions for issue of credit products, the required financial position of enterprises, the nature and amount of collateral being accepted. Furthermore, the Group determined priority groups of clients and industries most susceptible to the effect of current market conditions. The policy moved to the granting of more profitable products, reduction of weighted average lending periods and reduction of unsecured products.

In order to provide efficiency of decision-making and minimize losses, risk reporting is regularly presented to management of the Group, in respect of the condition of credit portfolio of small and medium business. This includes reporting that reflects the results of analysis of the reasons for defaults and increase in overdue indebtedness. Results of age analysis of overdue indebtedness have also been developed.

In the 2010 the Group implemented system of automatic processing of loan applications to decrease operating costs, increase level of control over the lending process and increase the quickness of decision-making.

To improve the decision-making process the Group has been formalized and systematized approach to the empowerment of employees to make decisions based on the experience of the staff, position and the quality of his loan portfolio.

To improve the efficiency of bad debt collection process the Group and external consultants has analyzed procedures. Analysis allowed to develop an action plans to improve the situation, including the standardization process, segregation of duties and setting the periodic reporting on the quality of collection.

In the 2010 the Group has been working on the automation of collection process, organizing and storing data about limits, including arrangements for repayment of overdue debt by borrowers represented by small and medium entities.

Retail

In the course of examination of retail credit applications, all applications pass, when examined, through a single system in which the information from credit history bureaus in respect of each borrower is automatically requested. In 2009 a system of centralized credit decision-making in respect of applications for retail credits and credit cards was introduced.

From the end of the 2010 the retail credit policy has been simplified. New rules of credit decision making includes optimization rules of credit history review and development separate scoring cards.

In order to manage retail credit risks, specific methods of analysis of the ageing of overdue, other statistical analysis methods and regular calibration of existing scoring models on the basis of the data of credit history bureaus and internally accumulated statistics of defaults is performed. A special analytical system has been introduced to increase the efficiency of these processes. The purpose of this system is to reduce risks due to the increase of efficiency and effectiveness of monitoring of dynamics of risk-parameters in the context of products and business units (including in the context of branches and supplementary offices of the network). In the fourth quarter of 2010 the new project has been starting. The purpose of the project is optimization of retail lending process regarding decision-making process.

Methods of statistical analysis of retail credit portfolios and analysis of efficiency of performance of collections have been introduced. In addition, an automated system of verification of retail credit applications was launched.

Portfolio limits

A system of portfolio limits - large exposures, related parties, industry limits - operates for the purpose of limitation of credit risk concentration. Monitoring of portfolio limits is performed with use of the principle of early notification – when 90% of a limit is reached, the relevant information is brought to the attention of management. This ensures the efficiency of the making of management decisions aimed at limitation of credit risk in respect of the Group as a whole.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans to customers refer to note 9 “Loans to customers”.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements;

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored by the Treasury Department. Liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

In 2008 the Group approved a system of limits for liquidity risk that was based on the known work practices and Basel Committee recommendations.

In 2009 the system of limits of liquidity risk was updated and expanded due to the stress situations that occurred in the economy.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia. The Bank was in compliance with these ratios during the years ended 31 December 2010 and 2009.

As at 31 December 2010 and 2009 the contractual maturities of securities included into financial assets at fair value through profit or loss are as follows:

	2010	2009
Less than 1 month	1 895 374	1 359 491
1 to 6 months	9 833 921	7 388 862
6 months to 1 year	7 293 956	7 359 086
1 year to 5 years	21 508 024	20 718 176
More than 5 years	5 088 143	4 707 133
No maturity	262 896	143 802
	45 882 314	41 676 550

As at 31 December 2010 and 2009 the contractual maturities or offer date of securities included into investments held to maturity were as follows:

	2010	2009
Less than 1 month	24 754	2 343 922
1 to 6 months	1 052 442	1 614 762
6 months to 1 year	11 787	1 045 719
1 year to 5 years	2 843 246	2 200 535
More than 5 years	34 682	-
	3 966 911	7 204 938

The maturity table below shows assets and liabilities by their remaining contractual maturity as at 31 December 2010 and 2009, with the exception of securities included into financial assets at fair value through profit or loss as at 31 December 2010. Securities approved by the CBR as collateral for its loans are shown in the category “Less than 1 month”, other securities are shown in accordance with their remaining contractual maturity as at 31 December 2010.

Domestic bonds issued are presented in the table below in accordance with their put dates. The contractual maturity dates are presented in note 19.

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding.

As at 31 December 2010 the Group included part of current accounts from customers amounting to RUB 57 484 344 thousand (31 December 2009: RUB 40 259 596 thousand) in the category “From 1 to 6 months” based on historical experience of stable customer current accounts.

Overdue assets are classified within the “Demand and less than 1 month” column. As at 31 December 2010 overdue assets classified within this category amount to RUB 13 686 048 thousand (2009: RUB 17 093 554 thousand).

The Group includes assets held for sale in the category “From 6 months to 1 year” as management is planning to sell these assets during 2011 and is actively searching for an interested investor.

The closed unit investment fund included in investments available-for-sale is shown in the category “From 1 to 6 months” as the management believes it can be sold within a short period of time.

The Group has undrawn lines of credit with the CBR and other financial institutions. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR and other financial institutions mentioned above.

Promsvyazbank**Notes to the consolidated financial statements – year ended 31 December 2010***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following table shows the maturity analysis of financial assets and financial liabilities as monitored by management as of 31 December 2010:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
Financial assets							
Cash and cash equivalents	45 182 249	-	-	-	-	-	45 182 249
Obligatory reserves with central banks	567 083	1 460 004	757 815	249 996	(19 022)	-	3 015 876
Placements with banks and other financial institutions	2 695 667	2 598 827	6 818 780	8 758	-	-	12 122 032
Financial assets at fair value through profit or loss	32 874 973	3 257 688	1 489 849	5 415 067	2 704 109	262 886	46 004 572
Amounts receivable under reverse repurchase agreements	15 949 846	-	-	-	-	-	15 949 846
Loans to customers	44 135 209	103 968 742	56 348 063	97 857 035	8 638 594	-	310 947 643
Investments available for sale	-	-	1 948 931	-	-	254 282	2 203 213
Investments held to maturity	24 754	1 052 442	11 787	2 843 246	34 682	-	3 966 911
Other financial assets	748 032	-	-	-	-	-	748 032
Total financial assets	142 177 813	112 337 703	67 375 225	106 374 102	11 358 363	517 168	440 140 374
Financial liabilities							
Financial liabilities at fair value through profit or loss	1 575 982	16 089	1 313	-	-	-	1 593 384
Deposits and balances from banks and other financial institutions	21 562 175	13 959 090	14 104 519	9 467 421	584 672	-	59 677 877
Amounts payable under repurchase agreements	2 790 016	-	-	-	-	-	2 790 016
Current accounts and deposits from customers	59 825 740	144 655 742	72 346 004	20 219 359	-	-	297 046 845
Own securities issued	1 528 659	12 076 537	10 234 755	8 287 546	-	-	32 127 497
Other borrowed funds	785	4 976 642	1 003 674	6 821 094	-	-	12 802 195
Other financial liabilities	296 697	188 563	272 426	272 278	504	16 455	1 046 923
Subordinated borrowings	530 454	130 855	-	12 107 795	9 048 585	-	21 817 689
Total financial liabilities	88 110 508	176 003 518	97 962 691	57 175 493	9 633 761	16 455	428 902 426
Net liquidity position as at 31 December 2010	54 067 305	(63 665 815)	(30 587 466)	49 198 609	1 724 602	500 713	11 237 948
Cumulative liquidity position as at 31 December 2010	54 067 305	(9 598 510)	(40 185 976)	9 012 633	10 737 235	11 237 948	

Promsvyazbank**Notes to the consolidated financial statements – year ended 31 December 2010***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following table shows the maturity of financial assets and financial liabilities analysis as monitored by management as of 31 December 2009:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
Financial assets							
Cash and cash equivalents	108 322 648	-	-	-	-	-	108 322 648
Obligatory reserves with central banks	529 442	1 525 782	842 908	250 342	1 255	-	3 149 729
Placements with banks and other financial institutions	54 440	5 005 204	14 896	1 260	-	-	5 075 800
Financial assets at fair value through profit or loss	28 291 316	3 013 940	4 855 384	4 583 218	864 178	143 802	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	-	-	-	10 080 301
Loans to customers	35 585 134	84 117 954	56 091 715	81 009 658	9 617 118	-	266 421 579
Investments available for sale	29 140	-	-	-	-	5 943	35 083
Investments held to maturity	6 897 006	74 136	31 132	202 664	-	-	7 204 938
Other financial assets	612 225	-	-	-	-	43 509	655 734
Total financial assets	190 401 652	93 737 016	61 836 035	86 047 142	10 482 551	193 254	442 697 650
Financial liabilities							
Financial liabilities at fair value through profit or loss	774 416	436 782	41 027	-	-	-	1 252 225
Deposits and balances from banks and other financial institutions	14 537 628	16 120 298	17 911 108	15 128 389	1 082 967	-	64 780 390
Amounts payable under repurchase agreements	59 091	781	825	-	-	-	60 697
Current accounts and deposits from customers	54 084 230	138 593 768	83 246 764	13 624 077	-	-	289 548 839
Own securities issued	3 436 096	18 633 170	9 490 596	12 089 816	5 034	-	43 654 712
Other borrowed funds	5 790	7 229 831	895 564	5 559 303	128 922	-	13 819 410
Other financial liabilities	108 671	279 091	176 045	109 127	571	83 602	757 107
Subordinated borrowings	203 249	187 266	-	6 913 303	10 444 543	-	17 748 361
Total financial liabilities	73 209 171	181 480 987	111 761 929	53 424 015	11 662 037	83 602	431 621 741
Net liquidity position as at 31 December 2009	117 192 481	(87 743 971)	(49 925 894)	32 623 127	(1 179 486)	109 652	11 075 909
Cumulative liquidity position as at 31 December 2009	117 192 481	29 448 510	(20 477 384)	12 145 743	10 966 257	11 075 909	

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

The gross undiscounted cash flows as at 31 December 2010 are as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	21 627 859	14 501 590	14 395 919	9 851 603	612 236	-	60 989 207	59 677 877
Amounts payable under repurchase agreements	2 791 914	-	-	-	-	-	2 791 914	2 790 016
Current accounts and deposits from customers	117 959 828	89 663 479	73 966 927	21 957 520	-	-	303 547 754	297 046 845
Own securities issued	1 544 811	12 517 363	11 021 695	9 571 766	-	-	34 655 635	32 127 497
Other borrowed funds	1 312	5 253 714	1 255 356	7 669 942	-	-	14 180 324	12 802 195
Other financial liabilities	296 697	188 563	272 426	272 278	504	16 455	1 046 923	1 046 923
Subordinated borrowings	540 965	678 728	1 220 366	19 509 868	10 792 634	-	32 742 561	21 817 689
Spot, derivative and trading liabilities								
- Inflow	(43 743 521)	(3 898 759)	(2 862 200)	-	-	-	(50 504 480)	(122 258)
- Outflow	45 244 767	3 878 450	2 474 631	-	-	-	51 597 848	1 593 384
Total	146 264 632	122 783 128	101 745 120	68 832 977	11 405 374	16 455	451 047 686	428 780 168
Credit related commitments	124 209 669	-	-	-	-	-	124 209 669	124 209 669

The gross undiscounted cash flows as at 31 December 2009 was as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	14 550 988	16 441 693	19 049 348	16 096 936	1 134 559	-	67 273 524	64 780 390
Amounts payable under repurchase agreements	59 132	796	887	-	-	-	60 815	60 697
Current accounts and deposits from customers	95 221 201	103 784 912	87 138 114	14 479 499	-	-	300 623 726	289 548 839
Own securities issued	3 512 860	19 469 109	10 423 033	14 687 479	5 034	-	48 097 515	43 654 712
Other borrowed funds	15 838	7 516 279	1 076 096	6 233 122	133 025	-	14 974 360	13 819 410
Other financial liabilities	108 671	279 091	176 045	109 127	571	83 602	757 107	757 107
Subordinated borrowings	193 145	799 542	991 746	13 295 560	12 326 498	-	27 606 491	17 748 361
Spot, derivative and trading liabilities								
- Inflow	(40 008 865)	(8 306 418)	(4 740 113)	-	-	-	(53 055 396)	(75 288)
- Outflow	40 721 873	8 659 610	4 090 890	-	-	-	53 472 373	1 252 225
Total	114 374 843	148 644 614	118 206 046	64 901 723	13 599 687	83 602	459 810 515	431 546 453
Credit related commitments	71 573 473	-	-	-	-	-	71 573 473	71 573 473

Operational risk

Operational risk is the risk of losses from inadequacy or failure of internal processes or systems or from external events. The Group's operational risk management strategy, developed and approved by the Management Board, provides for identification, assessment, monitoring and control of operational risks and allocates operational risk management responsibilities. Fraud risk forms a separate type of operational risk.

The Group manages its operational and legal risks, fraud risk and reputational risk through internal monitoring and compliance policies.

The Internal Control Department ("ICD") reviews all internal documentation in order to identify potential shortfalls in internal control procedures and business operations, notifies the Management Board of violations and supervises the correction of such violations. The ICD, the Legal Department, Financial and Retail Risk Department together with other divisions monitor compliance with, and seek to ensure the proper functioning of, internal policies and procedures designed to minimize operational and legal risks, respectively, and also monitor compliance with relevant Russian legislation. The head of the ICD reports directly to the Group's President and Board of Directors.

The Group conducts the majority of its transactions using standard forms approved by its Legal Department. The Legal Department reviews all non-standard forms before the relevant transactions take place.

The Group has in place internal documents and procedures that set forth the job descriptions and responsibilities of its personnel. The decision-making capacity and authority of particular departments and members of management are strictly regulated. The Group is also in the process of developing internal documents describing all of its business processes in compliance with existing legislation.

The Group applies various kinds of insurance to minimize potential loss from transaction risks, including insurance of cash in transit, other property and obligatory deposit insurance. The Bank has also an insurance policy covering numerous types of operational losses including losses from fraud and crimes committed in the electronic and computer area (Bankers Blanket Bond).

The Operational and Fraud Prevention Division of the Financial and Retail Risk Department is responsible for risks detection and valuation, development of instructions for risks minimization and aggregation of occurred losses database. A separate database exists for registering all known fraud cases as well as databases for legal issues and reputational damages.

The developed approach of determination of key risk indicators allows the Group to monitor the level of operational risk and forecasts the possibility of operational risk events in the future. This will help the Group to move to the advanced approach of risk analysis in accordance with Basel II.

35 Capital management

The Bank monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I. The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2010:

	2010	2009
Tier 1 Capital		
Share capital	11 511 052	10 062 544
Share premium	17 303 093	13 319 695
Additional paid-in-capital	81 919	1 056 102
Retained earnings	13 242 167	11 147 632
Non-controlling interest	-	265 341
Total tier 1 capital	42 138 231	35 851 314
Tier 2 Capital		
Asset revaluation reserves	2 717 232	2 353 907
Revaluation reserve of investments available for sale	(80 230)	160
Subordinated debt excluding accrued interest	15 847 988	13 612 802
Total Capital	60 623 221	51 818 183
Risk-weighted assets		
Banking book	390 838 100	332 027 436
Trading book	30 663 840	29 913 496
Total Risk-weighted assets	421 501 940	361 940 932
Tier 1 Ratio	10.00%	9.91%
Total Capital Adequacy Ratio	14.38%	14.32%

As at 31 December 2010 and 2009 included in Tier 2 Capital is RUB 15 847 988 thousand and RUB 13 612 802 thousand, respectively, of subordinated debt net of accrued interest, which represent loans and subordinated loan participation notes issued by the Group with the following conditions:

- original maturity is not less than 5 years;
- creditors have no right to claim the deposits before maturity;
- in the event of bankruptcy or default, subordinated deposits and loan participation notes are to be repaid only after the settlement of all other liabilities.

Long-term subordinated debt may not exceed 50% of tier 1 capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under syndicated loans and a subordinated loan from EBRD. These covenants prescribe that the Group must maintain a total capital adequacy ratio not less than 12%. The Group complied with all externally imposed capital requirements during the years ended 31 December 2010 and 2009.

The Group also monitors capital requirements set by the Central Bank of Russia for credit institutions. Under the current capital requirements banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 31 December 2010, this minimum level is 10%. The Bank was in compliance with the statutory requirements related to the capital ratio during the years ended 31 December 2010 and 2009.

36 Spot and derivative financial instruments

Spot and derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recorded in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the exposure to credit or price risks. The spot and derivative financial instruments become favorable (asset) or unfavorable (liability) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of spot and derivative financial instruments held and the aggregate fair values of spot and derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of spot and derivative instruments held are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2010 and 2009, respectively.

	2010			2009		
	Contract/ notional amount	Fair value Assets	Liabilities	Contract/ notional amount	Fair value Assets	Liabilities
Foreign currency spot and derivative contracts						
Foreign currency spot contracts	10 829 501	8 876	(11 603)	11 544 717	13 903	(20 184)
Foreign currency forward contracts	5 203 727	37 952	(7 510)	6 927 963	7 998	(37 394)
Foreign currency swap contracts	31 517 133	55 686	(71 684)	30 029 687	32 113	(667 372)
Precious metals derivative contracts						
Precious metal forward contracts with floating rates	2 748 669	19 172	-	4 646 013	21 274	-
Securities derivative contracts						
Securities forward contracts	90 628	572	-	-	-	-
Other derivative contracts						
Interest rate swaps	-	-	-	9 073 260	-	(168 814)
Total recognised spot and derivative assets/(liabilities)		122 258	(90 797)		75 288	(893 764)

At 31 December 2010, the total positive fair value of spot and derivative financial instruments amounting to RUB 122 258 thousand (2009: RUB 75 288 thousand) is disclosed in note 7, and the total negative fair value amounting to RUB 90 797 thousand (2009: RUB 893 764 thousand) is disclosed in note 15.

37 Credit related and capital commitments

Credit related commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments and contingent liabilities as at 31 December 2010 and 2009 are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2010	2009
Contracted amount		
Guarantees	62 889 293	38 437 358
Undrawn overdraft facilities	48 438 691	25 159 134
Import letters of credit	5 969 835	3 529 135
Undrawn loan facilities	6 911 850	4 447 846

Undrawn overdraft facilities and undrawn loan facilities are unconditionally cancellable at any time.

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Maturity and currency analyses of credit related commitments are disclosed in note 34. The information on related party balances is disclosed in note 43.

Capital commitments

The Group has capital commitments in respect of acquired investment rights for 29 530 square meters of an office building under construction by a Russian developer in the amount of USD 8 million (RUB 239 640 thousand) payable in 2011.

Compliance with covenants

The Group has to comply with certain covenants, primarily related to loans from other banks and other borrowed funds. These covenants include:

General business covenants, such as business conduct and reasonable prudence, conformity with legal requirements of the country, in which the company is located, maintenance of accurate accounting records, implementation of controls, performance of independent audits, etc.;

Restrictive covenants, including constraints (without lender's consent) in respect of dividend payments and other distributions, and changes in the shareholding structure, restrictions on individual types of activities, use of assets and certain types of transactions;

Financial covenants, such as meeting certain liquidity and capital adequacy requirements, the amount of certain type of liabilities, risk per customer, profit before taxes to total assets ratio, amount of related party transactions; and

Reporting covenants, obliging the Group to provide its audited consolidated financial statements to the lender, as well as certain additional financial information and any other documents upon request.

Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. As at 31 December 2010 and 31 December 2009 the Group's management believes that the Group fully meets all covenants of agreements.

38 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2010	2009
Less than one year	555 766	702 490
From one to five years	1 168 556	1 344 743
More than five years	380 327	367 427
	2 104 649	2 414 660

The Group leases a number of premises under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the year ended 31 December 2010 RUB 702 831 thousand was recognised as an expense in profit or loss in respect of operating leases (2009: RUB 796 951 thousand). Refer to note 31.

39 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the consolidated financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may

remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

40 Custody activities

The Group provides custody services to its customers whereby it holds securities on behalf of customers and receives fee income for providing these services. For the year ended 31 December 2010 and 2009 the Group received fee income for custody services amounting to RUB 1,094 thousand and RUB 1,315 thousand, respectively. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

41 Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of *IFRS 7 “Financial Instruments: Disclosures”*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in a forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of financial instruments at fair value through profit or loss, loan participation notes and domestic bonds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The fair value of financial assets and financial liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
<i>Cash and cash equivalents</i>				
- Cash on hand	12 653 525	12 653 525	9 735 375	9 735 375
- Due from Central Bank – nostro accounts	12 009 806	12 009 806	27 121 926	27 121 926
- Deposits with the Central Bank of the RF	900 074	900 074	10 000 000	10 000 000
- Placements with banks and other financial institutions with a remaining maturity less than one month	19 618 844	19 618 844	61 465 347	61 465 347
<i>Minimum reserve deposits with the CBR</i>				
- Minimum reserve deposit with the Central Bank of the RF	2 567 026	2 567 026	2 671 991	2 671 991
- Minimum reserve deposit with the Central Bank of Cyprus	448 850	448 850	477 738	477 738
<i>Placements with banks and other financial institutions</i>				
- Placements with other banks with original maturities of more than one month	12 122 032	12 486 552	5 075 800	5 075 800
<i>Amounts receivable under reverse repurchase agreements</i>				
- Amounts receivable from banks and other financial institutions	10 107 971	10 107 971	6 765 433	6 765 433
- Amounts receivable from customers	5 841 875	5 841 875	3 314 868	3 314 868
<i>Loans and advances to customers</i>				
- Commercial loans	288 944 662	288 504 145	236 905 385	236 762 036
- Loans to individuals	22 002 981	20 388 106	29 516 194	26 246 975
<i>Investment securities held to maturity</i>				
- Russian government bonds	3 516 870	3 506 255	5 992 075	5 945 243
- Corporate bonds	357 339	264 129	1 078 942	1 036 982
- Corporate eurobonds	92 702	59 452	133 921	92 778
<i>Other financial assets</i>				
- Securities lending operations	564 554	564 554	429 359	429 359
- Accrued commission income	145 029	145 029	144 048	144 048
- Commission on guarantees	33 173	33 173	43 509	38 818
- Plastic card receivables	5 276	5 276	38 818	43 509
Total financial assets carried at amortized cost	397 877 354	86 792 636	137 089 151	136 959 216

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
<i>Due to other banks</i>				
- Term deposits of local banks	17 570 624	17 725 717	1 402 234	1 380 662
- Trading finance of foreign banks	16 767 032	16 874 052	13 114 615	12 629 791
- Long-term finance of foreign banks	11 085 493	11 090 591	14 768 138	14 654 914
- Vostro accounts	7 663 852	7 663 852	8 339 427	8 336 894
- Term deposits of foreign banks	6 590 876	6 608 658	21 299 320	21 280 188
- Term deposits from the Central Bank of the RF	-	-	5 856 656	5 876 834
<i>Amounts payable under repurchase agreements</i>				
- Amounts payable to banks and other financial institutions	2 386 129	2 386 129	17 659	17 659
- Amounts payable to customers	403 887	403 887	43 038	43 038
<i>Customer accounts</i>				
- Current accounts of legal entities	68 413 408	68 413 408	55 365 566	55 365 566
- Term deposits of legal entities	120 964 334	120 088 683	138 153 403	137 352 722
- Current accounts of individuals	20 854 482	20 854 482	11 029 832	11 029 832
- Term deposits of individuals	86 814 621	86 557 104	85 000 038	85 373 622
<i>Debt securities in issue</i>				
- Promissory notes	20 632 071	20 632 071	20 986 966	20 986 966
- Loan participation notes	8 650 527	9 215 480	16 423 635	16 710 285
- Domestic bonds	2 781 695	2 800 412	6 229 540	6 358 538
- Certificates of deposit	63 204	63 204	14 571	14 571
<i>Other borrowed funds</i>				
- Syndicated loans	7 550 513	7 732 891	8 966 992	8 966 992
- Other borrowed funds	5 251 682	5 286 136	4 852 418	5 041 393
<i>Other financial liabilities</i>				
- Deferred income on guarantees	741 458	741 458	571 320	571 320
- Plastic card payables	135 422	135 422	75 259	75 259
- Other accrued liabilities	109 899	109 899	61 183	61 183
- Payables on factoring deals	60 144	60 144	49 345	49 345
<i>Subordinated debt</i>				
- Subordinated debt	21 817 689	23 689 247	17 748 361	17 755 560
Total financial liabilities carried at amortized cost	427 309 042	427 613 502	430 369 516	429 933 134
Guarantees and letters of credit	68 859 128	2 346 081	41 966 493	1 271 732

Financial instruments recognised at fair value are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted market price – Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant amount of judgment.
- Valuation techniques based on observable inputs – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

- Valuation techniques involving the use of non-market observable inputs incorporating information other than observable market data – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Valuation techniques involving the use of non-market observable inputs were based on the analysis of discounted cash flows due from issuers. As at 31 December 2010 a discount rate of 15% is used for discounting future cash flows from corporate bonds in this category.

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques as at 31 December 2010:

	Quoted market prices	Valuation techniques based on observable inputs	Valuation techniques involving the use of non- market observable inputs	Total
Financial assets				
Financial assets at fair value through profit or loss	45 966 126	-	38 446	46 004 572
Investments held to maturity	3 966 911	-	-	3 966 911
Investments available for sale	248 783	1 948 931	5 499	2 203 213
Financial liabilities				
Derivative financial instruments	-	1 593 384	-	1 593 384

Fair value interest rate risk

An analysis of sensitivity of the net (loss)/profit and equity as a result of changes in fair value of corporate bonds due to changes in the interest rates (also known as price value basis point (“PVBp”) based on positions existing as at 31 December 2010 and 2009 and a simplified scenario of a 200 bp and 100 bp, respectively, rise or fall in all yield curves is as follows:

2010		2009	
200 bp parallel increase	200 bp parallel decrease	100 bp parallel increase	100 bp parallel decrease
(654 000)	654 000	(9 218)	9 218

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques as at 31 December 2009:

	Quoted market prices	Valuation techniques based on observable inputs	Valuation techniques involving the use of non- market observable inputs	Total
Financial assets				
Financial assets at fair value through profit or loss	38 545 706	2 223 116	983 016	41 751 838
Derivative financial instruments	-	75 288	-	75 288
Other financial instruments at fair value through profit or loss	143 796	-	-	143 796
Investments available for sale	29 140	-	5 943	35 083
Financial liabilities				
Derivative financial instruments	-	1 252 225	-	1 252 225

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The following table shows the movement of financial instruments recorded at fair value whose fair value is based on valuation techniques involving the use of non-market observable inputs:

	Securities held for trading	Investments available for sale
Balance as at 31 December 2008	50 004	158 714
Reclassification from other categories	376 941	-
Purchase during the year 2009	4 764 642	-
Sale during the year 2009	(4 072 961)	(152 771)
Unrealised loss recognised in consolidated income statement	(135 610)	-
Balance as at 31 December 2009	983 016	5 943
Purchase during the year 2010	14 464	-
Redemption during the year 2010	(981 980)	-
Realised gain recognised in consolidated income statement	17 581	-
Unrealised gain recognised in consolidated income statement	5 365	-
Unrealised loss recognised in consolidated income statement	-	(444)
Balance as at 31 December 2010	38 446	5 499

42 Average effective interest rates

The table below displays the interest bearing assets and interest bearing liabilities as at 31 December 2010 and 2009 and their corresponding average effective interest rates as at those dates.

	2010 Carrying amount	2010 Average Effective Interest Rate	2009 Carrying amount	2009 Average Effective Interest Rate
Interest bearing assets				
Cash and cash equivalents				
- RUB	2 567 043	3.01%	10 994 356	5.28%
- other currencies	14 617 961	0.20%	54 736 198	0.17%
Obligatory reserves with central banks				
- other currencies	448 850	1.00%	477 738	1.00%
Placements with banks and other financial institutions				
- RUB	14 494	11.27%	19 458	19.19%
- other currencies	12 107 538	6.81%	5 056 342	8.43%
Financial assets at fair value through profit or loss				
- RUB	35 962 456	6.38%	29 931 387	13.95%
- other currencies	9 656 962	3.95%	11 601 361	16.28%
Amount receivable under reverse repurchase agreements				
- RUB	15 949 846	4.09%	10 065 812	5.97%
- other currencies	-	-	14 489	23.63%
Loans to customers				
- RUB	180 809 109	14.68%	135 845 198	18.28%
- other currencies	130 138 534	13.89%	130 576 381	12.55%
Investments held to maturity				
- RUB	3 874 209	7.37%	7 071 017	7.13%
- other currencies	92 702	10.36%	133 921	12.17%
Interest bearing liabilities				
Vostro accounts of banks and other financial institutions				
- RUB	6 519 845	0.73%	4 639 941	0.37%
- other currencies	1 144 007	0.15%	3 699 486	0.11%
Deposits and balances from banks and other financial institutions, other borrowed funds and subordinated borrowings due to banks except for vostro accounts				
- RUB	17 899 110	5.82%	11 434 550	9.32%
- other currencies	45 793 336	3.66%	59 055 077	5.37%
Amounts payable under repurchase agreements				
- RUB	1 642 229	2.70%	60 697	2.63%
- other currencies	1 147 787	1.27%	-	-
Term deposits from customers, other borrowed funds and subordinated borrowings due to customers				
- RUB	136 319 131	7.41%	121 471 391	11.52%
- other currencies	72 582 437	4.59%	103 914 338	6.59%

	2010	2010	2009	2009
	Carrying	Average	Carrying	Average
	amount	Effective	amount	Effective
		Interest Rate		Interest Rate
Current accounts from customers				
- RUB	68 917 219	0.01%	53 502 389	0.01%
- other currencies	20 350 671	0.01%	12 893 009	0.01%
Loan participation notes including subordinated and domestic bonds				
- RUB	2 781 695	8.21%	6 229 540	15.10%
- other currencies	30 468 216	11.47%	31 710 453	11.26%
Promissory notes and certificates of deposit				
- RUB	19 756 874	7.17%	13 955 028	12.86%
- other currencies	938 401	4.00%	7 046 509	6.42%

43 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances and the related average interest rates as at 31 December 2010 with related parties are as follows:

	Parent		Directors and Management Board		Entities under common control		Total
	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount
Statement of Financial Position							
Assets							
Financial assets at fair value through profit or loss	-	-	-	-	629 713	11.50%	629 713
Loans to customers (gross amount)	1	-	79 375	11.37%	8 229 389	9.47%	8 308 765
less collective impairment allowance	-	-	(66)	-	(4 638)	-	(4 704)
Other assets	-	-	-	-	187 993	-	187 993
Liabilities							
Current accounts and deposits from customers	1 735 772	10,90%	398 114	9.07%	4 561 213	0.42%	6 695 099
Own securities issued	-	-	244	7.07%	-	-	244
Other liabilities	-	-	-	-	176 521	-	176 521
Off balance sheet items							
Guarantees received	-	-	40 000	-	2 920 825	-	2 960 825
Guarantees issued	-	-	-	-	1 667 322	-	1 667 322
Letters of credit issued	-	-	-	-	453 877	-	453 877

Entities under common control comprise mainly entities controlled by the ultimate shareholders of the Group.

As stated in note 1 minority shareholder's of the Group are European Bank for Reconstruction and Development and Commerzbank Auslandsbanken Holding AG. Group's management does not consider minority shareholders as related parties as they do not exercise significant influence over Group's financial or operational decisions.

As at 31 December 2010 outstanding balances with EBRD comprised RUB 1 581 015 thousand in Deposits and balances from banks and other financial institutions and RUB 8 776 043 thousand in Other borrowed funds.

As at 31 December 2010 outstanding balances with Commerzbank comprised RUB 138 475 thousand in Placements with banks and other financial institutions and RUB 3 294 378 thousand in Deposits and balances from banks and other financial institutions.

The outstanding balances and the related average interest rates as of 31 December 2009 with related parties are as follows:

	Parent		Directors and Management Board		Entities under common control		Total
	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount
Statement of Financial Position							
Assets							
Financial assets at fair value through profit or loss	-	-	-	-	318 076	16.64%	318 076
Loans to customers (gross amount)	9	19.00%	61 143	11.36%	9 783 687	10.63%	9 844 839
less collective impairment allowance	-	-	(535)	-	(49 152)	-	(49 687)
Investments available for sale	-	-	-	-	18 696	-	18 696
Other assets	-	-	-	-	34 401	-	34 401
Liabilities							
Current accounts and deposits from customers	1 094 315	8.95%	848 095	10.58%	2 113 497	2.03%	4 055 907
Own securities issued	-	-	228	7.07%	63	11.17%	291
Other liabilities	-	-	-	-	30 500	-	30 500
Off balance sheet items							
Guarantees received	-	-	-	-	6 018 659	-	6 018 659
Guarantees issued	-	-	-	-	989 901	-	989 901
Letters of credit issued	-	-	-	-	367 658	-	367 658

Entities under common control comprise mainly entities controlled by the ultimate shareholders of the Group.

Profit or loss amounts in respect of transactions with related parties for the year ended 31 December 2010 are as follows:

	Parent	Directors and Management Board	Entities under common control	Total
Interest income	1 276	6 792	881 975	890 043
Fee and commission income	1 167	65	131 512	132 744
Interest expense	(39 260)	(21 196)	(36 962)	(97 418)
Fee and commission expense	-	-	(4 996)	(4 996)
Recovery of impairment losses	-	469	44 514	44 983
Administrative expenses	-	(621 858)	(302 567)	(924 425)

Profit or loss amounts in respect of transactions with related parties for the year ended 31 December 2009 are as follows:

	Parent	Directors and Management Board	Entities under common control	Total
Interest income	-	10 660	1 128 389	1 139 049
Fee and commission income	78	55	91 965	92 098
Other income and expense	-	6	4 273	4 279
Interest expense	(137 156)	(81 386)	(66 584)	(285 126)
Fee and commission expense	-	-	(5 193)	(5 193)
Recovery of impairment losses	-	278	147 467	147 745
General and administrative expenses	-	(312 926)	(410 541)	(723 467)

Entities under common control comprise mainly of entities controlled by the ultimate shareholders of the Group.

During the year ended 31 December 2010, short-term compensation of the Directors and members of the Management Board amounts to RUB 621 858 thousand (2009: RUB 312 926 thousand).

During the year ended 31 December 2009 the Group purchased from entities under common control computers and software for RUB 582 953 thousand.

44 Acquisition of subsidiaries

In December 2010 the Group founded OOO “Saint-Petersburg International Banking Conference” by forming 100% of its share capital of RUB 10 thousand. The company is founded to act as a lead organiser of Saint-Petersburg International Banking Conference which takes place every summer in Saint-Petersburg.

During the year 2010 the Group purchased 38.1% of the share capital of OAO “Yarsotsbank”:

	IFRS carrying amount immediately before business combination
Acquired interest in net assets of the subsidiary	265 340
Purchase price	(113 892)
Net gain/(loss) on purchase of subsidiaries	8 253
Net gain on purchase of subsidiaries	151 448

In February 2010 the Group exercised the option on purchase 85.7% shares of OAO “Volgoprombank” from Promsvyaz Capital B.V. (parent of the Bank):

	IFRS carrying amount immediately before business combination
Acquired interest in net assets of the subsidiary	974 183
Liability under option agreement	77 977
Purchase price	(1 434 774)
Distribution to shareholders	(382 614)

In December 2009 the Group acquired control over OOO “Promsvyazfactoring” (OOO “PSF”) through an option agreement dated 31 December 2009 with its owner which is a related party of the Group’s shareholders. Accordingly, the sum of net liabilities acquired and purchase price was shown as distribution to shareholders. Under the terms of the agreement the Group acquired an unconditional right to buy 100% of OOO “PSF” share capital for a cash consideration of RUB 5,500 thousand for a period of 5 years starting from the date of the option agreement.

If the acquisition had occurred on 1 January 2009, the Group’s net loss attributable to shareholders of the parent for the year ended 31 December 2009 would have been RUB 634 116 thousand.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

	IFRS carrying amount immediately before business combination
Cash and cash equivalents	21 962
Loans and advances to customers	2 432 268
Deferred tax asset	7 010
Deposits and balances from banks and other financial institutions	(2 445 236)
Other liabilities	(13 812)
Current income tax payable	(4 945)
Net liabilities acquired	(2 753)
Acquired interest in net assets of the subsidiary	(2 753)
Purchase price	(5 500)
Distribution to shareholders	8 253
Cash and cash equivalents of the subsidiary acquired	21 962
Inflow of cash and cash equivalents on acquisition	21 962

In 2009 the Group purchased additional shares of OAO “Volgaprombank”, OAO “Yarsotsbank” and OAO “Nizhny Novgorod Bank” for RUB 208 371 thousand, RUB 31 077 thousand and RUB 406 552 thousands, respectively (refer to note 2).

45 Presentation of Financial Instruments by Measurement Category

As of 31 December 2010 and 31 December 2009 all of the Group’s financial assets have been classified in loans and receivables measurement category except for:

- corporate shares included in financial assets at fair value through profit or loss which are classified as designated at fair value through profit or loss,
- all other financial assets at fair value through profit or loss and derivative financial instruments included in other financial assets which are classified as held for trading,
- investments available for sale which are classified as available for sale.

As of 31 December 2010 and 31 December 2009 all of the Group’s financial liabilities except for derivatives were carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

PROMSVYAZBANK

Consolidated financial statements
for the year ended
31 December 2009

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Independent Auditors' Report

To the Council of OAO "Promsvyazbank"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO "Promsvyazbank" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, 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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
14 April 2010

Promsvyazbank
Consolidated Statement of Financial Position as at 31 December 2009
(expressed in thousands of Russian Roubles – refer to Note 2)

	Notes	2009	2008
ASSETS			
Cash and cash equivalents	4	108 322 648	105 723 210
Obligatory reserves with central banks	5	3 149 729	992 510
Placements with banks and other financial institutions	6	5 075 800	2 426 852
Financial assets at fair value through profit or loss	7	41 751 838	14 408 817
-Unpledged		41 688 033	13 524 941
-Pledged under sale and repurchase agreements		63 805	883 876
Amounts receivable under reverse repurchase agreements	8	10 080 301	4 574 084
Loans to customers	9	266 421 579	300 413 049
Investments available for sale	10	35 083	158 714
Investments held to maturity	11	7 204 938	8 880 051
Assets held for sale	12	2 600 001	-
Other assets	13	2 100 315	1 517 540
Current income tax prepayments		660 877	1 292 982
Deferred tax asset	22	600 326	-
Property and equipment	14	23 207 942	21 413 219
TOTAL ASSETS		471 211 377	461 801 028
LIABILITIES			
Financial liabilities at fair value through profit or loss	15	1 252 225	614 859
Deposits and balances from banks and other financial institutions	16	64 780 390	111 275 357
Amounts payable under repurchase agreements	17	60 697	855 837
Current accounts and deposits from customers	18	289 548 839	229 610 958
Own securities issued	19	43 654 712	39 368 440
Other borrowed funds	20	13 819 410	24 010 262
Other liabilities	21	1 800 988	2 672 979
Current income tax payable		27 341	48 002
Deferred tax liability	22	313 033	776 151
Subordinated borrowings	23	17 748 361	12 593 599
TOTAL LIABILITIES		433 005 996	421 826 444
EQUITY			
Share capital	24	10 062 544	10 062 544
Share premium		13 319 695	13 319 695
Additional paid-in-capital		1 056 102	1 167 515
Revaluation reserve for property and equipment		2 353 907	3 192 346
Revaluation reserve for investments available for sale		160	(66 641)
Retained earnings		11 147 632	11 773 411
Total equity attributable to equity holders of the parent		37 940 040	39 448 870
Minority interest		265 341	525 714
TOTAL EQUITY		38 205 381	39 974 584
TOTAL LIABILITIES AND EQUITY		471 211 377	461 801 028

Commitments and Contingencies

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Approved by the Management Board on 14 April 2010.

Levkovskiy A.A.
President



Volchenko A.U.
Senior Vice-president, CFO

Promsvyazbank
Consolidated Income Statement for the year ended 31 December 2009
(expressed in thousands of Russian Roubles – refer to note 2)

	Notes	2009	2008
Interest income		54 599 926	42 781 988
Interest expense		(28 998 318)	(20 812 220)
Net interest income	25	25 601 608	21 969 768
Fee and commission income	26	7 012 078	5 780 146
Fee and commission expense	27	(1 406 846)	(1 055 809)
Net fee and commission income		5 605 232	4 724 337
Net gain/(loss) on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes	28	1 114 182	(1 842 840)
Net foreign exchange gain		375 892	2 142 569
Net loss on sale of minority interest of subsidiaries		-	(21 942)
Net gain on purchase of interest in subsidiaries		149 023	456 625
Income on early redemption of other financial liabilities		127 358	177 098
Other income	29	1 096 694	643 805
Operating income		34 069 989	28 249 420
Loan impairment charge	9	(20 841 815)	(13 245 407)
Other impairment charge		(93 531)	(20 754)
Loss on revaluation of fixed assets	14	(457 918)	(456 100)
Administrative expenses	30	(12 928 022)	(11 952 858)
General expenses	30	(374 308)	(431 997)
		(34 695 594)	(26 107 116)
(Loss)/profit before tax		(625 605)	2 142 304
Income tax expense	31	(248)	(580 649)
(Loss)/profit after tax		(625 853)	1 561 655
(Loss)/profit attributable to:			
Shareholders of the parent		(625 853)	1 561 655
Minority interest		-	-

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The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2009	2008
(Loss)/profit after tax		(625 853)	1 561 655
Other comprehensive income			
Revaluation of property and equipment, net of deferred tax	14	(820 024)	796 649
Revaluation of investments available for sale, net of deferred tax		66 801	(66 641)
Disposal of property and equipment, net of deferred tax		-	(76 885)
Effect of change in income tax rates	22	-	120 048
Other comprehensive (loss)/income, net of tax		(753 223)	773 171
Total comprehensive (loss)/income		(1 379 076)	2 334 826
Total comprehensive (loss)/income attributable to:			
Shareholders of the parent		(1 386 139)	2 329 602
Minority interest		7 063	5 224

Promsvyazbank
Consolidated Statement of Cash Flows for the year ended 31 December 2009
(expressed in thousands of Russian Roubles – refer to note 2)

	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission receipts		51 387 452	46 337 270
Interest and fee and commission payments		(30 680 957)	(19 337 376)
Net receipts/(payments) from financial instruments at fair value through profit or loss		386 230	(840 816)
Net (payments)/receipts from foreign exchange transactions		(246 298)	861 540
Other income received		1 008 358	800 112
General and administrative expenses paid		(12 636 205)	(11 413 160)
		9 218 580	16 407 570
(Increase)/decrease in operating assets			
Obligatory reserves with central banks		(2 157 588)	2 450 860
Placements with banks and other financial institutions		(2 688 024)	(3 162 995)
Financial assets at fair value through profit or loss		(27 635 262)	3 922 129
Amounts receivable under reverse repurchase agreements		(5 504 956)	(1 294 669)
Loans to customers		31 858 934	(65 571 667)
Other assets		(147 960)	(93 537)
Increase/(decrease) in operating liabilities			
Financial liabilities at fair value through profit or loss		358 461	-
Deposits and balances from banks and other financial institutions		(50 920 850)	50 864 167
Amounts payable under repurchase agreements		(792 440)	(1 320 304)
Current accounts and deposits from customers		57 040 884	65 395 352
Promissory notes and certificates of deposit		8 617 354	(11 134 034)
Other liabilities		(58 136)	232 858
		17 188 997	56 695 730
Taxes paid		(261 880)	(2 249 633)
		16 927 117	54 446 097
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of subsidiaries		-	12 976
Acquisition of subsidiaries		(624 038)	3 799 193
Disposal of investments available for sale		239 086	5 560
Purchases of investments available for sale		(31 845)	(59 804)
Purchases of investments held to maturity		(1 490 779)	(1 884 722)
Redemption of investments held to maturity		2 951 181	-
Purchases of property and equipment		(4 349 348)	(7 896 050)
Disposals of property and equipment		57 974	72 481
Purchases of assets held for sale		(2 600 001)	-
		(5 847 770)	(5 950 366)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of senior loan participation notes and domestic bonds		10 494 962	9 039 065
Repayment of senior loan participation notes and domestic bonds		(15 179 518)	-
Repayment of other borrowed funds		(15 514 855)	(13 807 539)
Proceeds from other borrowed funds		3 592 575	12 977 111
Repayment of subordinated borrowings		(1 217 756)	-
Proceeds from subordinated borrowings		5 775 020	1 010 760
Proceeds from issuance of share capital		-	6 370 000
		(12 049 572)	15 589 397
Net (decrease)/increase in cash and cash equivalents			
		(970 225)	64 085 128
Effect of changes in exchange rates on cash and cash equivalents		3 569 663	3 549 739
Cash and cash equivalents at the beginning of the year		105 723 210	38 088 343
Cash and cash equivalents at the end of the year	4	108 322 648	105 723 210

Promsvyazbank

Consolidated Statement of Changes in Equity for the year ended 31 December 2009

(expressed in thousands of Russian Roubles – refer to note 2)

	Attributable to equity holders of the parent							Minority interest	Total equity
	Share capital	Share premium	Additional paid-in-capital	Revaluation reserve for property and equipment	Revaluation reserve for investments available for sale	Retained earnings	Total		
Balance at 1 January 2009	10 062 544	13 319 695	1 167 515	3 192 346	(66 641)	11 773 411	39 448 870	525 714	39 974 584
Total comprehensive income/(loss)									
Loss after tax	-	-	-	-	-	(625 853)	(625 853)	-	(625 853)
Other comprehensive income/(loss)									
Revaluation of property and equipment, net of deferred tax of RUB 205 006 thousand	-	-	-	(827 087)	-	-	(827 087)	7 063	(820 024)
Revaluation of investments available for sale, net of deferred tax of RUB 16 702 thousand	-	-	-	-	66 801	-	66 801	-	66 801
Total other comprehensive income/(loss)	-	-	-	(827 087)	66 801	-	(760 286)	7 063	(753 223)
Total comprehensive income/(loss) for the year ended 31 December 2009	-	-	-	(827 087)	66 801	(625 853)	(1 386 139)	7 063	(1 379 076)
Acquisition of subsidiary (Note 43)	-	-	-	-	-	(8 253)	(8 253)	-	(8 253)
Purchase of minority interest of subsidiaries	-	-	-	-	-	-	-	(390 792)	(390 792)
Sale of minority interest of subsidiary	-	-	(111 413)	(11 352)	-	8 327	(114 438)	123 356	8 918
Balance at 31 December 2009	10 062 544	13 319 695	1 056 102	2 353 907	160	11 147 632	37 940 040	265 341	38 205 381

	Attributable to equity holders of the parent						Minority interest	Total equity
	Share capital	Share premium	Additional paid-in capital	Revaluation reserve for property and equipment	Revaluation reserve for investments available for sale	Retained earnings		
Balance at 1 January 2008	7 468 794	7 613 445	30 496	2 357 758	-	10 211 756	-	27 682 249
Total comprehensive income								
Profit after tax	-	-	-	-	-	1 561 655	-	1 561 655
Other comprehensive income								
Revaluation of property and equipment, net of deferred tax of RUB 199 162 thousand	-	-	-	791 425	-	-	5 224	796 649
Disposal of property and equipment, net of deferred tax of RUB 24 280 thousand	-	-	-	(76 885)	-	-	-	(76 885)
Revaluation of investments available for sale, net of deferred tax of RUB 16 660 thousand	-	-	-	-	(66 641)	-	-	(66 641)
Effect of change in income tax rates	-	-	-	120 048	-	-	-	120 048
Total other comprehensive income	-	-	-	834 588	(66 641)	-	5 224	773 171
Total comprehensive income for the year ended 31 December 2008	-	-	-	834 588	(66 641)	1 561 655	5 224	2 334 826
Share issue	2 593 750	5 706 250	-	-	-	-	-	8 300 000
Acquisition of subsidiaries	-	-	1 085 596	-	-	-	520 490	1 606 086
Disposal of subsidiaries	-	-	51 423	-	-	-	-	51 423
Balance at 31 December 2008	10 062 544	13 319 695	1 167 515	3 192 346	(66 641)	11 773 411	525 714	39 974 584

1 Background

Principal activities

Promsvyazbank Group (the “Group” or “Promsvyazbank”) consists of various legal entities formed under the laws of the Russian Federation (the “RF”) and other countries (Refer to note 2 for the list of subsidiaries). OAO Promsvyazbank (the “Bank”), which is the parent company of the Group, was initially established in the Russian Federation as a limited liability company converting subsequently to a closed joint-stock company in July 2001 and finally to an open joint-stock company in September 2007. The Bank was granted a banking license for operations in roubles on 12 May 1995. The Bank’s operations were expanded to include transactions with all types of foreign currencies and transactions with individuals in foreign currencies on 30 December 1996 and 31 December 1997, respectively.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”). The Bank holds a full (general) banking license from the CBR and is also authorised by the CBR to trade in precious metals. In October 2004, the CBR accepted the Bank into the state deposit insurance system. In addition, the Group holds licenses from the Federal Service for Financial Markets (the “FSFM”) to act as a broker, dealer, custodian and a securities manager in the Russian securities market. The Group also holds a license from the FSFM as a commodities exchange broker to trade futures and options.

The Group’s principal activities are currently in commercial banking. These activities consist of corporate, small and medium entities (“SME”) and retail banking. Corporate banking includes deposit taking and lending to corporate borrowers, factoring, settlements and cash operations. Corporate banking services also include trade and project finance. SME banking includes deposit taking and lending to small and medium entities, settlements and cash operations. Retail banking includes deposit taking and retail lending, money transfer and banking card services, foreign exchange and cash operations with individuals.

The Group also offers investment banking services, including corporate finance, debt and equity capital markets, brokerage, repo transactions and securities trading, foreign exchange, precious metals and banknote operations.

The table below summarises information about the branch network.

	2009	2008
Branches	49	48
Full-service sub-branches	114	127
Retail and SME sub-branches	72	77
Representative offices	4	5
Total number of offices	239	257

As at 31 December 2009 the Bank operated 48 branches (2008: 47 branches) located within the Russian Federation and a branch located in Limassol (Cyprus). As at 31 December 2009 representative offices are located in the Russian Federation, China, India and Ukraine.

The Bank’s head office is registered at the following address: 109052, Smirnovskaya 10, Moscow, Russian Federation.

Shareholders as at 31 December 2009

	% Ownership/ % Votes
<i>Promsvyaz Capital B. V.*</i>	84.68%
<i>Commerzbank Auslandsbanken Holding AG</i>	15.32%
	100.00%

* - Promsvyaz Capital B. V. (Netherlands) is owned by Peters International N. V. (Netherlands). Mr D. N. Ananyev and Mr A. N. Ananyev each beneficially own 50% of Peters International N.V.

Russian business environment

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, relatively high inflation and risks that typically do not exist in other markets. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. 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 difficulties experienced 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. In addition, the contraction in the capital and credit markets during the second half of 2008 and the first half of 2009 has further increased the level of economic uncertainty in the environment. The second half of 2009 showed a tendency of economic stabilisation of the market which slightly reduced the level of economic uncertainty. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation**Statement of compliance**

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available for sale investments for which fair value can be reliably measured are stated at fair value, and buildings are revalued periodically.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"). The functional currency for each group company is determined as the currency of the primary economic environment in which the company operates. Management determined the RUB as the functional currency for the Bank, group companies domiciled in the Russian Federation and group companies domiciled outside of the Russian Federation, because it reflects the economic substance of the underlying events and circumstances. The RUB is also the presentation currency for the purpose of these consolidated financial statements.

Financial information presented in RUB is rounded to the nearest thousand.

Consolidated companies

The consolidated financial statements include the following principal subsidiaries of the Bank:

Name	Country of Incorporation	Main Activity	% Consolidated as at 31 December 2009	% Consolidated as at 31 December 2008
Promsvyaz Finance PLC	Ireland	Financial Activity	100%	100%
PSB Finance S.A.	Luxembourg	Financial Activity	100%	100%
OOO “UK Promsvyaz”	Russian Federation	Financial Activity	100%	100%
OOO “Open Leasing Company”	Russian Federation	Leasing	100%	100%
OAO “Volgoprombank”	Russian Federation	Banking Activity	100%	95.5%
OAO “Nizhny Novgorod Bank”	Russian Federation	Banking Activity	100%	85.1%
OAO “Yarsotsbank”	Russian Federation	Banking Activity	61.9%	51.3%
OOO “Promsvyazfactoring”	Russian Federation	Financial Activity	100%	-

Promsvyaz Finance PLC and *PSB Finance S.A.* are special purpose entities established to facilitate issues of debt securities (refer to notes 19 and 23). The entities are not owned by the Group and the control arises through the predetermination of the entities’ activities.

OOO “UK Promsvyaz”

The principal activity of OOO “UK Promsvyaz” is asset management. The Group directly controls 100% of this entity.

OOO “*Open Leasing Company*” was established by the Group in July 2007. The Group controls 100% of OOO “Open Leasing Company”.

OAO “Volgoprombank”

The Group obtained control over OAO “Volgoprombank” on 23 June 2008 through the granting of a call option by Promsvyaz Capital B.V. (parent company of the Bank). This call option gave the Bank the right to acquire 95.5% of the share in OAO “Volgoprombank” from 23 June 2008 for a year. Also, from this date more than half of the members of the Board of Directors of OAO “Volgoprombank” were nominated by the Bank. In April 2009 Promsvyaz Capital B.V. sold 9.8% of OAO “Volgoprombank” shares to third parties. The conditions of the option agreement were amended accordingly and furthermore the option period prolonged until the end of 2010. In September 2009 the Group acquired from third parties 14.3% of the share capital in OAO “Volgoprombank” in addition to the 85.7% share held under the option agreement.

OAO “Yarsotsbank” and OAO “Nizhny Novgorod Bank”

At the end of December 2008 the Group purchased 51.3% of the share capital of OAO “Yarsotsbank” and 85.1% of the share capital of OAO “Nizhny Novgorod Bank”. The acquisitions were made to assist in the stabilization of the banking sector in Russia and to expand the Group’s regional network. During the year ended 31 December 2009 the Group purchased an additional 10.6% of the share capital of OAO “Yarsotsbank”. In June 2009 the Group purchased an additional 14.1% of the share capital of OAO “Nizhny Novgorod Bank” and in August 2009 the Group purchased the remaining 0.8% share.

OOO “Promsvyazfactoring”

In December 2009 the Group acquired control over OOO “Promsvyazfactoring” (OOO “PSF”) through an option agreement dated 31 December 2009 with its owner which is a related party of the Group’s shareholders. Under the terms of this agreement the Group has the unconditional right to buy 100% of the share capital in OOO “PSF” for cash of RUB 5 500 thousand for a period of 5 years starting from the date of the option agreement (refer to note 43).

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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

- Loan impairment estimates - note 9;
- Building revaluation estimates - note 14.

3 Significant accounting policies

The following significant accounting policies are applied in the preparation of the consolidated financial statements. The accounting policies are consistently applied. Changes in accounting policies are described at the end of this note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities

The Group has established a number of special purpose entities (“SPE”) to facilitate the Group’s issue of debt securities. The Group does not have any direct or indirect shareholdings in these entities and control arises through the predetermination of the entities’ activities.

Acquisitions and disposals of subsidiaries

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Where the cost of acquisition is below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) the difference is credited to profit or loss in the period of acquisition. The minority interest is stated at the minority’s proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority interests are shown separately in the consolidated statement of financial position and consolidated income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of profit or loss on the date of disposal.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

Minority interest

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent company.

Minority interest is presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the parent company. Minority interest in the profit or loss is separately disclosed in the consolidated income statement.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in profit or loss.

	<u>31 December 2009</u>	<u>31 December 2008</u>
1 USD/RUB	30.2442	29.3804
1 EUR/RUB	43.3883	41.4411

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group considers cash and nostro accounts with the CBR, as well as nostro accounts and placements with banks and other financial institutions with an original maturity less than one month to be cash and cash equivalents. The minimum reserve deposits with central banks are not considered to be a cash equivalent due to restrictions on their withdrawability.

Financial instruments

Classification

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

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

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

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

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

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

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available for sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

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

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

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

Recognition

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

Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in profit or loss. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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

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

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available for sale financial asset is recognised directly in equity through the consolidated statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. Interest income on available for sale debt securities is recognised as earned in profit or loss and calculated using the effective interest method.

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

Derecognition

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

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

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the statement of financial position and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (“reverse repo”) are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

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

Spot and derivative financial instruments

Derivative financial instruments include swaps, forward transactions in foreign exchange and precious metals.

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

Changes in the fair value of spot and derivative financial instruments are recognised immediately in profit or loss.

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

Offsetting

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

Property and equipment***Owned assets***

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in profit or loss, in which case it is recognised in profit or loss. A revaluation decrease on an item of buildings is recognised in profit or loss except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Fixtures and fittings	7 years
Office equipment	6 years
Vehicles	5 years
Leasehold improvements	5 years
Computers	4 years
Other	5 years

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life for computer software is 4 years.

Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, other receivables, unquoted promissory notes, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements and investments held to maturity ("loans and receivables"). The Group reviews its financial assets carried at amortised cost to assess impairment on a regular basis. Financial assets carried at amortised cost are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of financial assets carried at amortised cost and that event (or events) has had an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial assets carried at cost

Financial assets carried at cost include unquoted equity instruments included in available for sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in profit or loss and can not be reversed.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitments are included within other liabilities.

Share capital

Share premium

Share premium represents the excess of consideration received for an issue of the Bank's shares over the nominal value of shares issued.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

Interest income and expense are recognised in profit or loss using the effective interest method.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

Changes in accounting policies

Starting from 1 January 2009 the Group adopted the revised version of IAS 1 “*Presentation of Financial Statements*” (effective for annual periods beginning on or after 1 January 2009). As a result, in addition to the consolidated income statement the Group discloses a statement of comprehensive income that includes all non-owner changes in equity, such as the revaluation of available for sale assets and revaluation of property and equipment. The balance sheet is renamed the statement of financial position and the cash flow statement is renamed the statement of cash flows. According to the revised IAS 1, a statement of financial position at the beginning of the earliest comparative period is presented whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors.

Starting from 1 January 2009 the Group adopted IFRS 8 “*Operating Segments*” (effective for annual periods beginning on or after 1 January 2009) which introduces the management approach to segment reporting and requires the disclosure of segment information based on the internal reports regularly reviewed by the chief operating decision maker in order to assess each segment’s performance and to allocate resources to them.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2009, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, the following may have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

IAS 27 "Consolidated and Separate Financial Statements" (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously minority interests) even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will be measured at its fair value.

IFRS 3 "Business Combinations" (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 minority interest 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 must 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. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer must recognise at the acquisition date a liability for any contingent purchase consideration. 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.

Revised *IAS 24 "Related Party Disclosures"* (effective for annual periods beginning on or after 1 January 2011) introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively.

IFRS 9 "Financial Instruments" will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace IAS 39 Financial Instruments: Recognition and Measurement once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on the consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

Various “Improvements to IFRS” have been dealt with on a standard-by-standard basis. All amendments which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2010.

4 Cash and cash equivalents

	2009	2008
Cash	9 735 375	12 794 122
Due from the Central Bank of the RF – nostro accounts	27 121 926	52 777 350
Deposits with the Central Bank of the RF	10 000 000	24 224 331
Placements with banks and other financial institutions with an original maturity less than one month		
Rated AAA	1 814 663	-
Rated from AA- to AA+	19 565 699	281 870
Rated A- to A+	34 165 625	10 433 710
Rated BBB	1 670 158	151 819
Rated from BB- to BB+	-	410 711
Rated from B- to B+	114 072	33 200
Rated below B-	-	104
Not rated	4 135 130	4 615 993
Total cash and cash equivalents	108 322 648	105 723 210

Maturity, currency and interest rate analyses of cash and cash equivalents are disclosed in notes 33 and 41.

5 Obligatory reserves with central banks

	2009	2008
Minimum reserve deposit with the Central Bank of the RF	2 671 991	516 292
Minimum reserve deposit with the Central Bank of Cyprus	477 738	476 218
Total obligatory reserves with central banks	3 149 729	992 510

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit.

Maturity, currency and interest rate analyses of obligatory reserves with central banks are disclosed in notes 33 and 41.

6 Placements with banks and other financial institutions

	2009	2008
Rated BBB	1 524	-
Rated from B- to B+	5 059 987	2 005 410
Not rated	14 289	421 442
Total placements with banks and other financial institutions	5 075 800	2 426 852

Maturity, currency and interest rate analyses of placements with banks are disclosed in notes 33 and 41.

Concentration of placements with banks and other financial institutions

As at 31 December 2009 and 2008, placements with banks, which individually comprised more than 10% of total placements with banks, are as follows:

	2009	2008
Bank 1	4 782 787	-
Bank 2	-	2 005 410
Bank 3	-	331 979
	4 782 787	2 337 389

7 Financial assets at fair value through profit or loss

	2009	2008
Unpledged		
Financial assets held for trading		
Debt and other fixed-income instruments		
Corporate bonds	12 724 861	6 344 647
Corporate Eurobonds	11 595 073	2 157 558
Promissory notes	6 580 385	773 014
Russian Government Federal bonds (OFZ)	5 239 011	1 420 994
Russian municipal and regional bonds	3 621 501	2 449 878
Central Bank of the Russian Federation bonds (OBR)	1 701 823	-
Russian Federation Eurobonds	6 289	-
Equity investments		
Corporate shares	6	4 738
Spot and derivative financial instruments		
Foreign currency and precious metals contracts	75 288	343 456
Designated at fair value through profit or loss		
Corporate shares - listed	143 796	30 656
Total unpledged financial assets at fair value through profit or loss	41 688 033	13 524 941
Pledged under sale and repurchase agreements		
Financial assets held for trading		
Corporate bonds - listed	61 837	-
Russian Government Federal bonds (OFZ)	1 968	50 118
Promissory notes	-	833 758
Total financial assets at fair value through profit or loss pledged under sale and repurchase agreements	63 805	883 876
Total financial assets at fair value through profit or loss	41 751 838	14 408 817

Corporate bonds are securities issued by medium and large Russian companies and banks denominated in Russian Roubles.

Corporate Eurobonds are interest-bearing securities denominated in U.S. Dollars and Euros and issued primarily by large Russian and foreign companies and banks.

Promissory notes represent debt securities denominated in Russian Roubles issued by Russian banks and companies.

Russian Government Federal bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Russian municipal and regional bonds are interest-bearing securities issued by Russian municipal and regional authorities denominated in Russian Roubles.

Central Bank of the Russian Federation bonds (OBR) are Russian Rouble denominated securities issued by the Central Bank of the Russian Federation.

The following table provides details of debt trading securities as at 31 December 2009:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Mini-mum	Maxi-mum	Mini-mum	Maxi-mum
Corporate bonds	January 2010	November 2019	7.10%	19.00%	1.60%	17.41%
Corporate Eurobonds	January 2010	June 2035	1.18%	13.50%	1.47%	130.48%
Promissory notes	January 2010	December 2010	—*	—*	0%	38.58%
Russian Government Federal bonds (OFZ)	January 2010	February 2036	5.80 %	12.00%	3.67%	9.16%
Russian municipal and regional bonds	March 2010	September 2016	7.00%	16.00%	6.09%	10.07%
Central Bank of the Russian Federation bonds (OBR)	March 2010	March 2010	—*	—*	7.70%	7.70%
Russian Federation Eurobonds	March 2030	March 2030	7.50%	7.50%	6.47%	6.47%

* - discount-bearing securities

The following table provides details of debt trading securities as at 31 December 2008:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Mini-mum	Maxi-mum	Mini-mum	Maxi-mum
Corporate bonds	February 2009	June 2018	7.30%	15.00%	6.23%	39.89%
Corporate Eurobonds	January 2009	January 2011	7.13%	13.50%	9.79%	52.91%
Promissory notes	on demand	October 2010	—*	—*	0%	35.75%
Russian municipal and regional bonds	April 2009	June 2013	8.00%	11.00%	6.75%	33.96%
Russian Government Federal bonds (OFZ)	March 2009	February 2036	5.80%	10.00%	6.13%	11.69%

* - discount-bearing securities

The following table presents an analysis by rating agency designation of debt securities. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating.

	2009	2008
Rated from BBB- to BBB+	28 486 896	6 935 703
Rated from BB- to BB+	4 168 839	612 898
Rated from B- to B+	4 400 515	3 885 479
Rated below B-	-	40 004
Not rated	4 476 498	2 555 883
Total debt securities	41 532 748	14 029 967

Equity instruments represent ordinary shares issued primarily by large Russian companies.

The Group designates equity shares of Centertelecom that are not part of its trading book, as at fair value through profit or loss. These securities meet the criteria for classification as at fair value through profit or loss because management assesses performance of these investments based on their fair values in accordance with a documented policy.

For information on spot and derivative financial instruments refer to note 35.

Maturity, currency and interest rate analyses of financial assets at fair value through profit or loss are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

8 Amounts receivable under reverse repurchase agreements

The Group purchases financial instruments under agreements to resell them at future dates. The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to banks and customers. As at 31 December 2009 and 2008, amounts lent to banks and customers were as follows:

	2009	2008
Amounts receivable from banks and other financial institutions		
Rated from BB- to BB+	500 057	-
Rated from B- to B+	971 488	449 255
Not rated	5 293 888	3 544 396
Total amounts receivable from banks and other financial institutions	6 765 433	3 993 651
Amounts receivable from customers		
Rated from B- to B+	299 099	-
Not rated	3 015 769	580 433
Total amounts receivable from customers	3 314 868	580 433
Total amounts receivable under reverse repurchase agreements	10 080 301	4 574 084

Maturity, currency and interest rate analyses of amounts receivable under reverse repurchase agreements are disclosed in notes 33 and 41.

Collateral

As of 31 December 2009 and 2008, amounts receivable under reverse repurchase agreements are collateralised by the following securities:

	Fair value 2009	Fair value 2008
Russian corporate bonds	5 249 210	110 591
Russian Government Federal bonds (OFZ)	2 980 383	3 846 240
Russian municipal and regional bonds	1 732 058	-
Promissory notes issued by Russian banks	805 375	771 666
Russian corporate shares	320 760	12 880
	11 087 786	4 741 377

9 Loans to customers

	2009	2008
Commercial loans		
Loans to corporate clients not involved in international business	183 239 909	177 713 858
Loans to corporate clients involved in international business	31 944 501	50 091 131
Factoring loans	26 845 661	22 437 118
Loans to small and medium enterprises	22 533 997	18 886 308
Total commercial loans	264 564 068	269 128 415
Loans to individuals		
Consumer loans	23 192 571	28 225 420
Auto loans	11 320 973	14 437 107
Credit cards	3 124 578	3 168 271
Mortgage loans	1 982 384	2 268 748
Express-loans	693 504	1 173 008
Loans to VIP clients	389 304	522 220
Total loans to individuals	40 703 314	49 794 774
Gross loans to customers	305 267 382	318 923 189
Impairment allowance	(38 845 803)	(18 510 140)
Net loans to customers	266 421 579	300 413 049

Movements in the loan impairment allowance for the years ended 31 December 2009 and 2008 were as follows:

	2009	2008
Balance at the beginning of the year	18 510 140	5 137 563
Net charge for the year	20 841 815	13 245 407
Acquisition of subsidiaries	117 745	657 566
Disposal of subsidiaries	-	(1 692)
Write-offs	(623 897)	(528 704)
Balance at the end of the year	38 845 803	18 510 140

As at 31 December 2009 interest accrued on impaired loans net of impairment allowance amounts to RUB 3 281 712 thousand (2008: RUB 647 261 thousand).

Non-performing loans comprise loans with principal or/and interest overdue by more than 90 days (except for loans to individuals and SME for which partial repayment of overdue principal or/and interest took place during last quarter of the year ended 31 December 2009) and loans restructured as a result of the borrowers' inability to repay. The analysis of non-performing loans as at 31 December by loan groups is presented below:

	<u>2009</u>	<u>2008</u>
Loans to corporate clients	23 249 326	3 238 613
Loans to small and medium enterprises	3 028 160	357 131
Loans to individuals	<u>11 278 485</u>	<u>5 283 805</u>
Total non-performing loans	<u>37 555 971</u>	<u>8 879 549</u>

Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Loans to corporate clients not involved in international business				
Total loans for which no impairment has been identified	136 877 719	(2 872 388)	134 005 331	2.10%
Impaired loans:				
- Impaired, but not overdue	27 101 631	(2 955 689)	24 145 942	10.91%
- Overdue less than 30 days	2 520 984	(427 913)	2 093 071	16.97%
- Overdue 30-89 days	1 709 995	(750 137)	959 858	43.87%
- Overdue 90-179 days	5 311 534	(2 387 213)	2 924 321	44.94%
- Overdue 180-360 days	3 953 221	(2 660 406)	1 292 815	67.30%
- Overdue more than 360 days	5 764 825	(4 041 577)	1 723 248	70.11%
Total impaired loans	46 362 190	(13 222 935)	33 139 255	28.52%
Total loans to corporate clients not involved in international business	183 239 909	(16 095 323)	167 144 586	8.78%
Loans to corporate clients involved in international business				
Total loans for which no impairment has been identified	25 608 857	(561 859)	25 046 998	2.19%
Impaired loans:				
- Impaired, but not overdue	4 059 891	(410 267)	3 649 624	10.11%
- Overdue less than 30 days	52 870	(5 181)	47 689	9.80%
- Overdue less than 30-89 days	112 869	(43 509)	69 360	38.55%
- Overdue 90-179 days	1 502 227	(582 254)	919 973	38.76%
- Overdue 180-360 days	231 689	(28 750)	202 939	12.41%
- Overdue more than 360 days	376 098	(329 252)	46 846	87.54%
Total impaired loans	6 335 644	(1 399 213)	4 936 431	22.08%
Total loans to corporate clients involved in international business	31 944 501	(1 961 072)	29 983 429	6.14%
Factoring loans				
Total loans for which no impairment has been identified	19 081 324	(986 309)	18 095 015	5.17%
Impaired loans:				
- Impaired, but not overdue	2 105 490	(269 231)	1 836 259	12.79%
- Overdue less than 30 days	136 584	(55 078)	81 506	40.33%
- Overdue 30-89 days	268 711	(87 016)	181 695	32.38%
- Overdue 90-179 days	637 575	(410 110)	227 465	64.32%
- Overdue 180-360 days	2 187 967	(1 812 662)	375 305	82.85%
- Overdue more than 360 days	2 428 010	(2 039 068)	388 942	83.98%
Total impaired loans	7 764 337	(4 673 165)	3 091 172	60.19%
Total factoring loans	26 845 661	(5 659 474)	21 186 187	21.08%
Loans to small and medium enterprises				
Total loans for which no impairment has been identified	18 069 355	(313 541)	17 755 814	1.74%
Impaired loans:				
- Overdue less than 30 days	163 905	(31 416)	132 489	19.17%
- Overdue 30-89 days	444 958	(316 546)	128 412	71.14%
- Overdue 90-179 days	860 091	(774 073)	86 018	90.00%
- Overdue 180-360 days	1 643 872	(1 459 717)	184 155	88.80%
- Overdue more than 360 days	1 351 816	(1 183 781)	168 035	87.57%
Total impaired loans	4 464 642	(3 765 533)	699 109	84.34%
Total loans to small and medium enterprises	22 533 997	(4 079 074)	18 454 923	18.10%
Total commercial loans	264 564 068	(27 794 943)	236 769 125	10.51%

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2008:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Loans to corporate clients not involved in international business				
Total loans for which no impairment has been identified	159 914 710	(1 963 896)	157 950 814	1.23%
Impaired loans:				
- Impaired, but not overdue	10 477 520	(1 982 101)	8 495 419	18.92%
- Overdue less than 30 days	2 612 276	(845 625)	1 766 651	32.37%
- Overdue 30-89 days	2 689 147	(1 121 016)	1 568 131	41.69%
- Overdue 90-179 days	650 222	(227 574)	422 648	35.00%
- Overdue 180-360 days	902 422	(602 759)	299 663	66.79%
- Overdue more than 360 days	467 561	(403 751)	63 810	86.35%
Total impaired loans	17 799 148	(5 182 826)	12 616 322	29.12%
Total loans to corporate clients not involved in international business	177 713 858	(7 146 722)	170 567 136	4.02%
Loans to corporate clients involved in international business				
Total loans for which no impairment has been identified	48 041 801	(789 230)	47 252 571	1.64%
Impaired loans:				
- Impaired, but not overdue	971 652	(233 236)	738 416	24.00%
- Overdue less than 30 days	398 517	(113 499)	285 018	28.48%
- Overdue 30-89 days	107 365	(36 406)	70 959	33.91%
- Overdue 180-360 days	334 975	(313 505)	21 470	93.59%
- Overdue more than 360 days	236 821	(189 621)	47 200	80.07%
Total impaired loans	2 049 330	(886 267)	1 163 063	43.25%
Total loans to corporate clients involved in international business	50 091 131	(1 675 497)	48 415 634	3.34%
Factoring loans				
Total loans for which no impairment has been identified	20 146 739	(436 664)	19 710 075	2.17%
Impaired loans:				
- Impaired, but not overdue	576 910	(378 430)	198 480	65.60%
- Overdue less than 30 days	619 412	(401 344)	218 068	64.79%
- Overdue 30-89 days	447 445	(322 124)	125 321	71.99%
- Overdue 90-179 days	327 446	(259 868)	67 578	79.36%
- Overdue 180-360 days	275 231	(259 453)	15 778	94.27%
- Overdue more than 360 days	43 935	(38 122)	5 813	86.77%
Total impaired loans	2 290 379	(1 659 341)	631 038	72.45%
Total factoring loans	22 437 118	(2 096 005)	20 341 113	9.34%
Loans to small and medium enterprises				
Total loans for which no impairment has been identified	16 848 467	(443 465)	16 405 002	2.63%
Impaired loans:				
- Impaired, but not overdue	468 658	(165 411)	303 247	35.29%
- Overdue less than 30 days	506 580	(233 950)	272 630	46.18%
- Overdue 30-89 days	705 472	(344 591)	360 881	48.85%
- Overdue 90-179 days	98 364	(33 980)	64 384	34.55%
- Overdue 180-360 days	243 664	(148 418)	95 246	60.91%
- Overdue more than 360 days	15 103	(13 399)	1 704	88.72%
Total impaired loans	2 037 841	(939 749)	1 098 092	46.11%
Total loans to small and medium enterprises	18 886 308	(1 383 214)	17 503 094	7.32%
Total commercial loans	269 128 415	(12 301 438)	256 826 977	4.57%

The credit quality of loans for which no impairment has been identified is not homogeneous due to the variety of industry risks and financial conditions associated with the borrowers.

The Group estimates loan impairment for the commercial loan portfolio for which no impairment has been identified based on the past loss experience and factoring in the current economic conditions.

In many cases the Group estimates loan impairment for the commercial loans for which impairment is identified based on the discounted cash flows that could be received from sale of different types of collateral. To estimate the realizable value of the collateral (taking into account the costs of sale) the Group uses different discount rates applied to the fair value of collateral as at 31 December 2009: real estate – 20%-30%, automobiles – 50%, equipment – 50%-75%, inventory – 90%.

As at 31 December 2009 30% of impaired loans are secured by property, 5% are secured by equipment and vehicles and 65% are secured by other collateral or were uncollateralised.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows the Group would receive on loans granted differs by plus/minus one percent, the loan impairment allowance on commercial loans as of 31 December 2009 would be RUB 2 367 691 thousand lower/higher (2008: RUB 2 568 270 thousand).

During the year ended 31 December 2009 the Group renegotiated commercial loans that would otherwise be past due of RUB 11 347 505 thousand (2008: RUB 6 161 480 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities. Renegotiated loans are included in loans for which no impairment has been identified unless the borrower does not comply with the renegotiated terms.

Analysis of collateral

There is a special Collateral Department which is responsible for managing all types of collateral accepted by the Group for the commercial loan portfolio. The policies and procedures for valuing and managing collateral comprise two stages.

The first stage is related to the decision-making process about the granting of a loan or acquisition of a financial asset, which are subject to credit risk. At this stage, the Collateral Department performs an examination of proposed collateral, which includes preparation of a package of documents related to collateral, physical inspection of collateral, verification of any encumbrances, assessment of fair value of collateral and forecasting of possible changes in the fair value of collateral.

The second stage is related to monitoring and managing of collateral that has already been accepted by the Group. This stage includes regular monitoring of the collateral and reassessment of its fair value.

Principal types of collateral accepted for commercial loans are pledges over real estate, securities, property rights, motor vehicles, equipment, debt claims and inventories or guarantees and sureties.

Impaired commercial loans with a gross value of RUB 51 506 399 thousand (2008: RUB 12 371 967 thousand) are secured by real estate, automobiles, equipment and inventory with a fair value of RUB 19 151 809 thousand (2008: RUB 9 555 414 thousand). For the remaining impaired loans of RUB 13 420 414 thousand (2008: RUB 11 804 731 thousand) there is no collateral or it is impracticable to determine fair value of collateral.

During the year ended 31 December 2008 the Group obtained assets by taking control of collateral with fair value of RUB 50 625 thousand (2008: nil).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2009 are as follows:

	Loans to corporate clients not involved in international business	Loans to corporate clients involved in international business	Factoring loans	Loans to small and medium enterprises	Total
Loan impairment allowance as at 1 January	7 146 722	1 675 497	2 096 005	1 383 214	12 301 438
Loan impairment charge	9 267 600	510 157	3 460 526	2 760 987	15 999 270
Acquisition of subsidiaries	-	-	117 745	-	117 745
Loans written off as uncollectible	(318 999)	(224 582)	(14 802)	(65 127)	(623 510)
Loan impairment allowance as at 31 December	16 095 323	1 961 072	5 659 474	4 079 074	27 794 943

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2008 are as follows:

	Loans to corporate clients not involved in international business	Loans to corporate clients involved in international business	Factoring loans	Loans to small and medium enterprises	Total
Loan impairment allowance as at 1 January	2 516 571	810 388	311 414	146 383	3 784 756
Loan impairment charge	4 106 604	865 109	1 775 209	1 210 563	7 957 485
Acquisition of subsidiaries	549 192	-	15 049	31 721	595 962
Disposal of subsidiaries	(1 692)	-	-	-	(1 692)
Loans written off as uncollectible	(23 953)	-	(5 667)	(5 453)	(35 073)
Loan impairment allowance as at 31 December	7 146 722	1 675 497	2 096 005	1 383 214	12 301 438

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2009:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Consumer loans				
- Not past due	14 079 159	(57 482)	14 021 677	0.41%
- Overdue less than 30 days	545 235	(47 158)	498 077	8.65%
- Overdue 30-89 days	742 761	(208 853)	533 908	28.12%
- Overdue 90-179 days	849 149	(452 946)	396 203	53.34%
- Overdue 180-360 days	2 075 014	(1 627 019)	447 995	78.41%
- Overdue more than 360 days	4 901 253	(4 714 150)	187 103	96.18%
Total consumer loans	23 192 571	(7 107 608)	16 084 963	30.65%
Auto loans				
- Not past due	7 113 148	(11 240)	7 101 908	0.16%
- Overdue less than 30 days	201 471	(7 195)	194 276	3.57%
- Overdue 30-89 days	255 019	(33 969)	221 050	13.32%
- Overdue 90-179 days	378 809	(100 985)	277 824	26.66%
- Overdue 180-360 days	1 124 027	(539 844)	584 183	48.03%
- Overdue more than 360 days	2 248 499	(1 457 421)	791 078	64.82%
Total auto loans	11 320 973	(2 150 654)	9 170 319	19.00%
Credit cards				
- Not past due	1 671 136	(14 621)	1 656 515	0.87%
- Overdue less than 30 days	129 746	(19 126)	110 620	14.74%
- Overdue 30-89 days	85 652	(35 013)	50 639	40.88%
- Overdue 90-179 days	92 728	(65 449)	27 279	70.58%
- Overdue 180-360 days	386 027	(352 615)	33 412	91.34%
- Overdue more than 360 days	759 289	(752 064)	7 225	99.05%
Total credit cards	3 124 578	(1 238 888)	1 885 690	39.65%
Mortgage loans				
- Not past due	1 499 778	(14)	1 499 764	0.00%
- Overdue less than 30 days	41 266	(23)	41 243	0.06%
- Overdue 30-89 days	68 511	(102)	68 409	0.15%
- Overdue 90-179 days	64 248	(238)	64 010	0.37%
- Overdue 180-360 days	146 168	(5 271)	140 897	3.61%
- Overdue more than 360 days	162 413	(21 511)	140 902	13.24%
Total mortgage loans	1 982 384	(27 159)	1 955 225	1.37%
Express-loans				
- Not past due	125 237	(1 363)	123 874	1.09%
- Overdue less than 30 days	5 352	(816)	4 536	15.25%
- Overdue 30-89 days	8 840	(3 911)	4 929	44.24%
- Overdue 90-179 days	14 449	(9 905)	4 544	68.55%
- Overdue 180-360 days	112 061	(99 096)	12 965	88.43%
- Overdue more than 360 days	427 565	(411 460)	16 105	96.23%
Total express-loans	693 504	(526 551)	166 953	75.93%
Loans to VIP clients				
- Not past due	389 304	-	389 304	0.00%
Total loans to VIP clients	389 304	-	389 304	0.00%
Total loans to individuals	40 703 314	(11 050 860)	29 652 454	27.15%

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2008:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Consumer loans				
- Not past due	22 383 235	(235 112)	22 148 123	1.05%
- Overdue less than 30 days	1 101 449	(271 741)	829 708	24.67%
- Overdue 30-89 days	1 660 542	(786 404)	874 138	47.36%
- Overdue 90-179 days	1 214 069	(783 126)	430 943	64.50%
- Overdue 180-360 days	1 283 581	(1 105 236)	178 345	86.11%
- Overdue more than 360 days	582 544	(582 544)	-	100.00%
Total consumer loans	28 225 420	(3 764 163)	24 461 257	13.34%
Auto loans				
- Not past due	11 258 185	(99 881)	11 158 304	0.89%
- Overdue less than 30 days	758 116	(136 647)	621 469	18.02%
- Overdue 30-89 days	938 213	(344 800)	593 413	36.75%
- Overdue 90-179 days	618 404	(348 818)	269 586	56.41%
- Overdue 180-360 days	634 164	(516 705)	117 459	81.48%
- Overdue more than 360 days	230 025	(230 025)	-	100.00%
Total auto loans	14 437 107	(1 676 876)	12 760 231	11.62%
Credit cards				
- Not past due	2 376 695	(97 006)	2 279 689	4.08%
- Overdue less than 30 days	153 457	(22 754)	130 703	14.83%
- Overdue 30-89 days	287 657	(115 192)	172 465	40.04%
- Overdue 90-179 days	208 851	(100 692)	108 159	48.21%
- Overdue 180-360 days	114 129	(73 508)	40 621	64.41%
- Overdue more than 360 days	27 482	(27 482)	-	100.00%
Total credit cards	3 168 271	(436 634)	2 731 637	13.78%
Mortgage loans				
- Not past due	2 013 125	(195)	2 012 930	0.01%
- Overdue less than 30 days	88 059	(470)	87 589	0.53%
- Overdue 30-89 days	95 169	(6 977)	88 192	7.33%
- Overdue 90-179 days	46 881	(3 859)	43 022	8.23%
- Overdue 180-360 days	22 070	(3 907)	18 163	17.70%
- Overdue more than 360 days	3 444	(3 444)	-	100.00%
Total mortgage loans	2 268 748	(18 852)	2 249 896	0.83%
Express-loans				
- Not past due	735 732	(15 509)	720 223	2.11%
- Overdue less than 30 days	46 177	(12 385)	33 792	26.82%
- Overdue 30-89 days	92 938	(44 203)	48 735	47.56%
- Overdue 90-179 days	99 229	(59 074)	40 155	59.53%
- Overdue 180-360 days	116 567	(97 891)	18 676	83.98%
- Overdue more than 360 days	82 365	(82 365)	-	100.00%
Total express-loans	1 173 008	(311 427)	861 581	26.55%
Loans to VIP clients				
- Not past due	522 220	(750)	521 470	0.14%
Total loans to VIP clients	522 220	(750)	521 470	0.14%
Total loans to individuals	49 794 774	(6 208 702)	43 586 072	12.47%

The Group estimates loan impairment based on its past historical loss experience on these types of loans. Management estimates losses based on historic loss migration pattern for the past 24 months and adjusts such statistics to reflect the current market environment.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows the Group would receive on loans granted differs by plus/minus one percent, the loan impairment on retail loans as of 31 December 2009 would be RUB 296 525 thousand lower/higher (2008: RUB 435 861 thousand).

Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying car. Certain consumer loans and loans to VIP clients are secured by third party sureties although the majority of consumer loans and loans to VIP clients are not secured. Credit cards and express loans are not secured.

Management believes that it is impracticable to estimate the fair value of collateral held in respect of impaired loans to individuals.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2009 are as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Express- loans	Loans to VIP clients	Total
Loan impairment allowance as at 1 January	3 764 163	1 676 876	436 634	18 852	311 427	750	6 208 702
Loan impairment charge	3 343 832	473 778	802 254	8 307	215 124	(750)	4 842 545
Loans written off as uncollectible	(387)	-	-	-	-	-	(387)
Loan impairment allowance as at 31 December	<u>7 107 608</u>	<u>2 150 654</u>	<u>1 238 888</u>	<u>27 159</u>	<u>526 551</u>	<u>-</u>	<u>11 050 860</u>

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2008 are as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Express- loans	Loans to VIP clients	Total
Loan impairment allowance as at 1 January	816 756	370 481	4 402	6 386	154 752	30	1 352 807
Loan impairment charge	3 191 933	1 410 597	434 789	12 458	237 425	720	5 287 922
Acquisition of subsidiaries	58 706	1 144	-	8	1 746	-	61 604
Loans written off as uncollectible	(303 232)	(105 346)	(2 557)	-	(82 496)	-	(493 631)
Loan impairment allowance as at 31 December	3 764 163	1 676 876	436 634	18 852	311 427	750	6 208 702

Industry and geographical analysis of the loan portfolio

Loans to customers as at 31 December are issued to customers operating in the following economic sectors:

	2009		2008	
Loans to individuals	40 703 314	13.33%	49 794 774	15.61%
Commercial loans				
Wholesale trade	37 050 255	12.14%	42 472 388	13.32%
Real estate investment and development	26 069 566	8.54%	29 727 241	9.32%
Food production	22 639 651	7.42%	21 601 883	6.77%
Finance and leasing	18 787 534	6.15%	15 739 153	4.94%
Retail trade	16 572 447	5.43%	15 597 357	4.89%
Wood processing	15 128 070	4.95%	9 975 322	3.13%
Agriculture	14 131 045	4.63%	15 520 858	4.87%
Construction	13 661 905	4.48%	20 251 845	6.35%
Services	11 545 671	3.78%	11 983 575	3.76%
Information technology	8 845 936	2.90%	6 002 662	1.88%
Construction materials	8 725 239	2.86%	6 274 517	1.97%
Transport	8 574 388	2.81%	12 838 179	4.03%
Automobile trading and production	8 531 897	2.79%	11 095 210	3.48%
Chemical production	7 267 218	2.38%	7 730 051	2.42%
Metallurgy	6 673 931	2.19%	8 107 508	2.54%
Machinery	6 531 133	2.14%	6 833 484	2.14%
Energy	6 388 759	2.09%	7 335 291	2.30%
Telecommunications	5 172 721	1.69%	3 671 450	1.15%
Pharmaceutical	4 328 171	1.42%	3 372 384	1.06%
Light industry	3 081 466	1.01%	1 354 512	0.42%
Media	2 779 999	0.91%	2 621 801	0.82%
State and local authorities	2 205 077	0.72%	393 176	0.12%
Mineral resources	1 467 835	0.48%	1 048 884	0.33%
Aircraft industry	387 012	0.13%	387 765	0.12%
Other	8 017 142	2.63%	7 191 919	2.26%
	305 267 382	100.00%	318 923 189	100.00%
Impairment allowance	(38 845 803)		(18 510 140)	
Total loans to customers	266 421 579		300 413 049	

Loans as at 31 December are granted to customers in the following geographical areas:

	2009	2008
Russian Federation		
Moscow and Moscow region	165 554 801	159 795 925
Siberia	41 613 796	45 969 296
Central Chernozem and Central region	30 654 427	38 045 721
Volgo-Viatskiy and Volga region	20 259 448	21 027 088
South region	19 889 554	21 332 058
North-Western and North region	15 958 471	20 792 352
Far East	5 969 792	6 234 478
Urals	5 367 093	5 713 839
Customers outside the Russian Federation	-	12 432
	305 267 382	318 923 189
Impairment allowance	(38 845 803)	(18 510 140)
Total loans to customers	266 421 579	300 413 049

Significant credit exposures

As at 31 December 2009 and 2008 the Group had 9 and 8 borrowers or groups of related borrowers, respectively, whose loan balances exceed 10% of equity. The gross value of exposures as of 31 December 2009 and 2008 are RUB 49 360 423 thousand and RUB 48 440 626 thousand, respectively, or 16.2% and 15.2% of gross loans to customers.

Loan maturities

The maturity of the loan portfolio is presented in note 33, which shows the remaining period from the reporting date to the contractual maturity of the loans. Due to the short-term nature of the loans, it is likely that many of the loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Maturity, currency and interest rate analyses of loans to customers are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

Net investment in leases

Included within loans to customers as of 31 December 2009 and 2008 are net investment in leases. As of 31 December 2009 and 2008, the gross investment in leases and the related unearned finance income and impairment allowance are as follows:

	2009	2008
Gross investment in leases	1 102 693	1 770 545
Unearned finance income	(443 266)	(599 074)
Net investment in leases	659 427	1 171 471
Impairment allowance	(27 478)	(29 941)
Net investment in leases less impairment allowance	631 949	1 141 530

The contractual maturity of the net investment in leases as of 31 December 2009 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
Less than one year	505 447	(223 111)	(9 146)	273 190
One year to five years	597 246	(220 155)	(18 332)	358 759
	1 102 693	(443 266)	(27 478)	631 949

The contractual maturity of the net investment in leases as of 31 December 2008 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
Less than one year	706 768	(279 454)	(9 692)	417 622
One year to five years	1 063 777	(319 620)	(20 249)	723 908
	1 770 545	(599 074)	(29 941)	1 141 530

10 Investments available for sale

	2009	2008
Closed unit investment fund	29 140	-
Equity investments		
Corporate shares	5 943	158 514
Other	3 109	3 309
Impairment allowance	(3 109)	(3 109)
Total investments available for sale	35 083	158 714

Closed unit investment fund mainly invests in corporate bonds that are securities issued by Russian companies denominated in Russian Roubles.

The equity instruments are unlisted and stated at cost less impairment allowance. As at 31 December 2008 investment in shares of a medium-sized regional bank was evaluated using a valuation technique. This investment was acquired in November 2007 for RUB 178 810 thousand and a further stake was acquired in September 2008 for RUB 59 804 thousand. As at 31 December 2008 the estimated fair value of the investment was RUB 155 313 thousand. These shares were sold during 2009 at a value equal to acquisition cost.

Maturity and currency analyses of investments available for sale are disclosed in note 33. The information on related party balances is disclosed in note 42.

Analysis of movements in the impairment allowance

	2009	2008
Balance at the beginning of the year	3 109	10 891
Write-off	-	(7 782)
Balance at the end of the year	3 109	3 109

11 Investments held to maturity

	2009	2008
Debt and other fixed-income instruments		
Russian Government Federal bonds (OFZ)	5 992 075	5 327 720
Corporate bonds	1 181 844	3 172 611
Corporate Eurobonds	148 112	387 710
Impairment allowance	(117 093)	(7 990)
Total investments held to maturity	7 204 938	8 880 051

Analysis of movements in the impairment allowance

	2009	2008
Balance at the beginning of the year	7 990	-
Impairment charge	109 103	7 990
Balance at the end of the year	117 093	7 990

In 2008 the Group reclassified certain trading securities with effect from 31 July 2008 to investments held to maturity following amendments to IAS 39. The Group identified securities eligible under the amendments for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those trading securities identified for reclassification, the Group determined that the fundamental change in the securities markets constituted rare circumstances that permit reclassification out of the trading category.

The disclosures below detail the impact of the reclassifications on the consolidated financial statements:

	31 December 2009		31 December 2008		31 July 2008	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to investments held to maturity	5 405 149	5 254 709	5 546 292	5 130 952	5 450 071	5 450 071

The table above includes amounts related to financial instruments held by the Group as at 31 December 2009.

The tables below set out the amounts actually recognised in profit or loss during 2009 and 2008 in respect of trading securities reclassified out of financial assets at fair value through profit or loss:

	2009		2008	
	Recognised for reclassified assets	Would have been recognized if the reclassifications were not made	Recognised for reclassified assets	Would have been recognized if the reclassifications were not made
Interest income	431 153	489 036	339 916	321 339
Net gain/(loss) on debt securities - trading	-	253 147	38 515	(528 648)
Impairment losses for investments held to maturity	(107 567)	-	(7 990)	-
Total result recognised in profit or loss for the period (before tax)	323 586	742 183	370 441	(207 309)

The following table provides details of debt investments held to maturity as at 31 December 2009:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Russian Government Federal bonds (OFZ)	January 2010	July 2013	5.80%	10.00%	5.52%	10.93%
Corporate bonds	January 2010	June 2012	7.55%	18.00%	9.04%	16.57%
Corporate Eurobonds	March 2010	March 2012	6.13%	13.75%	9.55%	14.14%

The following table provides details of debt investments held to maturity as at 31 December 2008:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Earliest	Latest	Minimum	Maximum	Minimum	Maximum
Russian Government Federal bonds (OFZ)	January 2010	July 2013	5.80%	10.00%	5.52%	6.82%
Corporate bonds	April 2009	June 2012	7.55%	15.00%	7.78%	27.41%
Corporate Eurobonds	March 2009	July 2011	6.13%	13.75%	9.55%	16.29%

The following table presents an analysis by rating agency designation of debt investments held to maturity as at 31 December. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported using the lower rating.

	2009	2008
Rated from BBB- to BBB+	6 020 895	5 647 699
Rated from BB- to BB+	150 696	274 097
Rated from B- to B+	673 690	1 453 583
Rated below B-	-	148 432
Not rated	359 657	1 356 240
Total investments held to maturity	7 204 938	8 880 051

Maturity, currency and interest rate analyses of investments held to maturity are disclosed in notes 33 and 41.

12 Assets held for sale

In December 2009 the Group acquired two items of property that are classified as assets held for sale as management is planning to sell these assets during 2010 and is actively marketing the assets. The Group entered into an agency agreement with a real estate management company to find investors. As of 31 December 2009 assets held for sale are comprised of:

	2009	2008
Land, St.-Petersburg region	1 500 000	-
Office building, Moscow	1 100 001	-
Total assets held for sale	2 600 001	-

Assets held for sale are measured at the lower of cost or fair value less costs to sell.

Assets held for sale are included in the International business, investments and financial markets operating segment.

Maturity and currency analyses of assets held for sale are disclosed in note 33.

13 Other assets

	2009	2008
Advances and prepayments	680 954	695 346
Securities lending operations	429 359	-
Equipment purchased for leases	409 476	57 522
Deferred expenses	203 967	367 990
Value added tax (VAT)	188 185	287 696
Other	188 374	108 986
Total other assets	2 100 315	1 517 540

Maturity and currency analyses of other assets are disclosed in note 33. The information on related party balances is disclosed in note 42.

14 Property and equipment

	Land and Buildings	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
Cost/Revalued amount									
At 1 January 2009	12 751 260	1 031 295	1 583 180	308 242	273 926	762 172	7 795	6 443 053	23 160 923
Additions and transfers	443 502	702 198	364 189	13 662	49 200	79 276	278	2 897 664	4 549 969
Disposals and transfers	(6 751)	(21 258)	(50 061)	(18 059)	(12 042)	(30 105)	(1 245)	(200 622)	(340 143)
Elimination of accumulated depreciation of revalued assets	(281 897)	-	-	-	-	-	-	-	(281 897)
Revaluation	(1 482 948)	-	-	-	-	-	-	-	(1 482 948)
At 31 December 2009	11 423 166	1 712 235	1 897 308	303 845	311 084	811 343	6 828	9 140 095	25 605 904
Depreciation and amortisation									
At 1 January 2009	-	520 857	601 014	123 128	94 128	405 136	3 441	-	1 747 704
Depreciation charge (note 30)	282 022	253 495	259 662	57 087	37 912	127 933	1 260	-	1 019 371
Disposals	(125)	(20 090)	(37 164)	(14 787)	(7 628)	(6 696)	(726)	-	(87 216)
Elimination of accumulated depreciation of revalued assets	(281 897)	-	-	-	-	-	-	-	(281 897)
At 31 December 2009	-	754 262	823 512	165 428	124 412	526 373	3 975	-	2 397 962
Carrying value at 31 December 2009	11 423 166	957 973	1 073 796	138 417	186 672	284 970	2 853	9 140 095	23 207 942

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Notes to the consolidated financial statements – year ended 31 December 2009
(expressed in thousands of Russian Roubles – refer to note 2)

	Land and Buildings	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
Cost/Revalued amount									
At 1 January 2008	8 159 791	595 564	997 633	187 358	161 078	583 400	6 014	1 622 005	12 312 843
Acquisition of subsidiaries	2 059 403	56 350	140 371	45 207	19 968	-	1 916	270 275	2 593 490
Additions and transfers	2 344 800	386 120	469 308	81 891	97 845	179 460	1 723	6 154 534	9 715 681
Disposals and transfers	(138 844)	(6 739)	(24 132)	(6 214)	(4 965)	(688)	(1 858)	(1 603 761)	(1 787 201)
Elimination of accumulated depreciation of revalued assets	(213 601)	-	-	-	-	-	-	-	(213 601)
Revaluation	539 711	-	-	-	-	-	-	-	539 711
At 31 December 2008	12 751 260	1 031 295	1 583 180	308 242	273 926	762 172	7 795	6 443 053	23 160 923
Depreciation and amortisation									
At 1 January 2008	-	305 088	366 000	63 968	64 515	289 648	1 409	-	1 090 628
Acquisition of subsidiaries	10 390	39 762	69 960	19 699	6 601	-	1 458	-	147 870
Depreciation charge (note 30)	205 155	182 376	178 720	44 818	25 365	115 654	1 305	-	753 393
Disposals	(1 944)	(6 369)	(13 666)	(5 357)	(2 353)	(166)	(731)	-	(30 586)
Elimination of accumulated depreciation of revalued assets	(213 601)	-	-	-	-	-	-	-	(213 601)
At 31 December 2008	-	520 857	601 014	123 128	94 128	405 136	3 441	-	1 747 704
Carrying value at 31 December 2008	12 751 260	510 438	982 166	185 114	179 798	357 036	4 354	6 443 053	21 413 219

During 2008 the Group acquired the investment rights for 23 915 square meters of an office building under construction by a Russian developer. The total amount invested in the construction as at 31 December 2009 is RUB 8 244 504 thousand (2008: RUB 5 506 180 thousand) and the Group has capital commitments in respect of this construction in the amount of USD 42 million payable in 2010-2011.

At 31 December 2009 included in office equipment, computer software and vehicles are assets held under finance leases at carrying amount of RUB 234 775 thousand (2008: RUB 313 297 thousand).

Revalued assets

Buildings were independently valued at 31 December 2009. The valuation was carried out by two independent firms of appraisers, Centr nezavisimoy expertizi OOO “Invest Proect” and OOO “Otsenchnaya kompaniya “Nizhegorodsky Capital”, which hold recognised and relevant professional qualifications and which have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the market approach, based upon an analysis of the results of comparable sales and/or offer of similar buildings.

Included in the above table is RUB 1 482 948 thousand representing the overall decrease in market values during 2009 relating to these buildings. Negative revaluation of RUB 1 025 030 thousand is recorded in other comprehensive income, and negative revaluation of RUB 457 918 thousand is recognized in profit or loss.

Included in the above table is RUB 539 711 thousand representing the revaluation surplus during 2008 relating to these buildings. Positive revaluation of RUB 995 811 thousand was recorded in other comprehensive income, and negative revaluation of RUB 456 100 thousand was recognized in profit or loss.

The appraisers apply various adjustment factors to market prices of similar buildings to make them comparable with the Groups’ buildings. These adjustments could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus ten percent, the building valuation as of 31 December 2009 would be RUB 1 137 365 thousand (2008: RUB 1 270 239 thousand) higher/lower.

The carrying value of land and buildings as of 31 December 2009, if the buildings would not have been revalued, would be RUB 9 436 013 thousand (2008: RUB 9 220 870 thousand).

15 Financial liabilities at fair value through profit or loss

	2009	2008
Spot and derivative financial instruments	893 764	614 859
Trading liabilities	358 461	-
Total financial liabilities at fair value through profit or loss	1 252 225	614 859

For information on the spot and derivative financial instruments refer to note 35.

Trading liabilities represent short position on Russian Federation Eurobonds.

Maturity and currency analyses of financial liabilities at fair value through profit or loss are disclosed in note 33.

16 Deposits and balances from banks and other financial institutions

	2009	2008
Term deposits from foreign banks	21 299 320	10 167 919
Long-term finance	14 768 138	16 346 508
Trade finance	13 114 615	26 545 890
Vostro accounts	8 339 427	5 841 481
Term deposits from the CBR	5 856 656	51 527 551
Term deposits from local banks	1 402 234	846 008
Total deposits and balances from banks and other financial institutions	64 780 390	111 275 357

Trade finance and long-term finance represent funds to be used in documentary credit transactions. Trade finance is used for financing working capital of clients through documentary letters of credit. Long-term finance is used to finance targeted assets of clients through documentary letters of credit.

Maturity, currency and interest rate analyses of deposits and balances from banks and other financial institutions are disclosed in notes 33 and 41.

Concentration of deposits and balances from banks and other financial institutions

As of 31 December 2009 the ten largest aggregate balances of deposits and balances from banks and other financial institutions (except for term deposits from the CBR) amount to RUB 29 625 653 thousand or 50.3% of total deposits and balances from banks and other financial institutions excluding term deposits from the CBR (2008: RUB 25 254 376 thousand or 42.3%).

17 Amounts payable under repurchase agreements

	2009	2008
Amounts payable to banks and other financial institutions	17 659	855 837
Amounts payable to customers	43 038	-
Total amounts payable under repurchase agreements	60 697	855 837

Maturity, currency and interest rate analyses of amounts payable under repurchase agreements are disclosed in notes 33 and 41.

Securities pledged

As at 31 December 2009 and 2008, the Group pledged certain securities as collateral under repurchase agreements (refer to note 7).

18 Current accounts and deposits from customers

	2009	2008
Current accounts and demand deposits		
- Corporate	55 365 566	59 566 765
- Retail	11 029 832	8 304 238
Term deposits		
- Corporate	114 735 483	82 111 910
- Retail	85 000 038	45 086 652
- State and local authorities and public organisations	23 417 920	34 541 393
Total current accounts and deposits from customers	289 548 839	229 610 958

Maturity, currency and interest rate analyses of current accounts and deposits from customers are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

Blocked accounts

As at 31 December 2009, the Group maintained customer deposit balances of RUB 3 806 545 thousand (2008: RUB 1 530 911 thousand) that are blocked as collateral for loans and off-balance sheet credit instruments.

Concentrations of current accounts and deposits from customers

As at 31 December 2009 the ten largest aggregate balances of current account and deposits from customers amount to RUB 92 453 053 thousand or 31.9% of total current accounts and deposits from customers (2008: RUB 87 979 495 thousand or 38.3% of total current accounts and deposits from customers).

Funds were attracted from the customers operating in the following economic sectors as at 31 December:

	2009		2008	
	Amount	%	Amount	%
Retail	96 029 870	33.17%	53 390 890	23.25%
Corporate customers, state and local authorities and public organisations				
Energy and mineral resources	44 078 110	15.22%	32 065 542	13.97%
Development and construction	26 445 668	9.13%	9 443 967	4.11%
Finance and investment	26 135 255	9.03%	40 462 509	17.62%
State and local authorities and public organisations	23 417 920	8.09%	34 541 393	15.04%
Trade and commerce	22 998 156	7.94%	24 474 567	10.66%
Manufacturing	18 934 164	6.54%	6 741 460	2.94%
Transport and other services	9 863 415	3.41%	6 691 556	2.91%
Media and telecommunications	9 358 854	3.23%	12 037 492	5.24%
IT and science	5 481 419	1.89%	4 570 000	1.99%
Food production and agriculture	828 632	0.29%	1 003 841	0.44%
Other	5 977 376	2.06%	4 187 741	1.83%
Total current accounts and deposits from customers	289 548 839	100.00%	229 610 958	100.00%

19 Own securities issued

	2009	2008
Promissory notes	20 986 966	11 676 688
Senior loan participation notes	16 423 635	17 889 524
Domestic bonds	6 229 540	9 541 000
Certificates of deposit	14 571	261 228
Total own securities issued	43 654 712	39 368 440

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 rates from 0.1% p.a. to 16.0% p.a. and maturity dates from January 2010 to September 2015.

Loan participation notes comprise notes issued through Promsvyaz Finance PLC and PSB Finance S.A. (refer to note 2).

The table below provides a summary of all senior loan participation notes issued as at 31 December:

Special purpose entity used for issue	Principal amount		Issue date	Maturity date	Coupon rate	Commentary	2009	2008
	2009	2008					2009	2008
PSB Finance S.A.	USD 214 mln	USD 225 mln	October 2006 and March 2007	October 2011	8.75%	Non-subordinated	6 360 433	6 696 386
Promsvyaz Finance PLC	USD 192 mln	USD 200 mln	October 2005	October 2010	8.75%	Non-subordinated	5 881 808	5 952 241
PSB Finance S.A.	USD 137 mln	USD 150 mln	July 2008	July 2013	10.75%	Non-subordinated	4 181 394	4 590 498
PSB Finance S.A.	-	EUR 15 mln	July 2008	April 2009	9.625%	Non-subordinated	-	650 399
Total senior loan participation notes							16 423 635	17 889 524

During the year ended 31 December 2009 the Group purchased from the market senior loan participation notes amounting to USD 204 462 thousand. The gain on the repurchase of these senior loan participation notes is RUB 755 417 thousand (refer to note 28).

During the year ended 31 December 2009 the Group sold senior loan participation notes amounting to USD 172 790 thousand.

The table below provides a summary of domestic bonds issued as at 31 December:

Principal amount	Issue date	Offer date	Maturity date	Current coupon rate	2009	2008
4 500 000	May 2007	May 2010	May 2012	16.00%	4 575 562	4 532 406
5 000 000	June 2008	December 2010	June 2013	14.75%	1 653 978	5 008 594
Total domestic bonds					6 229 540	9 541 000

In May 2009 the Group redeemed at nominal value 45.7% of the RUB 4.5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued 100% of such bonds.

In June 2009 the Group redeemed at nominal value 70.6% of the RUB 5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued 100% of such bonds.

In December 2009 the Group redeemed at nominal value 69.9% of the same RUB 5 billion issue from holders under a mandatory call offer. Subsequent to this the Group re-issued 4.1% of such bonds.

Maturity, currency and interest rate analyses of own securities issued are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

20 Other borrowed funds

	2009	2008
Syndicated loans	8 966 992	22 196 034
Other borrowed funds	4 852 418	1 814 228
Total other borrowed funds	13 819 410	24 010 262

In September 2009 the Group received the first tranche of a loan agreement with EBRD amounting to USD 30 000 thousand. The loan bears an interest rate of LIBOR plus 4.5% per annum.

In October and December 2009 the Group borrowed RUB 776 000 thousand and RUB 1 000 000 thousand from The Russian Bank for Development to re-lend to the small and medium size enterprises segment. The loans mature in October and November 2012 and bear an interest rate of 10.5% per annum payable on a monthly basis.

In December 2009 the Group borrowed USD 30 000 thousand from Kreditanstalt für Wiederaufbau to re-lend to the small and medium size enterprises segment. The loan bears an interest rate of LIBOR plus 2.8% per annum.

In March 2009 the Group repaid in advance a syndicated loan amounting to USD 175 000 thousand, received in May 2008 from a group of banks from Europe and the United States of America.

In July 2009 the Group repaid in advance a syndicated loan amounting to USD 280 000 thousand, received in August 2008 from a group of banks from Russia, Europe and the United States of America.

Maturity, currency and interest rate analyses of other borrowed funds are disclosed in notes 33 and 41.

21 Other liabilities

	2009	2008
Financial guarantee liabilities	629 821	710 254
Employee compensation payable	371 064	484 001
Taxes payable	329 572	377 952
Payables and advances received	239 967	177 344
Obligations under option agreements (refer to note 2)	83 477	86 895
Payables on factoring deals	49 345	74 283
Liability to purchase leasing equipment	9 050	20 422
Deferred subsidiary purchase consideration	-	640 231
Other	88 692	101 597
Total other liabilities	1 800 988	2 672 979

Maturity and currency analyses of other liabilities are disclosed in note 33. The information on related party balances is disclosed in note 42.

22 Deferred tax asset/liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2009 and 2008.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Net	
	2009	2008	2009	2008	2009	2008
Financial assets at fair value through profit or loss	216 121	195 397	(13 056)	-	203 065	195 397
Amounts receivable under reverse repurchase agreements	-	-	(713)	(927)	(713)	(927)
Loans to customers	480 791	293 061	(37 605)	(325 126)	443 186	(32 065)
Investments available for sale	560	17 251	-	-	560	17 251
Investments held to maturity	-	-	(6 443)	(38 228)	(6 443)	(38 228)
Other assets	31 009	67 638	(3 722)	(686)	27 287	66 952
Property and equipment	-	-	(538 650)	(1 074 475)	(538 650)	(1 074 475)
Financial liabilities at fair value through profit or loss	65 906	-	-	(23 918)	65 906	(23 918)
Deposits and balances from banks and other financial institutions	-	-	(18 584)	(11 687)	(18 584)	(11 687)
Amounts payable under repurchase agreements	-	556	(191)	-	(191)	556
Own securities issued	-	-	(41 118)	(37 975)	(41 118)	(37 975)
Other borrowed funds	-	-	(39 128)	(36 358)	(39 128)	(36 358)
Other liabilities	192 116	199 326	-	-	192 116	199 326
Net tax asset/(liability)	986 503	773 229	(699 210)	(1 549 380)	287 293	(776 151)
Comprising of:						
Deferred tax asset					600 326	-
Deferred tax liability					(313 033)	(776 151)

Movement in temporary differences during the year ended 31 December 2009:

	Balance as at 1 January 2009	Recognised in profit or loss	Recognised in equity	Acquisition of subsidiaries	Balance as at 31 December 2009
Financial assets at fair value through profit or loss	195 397	7 668	-	-	203 065
Amounts receivable under reverse repurchase agreements	(927)	214	-	-	(713)
Loans to customers	(32 065)	468 241	-	7 010	443 186
Investments available for sale	17 251	11	(16 702)	-	560
Investments held to maturity	(38 228)	31 785	-	-	(6 443)
Other assets	66 952	(39 665)	-	-	27 287
Property and equipment	(1 074 475)	330 819	205 006	-	(538 650)
Financial liabilities at fair value through profit or loss	(23 918)	89 824	-	-	65 906
Deposits and balances from banks and other financial institutions	(11 687)	(6 897)	-	-	(18 584)
Amounts payable under repurchase agreements	556	(747)	-	-	(191)
Own securities issued	(37 975)	(3 143)	-	-	(41 118)
Other borrowed funds	(36 358)	(2 770)	-	-	(39 128)
Other liabilities	199 326	(7 210)	-	-	192 116
	(776 151)	868 130	188 304	7 010	287 293

Movement in temporary differences during the year ended 31 December 2008:

	Balance as at 1 January 2008	Recognised in profit or loss	Recognised in equity	Changes in income tax rates in income	Changes in income tax rates in equity	Acquisition of subsidiaries	Balance as at 31 December 2008
Placements with banks and other financial institutions	(1 378)	1 378	-	-	-	-	-
Financial assets at fair value through profit or loss	184 837	51 454	-	(40 912)	-	18	195 397
Amounts receivable under reverse repurchase agreements	(1 029)	(83)	-	185	-	-	(927)
Loans to customers	(356 034)	285 040	-	17 214	-	21 715	(32 065)
Investments available for sale	713	(4)	16 660	(118)	-	-	17 251
Investments held to maturity	-	(45 874)	-	7 646	-	-	(38 228)
Other assets	68 805	12 361	-	(13 528)	-	(686)	66 952
Property and equipment	(1 086 093)	280 879	(174 882)	32 163	120 048	(246 590)	(1 074 475)
Financial liabilities at fair value through profit or loss	(34 328)	5 626	-	4 784	-	-	(23 918)
Deposits and balances from banks and other financial institutions	(28 650)	14 626	-	2 337	-	-	(11 687)
Amounts payable under repurchase agreements	582	85	-	(111)	-	-	556
Own securities issued	(46 549)	979	-	7 595	-	-	(37 975)
Other borrowed funds	(29 971)	(13 659)	-	7 272	-	-	(36 358)
Other liabilities	136 063	103 129	-	(39 866)	-	-	199 326
	(1 193 032)	695 937	(158 222)	(15 339)	120 048	(225 543)	(776 151)

23 Subordinated borrowings

	2009	2008
Subordinated loan participation notes	15 286 818	8 953 887
Subordinated loan from European Bank of Reconstruction and Development	1 551 047	1 574 010
Subordinated loan from Reserve Invest Limited	910 496	887 396
Subordinated loan from Promsvyaz Capital B.V.	-	1 178 306
Total other borrowed funds	17 748 361	12 593 599

In November 2009 the Group issued subordinated loan participation notes with a nominal value of USD 200 000 thousand which mature in 2015 and bear interest at 12.75% per annum.

In December 2009 the Group repaid in advance the subordinated loan from Promsvyaz Capital B.V.

Maturity, currency and interest rate analyses of subordinated borrowings are disclosed in notes 33 and 41. The information on related party balances is disclosed in note 42.

24 Share capital

Issued capital

	Balance as at 1 January 2009
Number of ordinary shares	179 890
Nominal amount per share, RUB	50 000
Nominal amount, RUB thousand	8 994 500
Inflation adjusted amount	10 062 544

On 16 March 2009 the shareholders decided to split the ordinary shares which have a nominal value of RUB 50,000 each into 5,000,000 ordinary shares with a nominal value of RUB 0.01 each.

	Balance as at 31 December 2009
Number of ordinary shares	899 450 000 000
Nominal amount per share, RUB	0.01
Nominal amount, RUB thousand	8 994 500
Inflation adjusted amount	10 062 544

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the shareholders.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the reporting date, reserves available for distribution amount to RUB 6 409 305 thousand (2008: RUB 8 178 280 thousand).

No dividends were declared or paid during the years ended 31 December 2009 and 2008.

25 Net interest income

	2009	2008
Interest income		
Loans to customers	50 401 496	39 557 566
Financial assets at fair value through profit or loss	2 481 705	1 440 239
Investments held to maturity	656 434	293 702
Placements with banks and other financial institutions and cash and cash equivalents	541 021	870 826
Reverse repurchase agreements	519 270	619 655
Total interest income	54 599 926	42 781 988

	2009	2008
Interest expense		
Current accounts and deposits from customers	16 572 417	9 733 398
Deposits and balances from banks and other financial institutions	5 442 845	5 227 360
Own securities issued	4 264 295	3 222 197
Subordinated borrowings	1 625 715	1 197 211
Other borrowed funds	884 046	1 273 804
Repurchase agreements	209 000	158 250
Total interest expense	28 998 318	20 812 220
Net interest income	25 601 608	21 969 768

26 Fee and commission income

	2009	2008
Commission on documentary operations	2 037 213	1 331 953
Money transfer fees	1 235 835	1 080 417
Commission for servicing plastic cards	1 182 891	945 511
Commission on foreign currency operations	1 019 587	674 521
Commission for operations with cash	756 987	651 601
Commission on banknote operations	220 729	337 312
Securities trading fees	137 212	63 512
Commission on undrawn loan commitments	104 115	215 758
Investment banking fees	100 848	211 975
Cash collection fees	97 541	82 875
Agent fees	48 415	113 385
Other	70 705	71 326
Total fee and commission income	7 012 078	5 780 146

27 Fee and commission expense

	2009	2008
Commission on documentary operations	386 762	259 449
Commission for servicing plastic cards	309 125	248 488
Money transfer fees	236 457	233 445
Commission on foreign currency operations	154 812	30 096
Agent fees	124 694	75 086
Commission on banknote operations	94 371	72 642
Cash collection fees	71 547	102 898
Securities trading fees	26 725	32 187
Other	2 353	1 518
Total fee and commission expense	1 406 846	1 055 809

28 Net gain/(loss) on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes

	2009	2008
Net gain on early redemption of senior loan participation notes (note 19)	755 417	-
Net gain/(loss) on debt securities - trading	368 436	(1 481 344)
Net gain/(loss) on equity securities - trading	19 787	(39 413)
Net gain/(loss) on equity instruments - designated upon initial recognition as at fair value through profit or loss	113 140	(141 301)
Net loss on interest rate swaps	(142 598)	(180 782)
Net gain/(loss) on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes	1 114 182	(1 842 840)

Interest income on debt instruments is included in interest income on financial assets at fair value through profit or loss (refer to note 25).

29 Other income

	2009	2008
Fines and penalties received	857 516	485 659
Income from sale of property	13 830	20 791
Dividend income	1 943	3 181
Other	223 405	134 174
Total other income	1 096 694	643 805

30 General and administrative expenses

	2009	2008
Administrative expenses		
Employee compensation	7 577 385	6 512 920
Depreciation (note 14)	1 019 371	753 393
Occupancy (note 37)	796 951	769 425
Taxes other than income tax	689 394	732 615
Communications and information services	570 848	563 744
Insurance	503 975	401 586
Office repairs, maintenance and supply	461 270	534 606
Advertising and marketing	392 408	710 459
Security	335 231	262 768
Transportation	179 147	206 119
Buildings repairs and maintenance	132 029	215 468
Professional services	64 154	114 952
Other	205 859	174 803
Total administrative expenses	12 928 022	11 952 858
General expenses		
Contributions under obligatory deposit insurance	239 651	202 484
Charity and sponsorship	134 657	229 513
Total general expenses	374 308	431 997

Charity and sponsorship expenses include grants to the Russian Society of Invalids, hospices, hospitals, culture institutions and to the Russian Orthodox Church.

31 Income tax expense

	2009	2008
Current tax expense		
Current year	(868 378)	(1 261 247)
Deferred tax benefit		
Origination and reversal of temporary differences (note 22)	868 130	680 598
Total income tax expense	(248)	(580 649)

The applicable tax rate for current tax is 20% (2008: 24%). The applicable deferred tax rate is 20% (2008: 20%).

Reconciliation of effective tax rate:

	2009	%	2008	%
(Loss)/profit before tax	(625 605)		2 142 304	
Theoretical income tax (benefit)/expense at the statutory	(125 120)	20%	514 153	24%
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Non deductible expenses including charity expenses	104 776	(17%)	133 967	6%
- Income on government securities taxed at different rates	(36 559)	6%	(70 453)	(3%)
- Loss incurred in tax free jurisdictions	-	-	13 579	1%
- Effect of income earned by the branch in Cyprus	52 663	(8%)	73 529	3%
- Effect of acquisition of subsidiaries	(29 805)	5%	(109 590)	(5%)
- Provision for deferred tax asset	34 293	(6%)	10 125	0%
- Effect of change in income tax rates	-	-	15 339	1%
Income tax expense	248	0%	580 649	27%

32 Analysis by segment

The Group is organized into four main reportable operating segments. The segments are identified on the basis of organizational structure and types of clients. Each operating segment involves areas of business that are under control and responsibility of one of the Management Board members. Internal management reports are reviewed by the Board of Directors on a quarterly basis. The following summary describes the operations in each of the reportable segments:

- Corporate banking – this operating segment includes the following services provided to legal entities (excluding small and medium size enterprises): settlements and money transfer; deposit taking; issuance of promissory notes and certificates of deposit; trade and long-term finance; commercial lending; overdraft lending; factoring; leasing; letters of credit; guarantees; foreign exchange services; cash collection; currency conversion; all transactions with precious metals.
- Retail banking – this operating segment includes the following services provided to retail customers: settlements and money transfer; deposit taking and lending to individuals (excluding VIP clients); foreign exchange services; banking card products; settlement and cash services.

- International business, investments and financial markets – this operating segment includes the following services provided to banks and other financial institutions, state and local authorities, VIP clients (individuals): deposit taking; borrowings from banks and other financial institutions; issuance of domestic bonds, loan participation notes and promissory notes on the market; repo transactions; interbank lending; syndicated and subordinated borrowings; lending to state and local authorities and VIP clients (individuals); trading and brokerage in securities; foreign exchange (except currency conversion for clients); trading in derivatives; export letters of credit; guarantees; banknote operations; depositary services; settlements and money transfer.
- Small and medium size enterprises - this operating segment includes the following services provided to small and medium size enterprises: commercial lending; deposit taking; issuance of promissory notes; money transfer; guarantees; brokerage in securities; foreign exchange services.

The Group does not allocate equity between segments.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to others who operate within these industries.

The intersegment income and expenses related to exchange of the resources between segments are calculated on the basis of a transfer pricing system, in accordance with which the prices of the internal placement/funding depend on the currency and term of placement/funding.

The Group does not allocate net book value of property and equipment, and current and deferred tax assets and liabilities between the segments to determine segment assets/liabilities. These captions are included in “Unallocated” category in the reconciliation of the total segment assets/liabilities to total assets/liabilities of the Group. Other assets and liabilities are included in “Unallocated” category when they cannot reasonably be distributed among the segments.

General and administrative expenses are allocated between the segments on the basis of an activity-based costing model that identifies activities and assigns the cost of each activity’s resources to all products and services according to their actual consumption.

The Group allocates income tax benefit/expense using the financial result of each segment and the overall effective tax rate.

Segment breakdown of assets and liabilities as at 31 December 2009 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Unallo- cated	Total
Cash and cash equivalents	310 690	3 165 183	104 846 775	-	-	108 322 648
Obligatory reserves with central banks	-	-	-	-	3 149 729	3 149 729
Placements with banks and other financial institutions	-	-	5 075 800	-	-	5 075 800
Financial assets at fair value through profit or loss	-	-	41 751 838	-	-	41 751 838
Amounts receivable under reverse repurchase agreements	-	-	10 080 301	-	-	10 080 301
Loans to customers	215 838 586	29 263 150	2 864 920	18 454 923	-	266 421 579
Investments available for sale	35 083	-	-	-	-	35 083
Investments held to maturity	-	-	7 204 938	-	-	7 204 938
Assets held for sale	-	-	2 600 001	-	-	2 600 001
Other assets	50 305	39 096	456 545	-	1 554 369	2 100 315
Current income tax prepayments	-	-	-	-	660 877	660 877
Deferred tax asset	-	-	-	-	600 326	600 326
Property and equipment	-	-	-	-	23 207 942	23 207 942
Total assets	216 234 664	32 467 429	174 881 118	18 454 923	29 173 243	471 211 377
Financial liabilities at fair value through profit or loss	-	-	1 252 225	-	-	1 252 225
Deposits and balances from banks and other financial institutions	31 931 655	287 892	32 560 843	-	-	64 780 390
Amounts payable under repurchase agreements	-	-	60 697	-	-	60 697
Current accounts and deposits from customers	151 215 991	60 094 772	61 110 538	17 127 538	-	289 548 839
Own securities issued	7 581 954	-	35 755 011	317 747	-	43 654 712
Other borrowed funds	-	-	13 819 410	-	-	13 819 410
Other liabilities	350 842	-	205 307	5 132	1 239 707	1 800 988
Current income tax payable	-	-	-	-	27 341	27 341
Deferred tax liability	-	-	-	-	313 033	313 033
Subordinated borrowings	-	-	17 748 361	-	-	17 748 361
Total liabilities	191 080 442	60 382 664	162 512 392	17 450 417	1 580 081	433 005 996

Segment breakdown of assets and liabilities as at 31 December 2008 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Unallo- cated	Total
Cash and cash equivalents	181 698	3 237 769	102 303 743	-	-	105 723 210
Obligatory reserves with central banks	-	-	-	-	992 510	992 510
Placements with banks and other financial institutions	-	-	2 426 852	-	-	2 426 852
Financial assets at fair value through profit or loss	-	-	14 408 817	-	-	14 408 817
Amounts receivable under reverse repurchase agreements	-	-	4 574 084	-	-	4 574 084
Loans to customers	237 286 654	43 064 602	2 558 699	17 503 094	-	300 413 049
Investments available for sale	158 714	-	-	-	-	158 714
Investments held to maturity	-	-	8 880 051	-	-	8 880 051
Other assets	-	17 564	169 249	-	1 330 727	1 517 540
Current income tax prepayments	-	-	-	-	1 292 982	1 292 982
Property and equipment	-	-	-	-	21 413 219	21 413 219
Total assets	237 627 066	46 319 935	135 321 495	17 503 094	25 029 438	461 801 028
Financial liabilities at fair value through profit or loss	-	-	614 859	-	-	614 859
Deposits and balances from banks and other financial institutions	25 758 838	204 497	85 312 022	-	-	111 275 357
Amounts payable under repurchase agreements	-	-	855 837	-	-	855 837
Current accounts and deposits from customers	148 544 930	33 861 904	44 172 528	3 031 596	-	229 610 958
Own securities issued	6 419 686	-	32 785 700	163 054	-	39 368 440
Other borrowed funds	-	-	24 010 262	-	-	24 010 262
Other liabilities	-	-	533 208	-	2 139 771	2 672 979
Current income tax payable	-	-	-	-	48 002	48 002
Deferred tax liability	-	-	-	-	776 151	776 151
Subordinated borrowings	-	-	11 415 293	-	1 178 306	12 593 599
Total liabilities	180 723 454	34 066 401	199 699 709	3 194 650	4 142 230	421 826 444

Segment information for the reportable business segments for the year ended 31 December 2009 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Unallo- cated	Total
Interest income	38 334 765	7 500 357	4 675 116	4 089 688	-	54 599 926
Interest expense	(10 206 964)	(3 825 953)	(14 584 448)	(210 384)	(170 569)	(28 998 318)
Net interest income	28 127 801	3 674 404	(9 909 332)	3 879 304	(170 569)	25 601 608
Net revenue from other segments	(13 539 017)	(1 406 685)	12 425 163	(1 756 713)	4 277 252	-
Fee and commission income	3 229 695	2 378 826	648 477	684 521	70 559	7 012 078
Fee and commission expense	(445 815)	(512 315)	(430 796)	(15 704)	(2 216)	(1 406 846)
Net fee and commission income	2 783 880	1 866 511	217 681	668 817	68 343	5 605 232
Net gain on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes	20 221	-	1 093 961	-	-	1 114 182
Net foreign exchange gain	336 390	-	39 502	-	-	375 892
Net gain on purchase of minority interest of subsidiaries	149 023	-	-	-	-	149 023
Income on early redemption of other financial liabilities	52 894	72 589	-	1 875	-	127 358
Other income	414 378	343 609	-	135 316	203 391	1 096 694
Operating income of the segment	18 345 570	4 550 428	3 866 975	2 928 599	4 378 417	34 069 989
Loan impairment charge	(12 987 450)	(4 843 295)	(250 083)	(2 760 987)	-	(20 841 815)
Other impairment charge	(16 170)	-	(90 502)	(3)	13 144	(93 531)
Loss on revaluation of fixed assets	-	-	-	-	(457 918)	(457 918)
Administrative expenses	(3 370 019)	(5 117 964)	(989 121)	(1 883 466)	(1 567 452)	(12 928 022)
General expenses	(7)	(172 854)	(63 317)	(97)	(138 033)	(374 308)
Operating expenses	(16 373 646)	(10 134 113)	(1 393 023)	(4 644 553)	(2 150 259)	(34 695 594)
Profit/(loss) before tax	1 971 924	(5 583 685)	2 473 952	(1 715 954)	2 228 158	(625 605)
Income tax charge/(benefit)	(200 006)	410 306	(134 882)	160 276	(235 942)	(248)
Profit/(loss) for the year after tax	1 771 918	(5 173 379)	2 339 070	(1 555 678)	1 992 216	(625 853)
Revenue of the segment	28 998 349	8 888 696	18 882 219	3 154 687	4 551 202	64 475 153

Segment information for the reportable business segments for the year ended 31 December 2008 is set out below:

	Corporate banking	Retail banking	International business, investments and financial markets	Small and medium size enterprises	Unallo- cated	Total
Interest income	29 214 709	7 617 430	3 478 641	2 471 208	-	42 781 988
Interest expense	(6 905 887)	(2 734 409)	(11 027 557)	(18 936)	(125 431)	(20 812 220)
Net interest income	22 308 822	4 883 021	(7 548 916)	2 452 272	(125 431)	21 969 768
Net revenue from other segments	(10 330 014)	(1 512 424)	8 972 570	(1 629 669)	4 499 537	-
Fee and commission income	3 034 991	1 848 267	785 557	40 005	71 326	5 780 146
Fee and commission expense	(352 990)	(343 543)	(359 066)	-	(210)	(1 055 809)
Net fee and commission income	2 682 001	1 504 724	426 491	40 005	71 116	4 724 337
Net loss on financial instruments at fair value through profit or loss and gain on early redemption of senior loan participation notes	44 648	-	(1 887 488)	-	-	(1 842 840)
Net foreign exchange gain	54 650	-	2 087 919	-	-	2 142 569
Net loss on sale of minority interest of subsidiaries	(21 942)	-	-	-	-	(21 942)
Net gain on purchase of minority interest of subsidiaries	456 625	-	-	-	-	456 625
Income on early redemption of other financial liabilities	163 861	13 237	-	-	-	177 098
Other income	293 764	180 710	-	30 474	138 857	643 805
Operating income of the segment	15 652 415	5 069 268	2 050 576	893 082	4 584 079	28 249 420
Loan impairment charge	(6 748 261)	(5 287 202)	619	(1 210 563)	-	(13 245 407)
Other losses charge	11 262	-	(42 728)	-	10 712	(20 754)
Loss on revaluation of fixed assets	-	-	-	-	(456 100)	(456 100)
Administrative expenses	(3 059 617)	(5 609 852)	(683 140)	(974 416)	(1 625 833)	(11 952 858)
General expenses	-	(202 484)	-	-	(229 513)	(431 997)
Operating expenses	(9 796 616)	(11 099 538)	(725 249)	(2 184 979)	(2 300 734)	(26 107 116)
Profit/(loss) before tax	5 855 799	(6 030 270)	1 325 327	(1 291 897)	2 283 344	2 142 304
Income tax expense	(1 787 285)	1 938 651	(423 793)	414 304	(722 526)	(580 649)
Profit/(loss) for the year after tax	4 068 514	(4 091 619)	901 534	(877 593)	1 560 818	1 561 655
Revenue of the segment	22 933 234	8 147 220	13 437 199	912 018	4 709 720	50 139 391

Information about major customers

Substantially all revenues from external customers relate to residents of the Russian Federation. The total amount of revenues from each single external customer or group of external customers known to be under common control does not exceed 10 per cent of revenues. Substantially all non-current assets are located in the Russian Federation.

Assets and liabilities are classified depending on the country in which the counterparties are located. Balances with off-shore companies of Russian counterparties are allocated to the caption Russian Federation. Cash and property and equipment are allocated based on the country in which they are physically held. Own securities issued are allocated based on the country of the first holder.

The geographical concentration of assets and liabilities as of 31 December 2009 is as follows:

	Russian Federation	Non-OECD countries	OECD countries	Total
Assets				
Cash and cash equivalents	51 118 441	1 467 009	55 737 198	108 322 648
Obligatory reserves with central banks	2 671 991	477 738	-	3 149 729
Placements with banks and other financial institutions	-	5 075 800	-	5 075 800
Financial assets at fair value through profit or loss	41 715 323	23 281	13 234	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	10 080 301
Loans to customers	266 421 579	-	-	266 421 579
Investments available for sale	29 167	-	5 916	35 083
Investments held to maturity	7 204 938	-	-	7 204 938
Assets held for sale	2 600 001	-	-	2 600 001
Other assets	1 670 956	-	429 359	2 100 315
Current income tax prepayments	660 877	-	-	660 877
Deferred tax asset	600 326	-	-	600 326
Property and equipment	23 207 942	-	-	23 207 942
Total assets	407 981 842	7 043 828	56 185 707	471 211 377
Liabilities				
Financial liabilities at fair value through profit or loss	247 562	35 317	969 346	1 252 225
Deposits and balances from banks and other financial institutions	11 695 090	13 983 848	39 101 452	64 780 390
Amounts payable under repurchase agreements	60 697	-	-	60 697
Current accounts and deposits from customers	269 796 214	15 522 244	4 230 381	289 548 839
Own securities issued	29 887 019	4 665 480	9 102 213	43 654 712
Other borrowed funds	1 776 309	-	12 043 101	13 819 410
Other liabilities	1 800 988	-	-	1 800 988
Current income tax payable	18 062	9 279	-	27 341
Deferred tax liability	276 790	36 243	-	313 033
Subordinated borrowings	3 639 344	1 547 768	12 561 249	17 748 361
Total liabilities	319 198 075	35 800 179	78 007 742	433 005 996
Net position as at 31 December 2009	88 783 767	(28 756 351)	(21 822 035)	38 205 381

The geographical concentration of assets and liabilities as of 31 December 2008 was as follows:

	Russian Federation	Non-OECD countries	OECD countries	Total
Assets				
Cash and cash equivalents	94 286 238	76 492	11 360 480	105 723 210
Obligatory reserves with central banks	516 292	476 218	-	992 510
Placements with banks and other financial institutions	2 035 409	390 701	742	2 426 852
Financial assets at fair value through profit or loss	14 246 874	99 955	61 988	14 408 817
Amounts receivable under reverse repurchase agreements	4 531 033	43 051	-	4 574 084
Loans to customers	300 402 140	10 909	-	300 413 049
Investments available for sale	155 840	-	2 874	158 714
Investments held to maturity	8 880 051	-	-	8 880 051
Other assets	1 517 540	-	-	1 517 540
Current income tax prepayments	1 292 982	-	-	1 292 982
Property and equipment	21 413 219	-	-	21 413 219
Total assets	449 277 618	1 097 326	11 426 084	461 801 028
Liabilities				
Financial liabilities at fair value through profit or loss	199 334	74 689	340 836	614 859
Deposits and balances from banks and other financial institutions	55 037 875	6 627 775	49 609 707	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	855 837
Current accounts and deposits from customers	200 997 265	7 686 014	20 927 679	229 610 958
Own securities issued	24 432 900	5 467 220	9 468 320	39 368 440
Other borrowed funds	218 678	583 142	23 208 442	24 010 262
Other liabilities	2 672 979	-	-	2 672 979
Current income tax payable	11 992	36 010	-	48 002
Deferred tax liability	776 151	-	-	776 151
Subordinated borrowings	979 637	1 263 724	10 350 238	12 593 599
Total liabilities	286 182 648	21 738 574	113 905 222	421 826 444
Net position as at 31 December 2008	163 094 970	(20 641 248)	(102 479 138)	39 974 584

33 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit risk (including country and counterparty risk), market risk, which includes price, interest rate and currency risks, and liquidity risk.

The year 2009 passed with uncertainty and turbulence on currency, equity, debt, commodities and other markets. The significant uncertainty in the development of global markets and the world economy affected the Russian economy and lead to stress situations in many areas. The consequence is a strengthening of the risk management role in business processes.

Credit Risk Department, Credit Risk Monitoring Department and Financial and Retail Risk Department together with other departments quickly reacted to the changing environment in Russia and took measures to maintain acceptable levels of risk and to minimize possible losses.

The Group continues to implement best practices in respect of the culture and principles of risk management and recommendations of the Basel Committee. In response to the global crisis and market situation the Group revised risk methodologies and approaches and developed a number of new risk policies and improved processes.

During 2009 the overall number of specialists dealing with risk management and risk monitoring almost doubled.

Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Council has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Vice-President and Director for Credit Risk Management and the Head of the Financial and Retail Risk Department of the Bank are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. They report directly to the Senior Vice-President of the Bank, responsible for "Finance and Risk Management", and indirectly to the Council.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee.

Both external and internal risk factors are identified and managed throughout the Group's organizational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Credit Risk Department, Credit Risk Monitoring Department and Financial and Retail Risk Department monitor financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the President of the Bank. Market risk limits are approved by ALCO based on recommendations of the Financial and Retail Risk Department and Treasury.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include multi risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

Interest rate risk

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Interest rate risk is the risk of incurring losses and/or gains on financial instruments sensitive to interest rate changes due to change in market interest rates. As a result interest payments may substantially exceed interest receipts.

The management of interest rate risk for the banking book is different compared to interest rate management in respect of the trading portfolios. Banking book interest risks covers all balance sheet instruments sensitive to interest rate changes. The trading book includes debt instruments (bonds, Eurobonds, promissory notes etc.) measured at their fair values through profit or loss.

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. The Financial and Retail Risk Department monitors on a monthly basis and sets limits for the level of mismatch of interest rate repricing that may be undertaken.

The management of interest rate risk for the banking book by monitoring interest rate gaps is supplemented by monitoring the sensitivity of net interest margin to various standard and non-standard interest rate scenarios as well as by monitoring the volatility of the economic value of future cash flows measured by implementing CVaR (Conditional Value-at-Risk).

Interest rate repricing risk

An analysis of sensitivity of net (loss)/profit and equity to interest rate repricing risk based on a simplified scenario of a 100 basis points (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities (except for current accounts and demand deposits that are considered to have negligible and stable interest rates) existing as at 31 December 2009 and 2008 is as follows:

	2009	2008
100 bp parallel fall	(114 874)	311 248
100 bp parallel rise	367 771	(324 248)

Fair value interest rate risk

An analysis of sensitivity of the net (loss)/profit for the year and equity as a result of changes in fair value of debt securities due to changes in the interest rates (also known as present value basis point (“PVBp”)) based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 100 bp rise in all yield curves is as follows:

	2009	2008
100 bp parallel rise	(472 560)	(125 840)

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The table below summarizes the exposure to interest rate risk, as at 31 December 2009. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	65 730 554	-	-	-	-	42 592 094	108 322 648
Obligatory reserves with central banks	477 738	-	-	-	-	2 671 991	3 149 729
Placements with banks and other financial institutions	54 440	5 005 204	14 896	1 260	-	-	5 075 800
Financial assets at fair value through profit or loss	2 450 870	11 595 953	8 762 231	17 261 403	1 462 291	219 090	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	-	-	-	10 080 301
Loans to customers	39 014 553	88 410 254	54 797 613	77 041 937	7 157 222	-	266 421 579
Investments available for sale	-	29 140	-	-	-	5 943	35 083
Investments held to maturity	2 343 922	1 614 762	1 045 719	2 200 535	-	-	7 204 938
Assets held for sale	-	-	-	-	-	2 600 001	2 600 001
Other assets	-	-	-	-	-	2 100 315	2 100 315
Current income tax prepayments	-	-	-	-	-	660 877	660 877
Deferred tax asset	-	-	-	-	-	600 326	600 326
Property and equipment	-	-	-	-	-	23 207 942	23 207 942
Total assets	120 152 378	106 655 313	64 620 459	96 505 135	8 619 513	74 658 579	471 211 377
Liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1 252 225	1 252 225
Deposits and balances from banks and other financial institutions	15 648 355	27 219 386	15 274 644	6 638 005	-	-	64 780 390
Amounts payable under repurchase agreements	59 091	781	825	-	-	-	60 697
Current accounts and deposits from customers	96 014 730	97 762 987	82 566 657	13 204 465	-	-	289 548 839
Own securities issued	3 436 096	18 633 170	9 490 596	12 089 816	5 034	-	43 654 712
Other borrowed funds	5 790	12 043 101	-	1 770 519	-	-	13 819 410
Other liabilities	-	-	-	-	-	1 800 988	1 800 988
Current income tax payable	-	-	-	-	-	27 341	27 341
Deferred tax liability	-	-	-	-	-	313 033	313 033
Subordinated borrowings	1 108 058	1 680 682	-	6 008 494	8 951 127	-	17 748 361
Total liabilities	116 272 120	157 340 107	107 332 722	39 711 299	8 956 161	3 393 587	433 005 996
Interest rate sensitivity gap	3 880 258	(50 684 794)	(42 712 263)	56 793 836	(336 648)	71 264 992	38 205 381
Net off-balance sheet position on interest bearing assets and liabilities	-	3 024 420	(3 024 420)	-	-	-	-
Net position on interest bearing assets and liabilities	3 880 258	(47 660 374)	(45 736 683)	56 793 836	(336 648)	71 264 992	38 205 381

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The table below summarizes the exposure to interest rate risk, as at 31 December 2008. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Non interest bearing	Total
Assets							
Cash and cash equivalents	40 151 738	-	-	-	-	65 571 472	105 723 210
Obligatory reserves with central banks	476 218	-	-	-	-	516 292	992 510
Placements with banks and other financial institutions	84 532	2 146 211	195 367	742	-	-	2 426 852
Financial assets at fair value through profit or loss	1 072 387	1 403 708	5 813 286	5 640 158	100 428	378 850	14 408 817
Amounts receivable under reverse repurchase agreements	4 574 084	-	-	-	-	-	4 574 084
Loans to customers	42 016 777	92 014 229	56 751 044	101 373 307	8 257 692	-	300 413 049
Investments available for sale	-	-	-	-	-	158 714	158 714
Investments held to maturity	111 745	985 607	1 340 478	6 442 221	-	-	8 880 051
Other assets	-	-	-	-	-	1 517 540	1 517 540
Current income tax prepayments	-	-	-	-	-	1 292 982	1 292 982
Property and equipment	-	-	-	-	-	21 413 219	21 413 219
Total assets	88 487 481	96 549 755	64 100 175	113 456 428	8 358 120	90 849 069	461 801 028
Liabilities							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	614 859	614 859
Deposits and balances from banks and other financial institutions	39 083 399	63 864 088	7 966 985	360 885	-	-	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	-	-	855 837
Current accounts and deposits from customers	104 073 609	75 644 410	30 111 184	19 781 755	-	-	229 610 958
Own securities issued	3 878 261	15 660 755	1 996 882	17 832 542	-	-	39 368 440
Other borrowed funds	-	24 010 262	-	-	-	-	24 010 262
Other liabilities	-	-	-	-	-	2 672 979	2 672 979
Current income tax payable	-	-	-	-	-	48 002	48 002
Deferred tax liability	-	-	-	-	-	776 151	776 151
Subordinated borrowings	2 260 641	1 631 703	-	5 821 510	2 879 745	-	12 593 599
Total liabilities	150 151 747	180 811 218	40 075 051	43 796 692	2 879 745	4 111 991	421 826 444
Interest rate sensitivity gap	(61 664 266)	(84 261 463)	24 025 124	69 659 736	5 478 375	86 737 078	39 974 584
Net off-balance sheet position on interest bearing assets and liabilities	-	8 814 120	-	(8 814 120)	-	-	-
Net position on interest bearing assets and liabilities	(61 664 266)	(75 447 343)	24 025 124	60 845 616	5 478 375	86 737 078	39 974 584

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. In addition to the total open foreign exchange position limit, position limits on each currency, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for net off balance sheet foreign exchange positions in order to mitigate market risk for currency trading. Also in crisis market conditions the Group utilizes stress-testing analysis.

The following table shows the currency structure of assets and liabilities as at 31 December 2009:

	RUB	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	35 312 781	35 890 076	36 360 605	759 186	108 322 648
Obligatory reserves with central banks	2 671 991	-	477 738	-	3 149 729
Placements with banks and other financial institutions	19 458	4 810 064	246 278	-	5 075 800
Financial assets at fair value through profit or loss	30 080 767	6 643 128	4 779 739	248 204	41 751 838
Amounts receivable under reverse repurchase agreements	10 065 812	14 489	-	-	10 080 301
Loans to customers	135 845 198	106 729 949	23 324 690	521 742	266 421 579
Investments available for sale	29 167	-	5 916	-	35 083
Investments held to maturity	7 071 017	133 921	-	-	7 204 938
Assets held for sale	2 600 001	-	-	-	2 600 001
Other assets	2 038 548	17 692	38 181	5 894	2 100 315
Current income tax prepayments	660 877	-	-	-	660 877
Deferred tax asset	600 326	-	-	-	600 326
Property and equipment	23 207 942	-	-	-	23 207 942
Total assets	250 203 885	154 239 319	65 233 147	1 535 026	471 211 377
Liabilities					
Financial liabilities at fair value through profit or loss	8 896	1 234 478	8 609	242	1 252 225
Deposits and balances from banks and other financial institutions	12 747 135	26 721 540	24 932 757	378 958	64 780 390
Amounts payable under repurchase agreements	60 697	-	-	-	60 697
Current accounts and deposits from customers	174 973 780	64 495 346	49 543 600	536 113	289 548 839
Own securities issued	20 184 568	20 466 409	3 003 735	-	43 654 712
Other borrowed funds	1 776 309	12 043 101	-	-	13 819 410
Other liabilities	1 550 465	161 983	68 486	20 054	1 800 988
Current income tax payable	18 062	-	9 279	-	27 341
Deferred tax liability	313 033	-	-	-	313 033
Subordinated borrowings	1 551 047	16 197 314	-	-	17 748 361
Total liabilities	213 183 992	141 320 171	77 566 466	935 367	433 005 996
Net on balance sheet position as at 31 December 2009	37 019 893	12 919 148	(12 333 319)	599 659	38 205 381
Net off balance sheet position as at 31 December 2009	6 792 278	(16 714 612)	10 577 182	(654 848)	-
Net on and off balance sheet positions as at 31 December 2009	43 812 171	(3 795 464)	(1 756 137)	(55 189)	38 205 381
Guarantees issued as at 31 December 2009	31 808 398	5 082 622	1 546 338	-	38 437 358
Other credit related commitments as at 31 December 2009	18 053 878	12 456 205	2 626 032	-	33 136 115

The following table shows the currency structure of assets and liabilities as at 31 December 2008:

	RUB	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	59 682 960	20 488 777	25 032 295	519 178	105 723 210
Obligatory reserves with central banks	516 292	-	476 218	-	992 510
Placements with banks and other financial institutions	2 155 070	128 360	143 422	-	2 426 852
Financial assets at fair value through profit or loss	12 010 816	2 318 803	66 534	12 664	14 408 817
Amounts receivable under reverse repurchase agreements	4 574 084	-	-	-	4 574 084
Loans to customers	149 052 984	125 026 071	25 285 639	1 048 355	300 413 049
Investments available for sale	155 840	-	2 874	-	158 714
Investments held to maturity	8 492 341	387 710	-	-	8 880 051
Other assets	1 431 910	18 969	58 817	7 844	1 517 540
Current income tax prepayments	1 292 982	-	-	-	1 292 982
Property and equipment	21 413 219	-	-	-	21 413 219
Total assets	260 778 498	148 368 690	51 065 799	1 588 041	461 801 028
Liabilities					
Financial liabilities at fair value through profit or loss	52 139	499 368	32 676	30 676	614 859
Deposits and balances from banks and other financial institutions	54 985 752	31 836 064	22 606 730	1 846 811	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	855 837
Current accounts and deposits from customers	142 901 093	54 801 351	30 342 939	1 565 575	229 610 958
Own securities issued	16 926 189	19 799 860	2 642 391	-	39 368 440
Other borrowed funds	-	24 010 262	-	-	24 010 262
Other liabilities	2 383 893	146 023	110 549	32 514	2 672 979
Current income tax payable	11 759	-	36 243	-	48 002
Deferred tax liability	776 151	-	-	-	776 151
Subordinated borrowings	1 574 010	11 019 589	-	-	12 593 599
Total liabilities	220 466 823	142 112 517	55 771 528	3 475 576	421 826 444
Net on balance sheet position as at 31 December 2008	40 311 675	6 256 173	(4 705 729)	(1 887 535)	39 974 584
Net off balance sheet position as at 31 December 2008	5 632 398	(13 985 970)	4 370 617	3 982 955	-
Net on and off balance sheet positions as at 31 December 2008	45 944 073	(7 729 797)	(335 112)	2 095 420	39 974 584
Guarantees issued as at 31 December 2008	26 953 306	8 295 892	3 988 371	-	39 237 569
Other credit related commitments as at 31 December 2008	14 339 230	19 958 603	5 145 357	2 311	39 445 501

The net off-balance sheet position as at 31 December 2008 includes short-term forward deals in the amount of RUB 6 021 100 thousand conducted to hedge investment rights in office building under construction, which were accounted for in USD under local accounting standards.

An analysis of sensitivity of net (loss)/profit and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 3% change in all foreign currencies to Russian Rouble exchange rates is as follows:

	2009	2008
3% appreciation of USD against RUB	(91 091)	(185 515)
3% depreciation of USD against RUB	91 091	185 515
3% appreciation of EUR against RUB	(42 147)	(8 043)
3% depreciation of EUR against RUB	42 147	8 043
3% appreciation of other currencies against RUB	(1 325)	50 290
3% depreciation of other currencies against RUB	1 325	(50 290)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

In addition to the total equity trading position limit, position limits on each issuer, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for its equity trading portfolio in order to mitigate market risk. Also in crisis market conditions the Group utilizes stress-testing analysis.

An analysis of sensitivity of net (loss)/profit and equity to changes in securities prices based on positions existing as at 31 December 2009 and 2008 and a simplified scenario of a 3% increase in all securities prices is as follows:

	2009	2008
Corporate shares at fair value through profit or loss	3 451	849

Credit risk

Credit risk is the risk of financial losses occurring as a result of default by a borrower or counterparty on the obligations to the Group. The Group has policies and procedures for the identification, assessment, control and management of credit risk, and also all necessary related regulations and methodologies, including those in respect of the borrower's financial condition. Governing bodies involved in implementation of the credit policy are the Credit Committee, the Committee on Assets and Liabilities Management and the Management Board. These bodies establish crediting principles, make decisions on specific credit projects, set limits for counterparties, and also determine aggregate limits for instruments exposed to credit risk.

The credit policy establishes:

- principles of arrangement of credit process and types of lending limits;
- basic requirements of the clients;
- lending priorities, including the priority sectors of the economy to be credited;
- risks not accepted by the Group.

Corporate

In 2009 one of the key measures aimed at increase of the efficiency of credit risk management amid the continuing financial and economic crisis, has been a project of large-scale reengineering of the credit process in respect of corporate clients. The reengineering covered all its basic stages - from the analysis of clients and the decision-making on lending to subsequent monitoring and handling of problem loans.

The framework for improvement of the system of credit analysis made by credit subdivisions has been the shift of focus from assessment of the creditworthiness of direct participants of a credit transaction (the borrower, the guarantor, etc.) to the complex and comprehensive analysis of stability and solvency of the business of the whole group of companies including prospective participants in a transaction. Included in this project has been the revision of the internal methodology of credit analysis, including the development and approval of a new form of credit opinion in which a structured approach to the documentation of analysis of results is implemented, including the assessment of qualitative characteristics and financial indices of the client.

Instead of the previous practice of approval of each credit transaction by an authorized body, a principle of establishment of a single lending limit has been introduced that restricts all risks of the client and reflects the conditions on which the Group is ready to bear these risks. Thus the lending limit determines the list of credit products that are authorized to be granted to the client, the conditions for their granting and further support, and also the parameters, frequency and criteria of subsequent monitoring of the established limit. Introduction of limits has allowed the optimization of the process of granting of credit products due to the fact that each transaction with the client does not require an authorized body's decision, and only a check is required that the lending limit established for the client has not been breached.

Prior to approval of a lending limit by the relevant authorized body an independent examination of risks of a credit project should be carried out by the Credit Risk Analysis Department for the purpose of:

- analysis of the risks related to the establishment of the proposed lending limit to a client (including the examination of assessment of the market value of the property to be pledged, carried out by the Pledges Department);
- preparation of recommendations for minimization of the indicated risks.

In 2009 there were changes made to the system of authority to make decisions on corporate clients lending: in order to increase the efficiency of decision-making, a part of the authority of the Credit Committee has been delegated to the Operational Credit Committee. In addition, the Group applies the "four eyes" principle where a decision is made only in case the client's authorized manager and the risk manager have reached an agreement.

The system of monitoring of lending limits established for corporate clients is being transformed with the introduction of a new system aimed at consolidation of all limit information in a specialized subdivision of risk management – Credit Risks Monitoring Department.

Monitoring of the lending limits established for clients is conducted on a continuing basis from the time of approval until the termination of the period of the limit. The purpose of monitoring of lending limits is:

- timely detection of a breach by the client of the conditions of the established lending limit;
- identification of possible increase in the level of credit risk of the client;
- compliance with the regulatory requirements established by the CBR regarding the regular assessment of credit risk.

Small and medium business

Regarding the lending to clients of small and medium business, decision-making resides with the Credit Committee of Small and Medium Business. Furthermore, employees may be assigned individual lending approval limits depending on the level of the employee's competence.

The duties of the subdivision in-charge of Credit Risk Management for Small and Medium Business includes ongoing review of policies, assessment of products to understand credit risks, review of standard contracts, and also the monitoring of the credit portfolio of small and medium business.

In 2009 the Group reacted in time to the change in market conditions, having adjusted the credit policy for small and medium business. The Group tightened the conditions for issue of credit products, the required financial position of enterprises, the nature and amount of collateral being accepted. Furthermore, the Group determined priority groups of clients and industries most susceptible to the effect of current market conditions. The policy moved to the granting of more profitable products, reduction of weighted average lending periods and reduction of unsecured products.

In order to increase the efficiency of decision-making and minimize losses, the Group introduced risk reporting, regularly presented to management, in respect of the condition of credit portfolio of small and medium business. This includes reporting that reflects the results of analysis of the reasons for defaults and increase in overdue indebtedness. A system of age analysis of overdue indebtedness has also been developed.

Retail

In the course of examination of retail credit applications, all applications pass, when examined, through a single system in which the information from credit history bureaus in respect of each borrower is automatically requested. In 2009 a system of centralized credit decision-making in respect of applications for retail credits and credit cards was introduced.

For the purpose of reduction of credit risks, and also reduction of possible losses, the Group has moved to a more conservative credit policy for retail credit products. New rules for making a credit decision take into consideration, among others, industry risks of the client's employer, and also require higher levels of solvency.

In order to manage retail credit risks, specific methods of analysis of the ageing of overdues, other statistical analysis methods and regular calibration of existing scoring models on the basis of the data of credit history bureaus and internally accumulated statistics of defaults is performed. A special analytical system has been introduced to increase the efficiency of these processes. The purpose of this system is to reduce risks due to the increase of efficiency and effectiveness of monitoring of dynamics of risk-parameters in the context of products and business units (including in the context of branches and supplementary offices of the network).

Methods of statistical analysis of retail credit portfolios and analysis of efficiency of performance of collections have been introduced. In addition, a special automated analytical system of reporting in respect of collections has started and in the fourth quarter of 2009 a project was launched to further improve the automated system.

Portfolio limits

A system of portfolio limits - large exposures, related parties, industry limits - operates for the purpose of limitation of credit risk concentration. Monitoring of portfolio limits is performed with use of the principle of early notification – when 90% of a limit is reached, the relevant information is brought to the attention of management. This ensures the efficiency of the making of management decisions aimed at limitation of credit risk in respect of the Group as a whole.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans to customers refer to note 9 “Loans to customers”.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements;
- unfavorable situations modeling by using “stress-testing”.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

In 2008 the Group approved a system of limits for liquidity risk that was based on the best work practices and Basel Committee recommendations.

In 2009 the system of limits of liquidity risk was updated and expanded due to the stress situations that occurred in the economy.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirements of the Central Bank of Russia. The Bank was in compliance with these ratios during the years ended 31 December 2009 and 2008.

As at 31 December 2009 and 2008 the contractual maturities of securities included into financial assets at fair value through profit or loss are as follows:

	2009	2008
Less than 1 month	1 359 491	598 863
1 to 6 months	7 388 862	1 523 992
6 months to 1 year	7 359 086	1 890 468
1 year to 5 years	20 718 176	8 315 571
More than 5 years	4 707 133	1 701 073
No maturity	143 802	35 394
	41 676 550	14 065 361

As at 31 December 2009 and 2008 the contractual maturities or offer date of securities included into investments held to maturity were as follows:

	2009	2008
Less than 1 month	2 343 922	111 745
1 to 6 months	1 614 762	985 607
6 months to 1 year	1 045 719	1 340 478
1 year to 5 years	2 200 535	6 442 221
	7 204 938	8 880 051

The maturity table below shows assets and liabilities by their remaining contractual maturity as at 31 December 2009 and 2008, with the exception of securities included into financial assets at fair value through profit or loss and investments held to maturity as at 31 December 2009. Securities approved by the CBR as collateral for its loans are shown in the category “Less than 1 month”, other securities are shown in accordance with their remaining contractual maturity as at 31 December 2009.

Domestic bonds issued are presented in the table below in accordance with their put dates. The contractual maturity dates are presented in note 19.

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding.

The Group included part of current accounts from customers amounting to RUB 40 259 596 thousand (31 December 2008: RUB 35 165 827 thousand) in the category “From 1 to 6 months” based on historical experience of stable customer current accounts.

Overdue assets are classified within the “Demand and less than 1 month” column. As at 31 December 2009 overdue assets classified within this category amount to RUB 17 093 554 thousand (2008: RUB 11 038 280 thousand).

The Group includes assets held for sale in the category “From 6 months to 1 year” as management is planning to sell these assets during 2010 and is actively searching for an interested investor.

The closed unit investment fund included in investments available-for-sale is shown in the category “Demand and less than 1 month” as the management believes it can be sold in the near term.

The Group has undrawn lines of credit with the CBR and other financial institutions. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR and other financial institutions mentioned above.

Promsvyazbank**Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following table shows the maturity analysis as of 31 December 2009:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
Assets							
Cash and cash equivalents	108 322 648	-	-	-	-	-	108 322 648
Obligatory reserves with central banks	529 442	1 525 782	842 908	250 342	1 255	-	3 149 729
Placements with banks and other financial institutions	54 440	5 005 204	14 896	1 260	-	-	5 075 800
Financial assets at fair value through profit or loss	28 291 316	3 013 940	4 855 384	4 583 218	864 178	143 802	41 751 838
Amounts receivable under reverse repurchase agreements	10 080 301	-	-	-	-	-	10 080 301
Loans to customers	35 585 134	84 117 954	56 091 715	81 009 658	9 617 118	-	266 421 579
Investments available for sale	29 140	-	-	-	-	5 943	35 083
Investments held to maturity	6 897 006	74 136	31 132	202 664	-	-	7 204 938
Assets held for sale	-	-	2 600 001	-	-	-	2 600 001
Other assets	920 762	679 266	209 926	81 782	4 612	203 967	2 100 315
Current income tax prepayments	660 877	-	-	-	-	-	660 877
Deferred tax asset	-	-	-	-	-	600 326	600 326
Property and equipment	-	-	-	-	-	23 207 942	23 207 942
Total assets	191 371 066	94 416 282	64 645 962	86 128 924	10 487 163	24 161 980	471 211 377
Liabilities							
Financial liabilities at fair value through profit or loss	774 416	436 782	41 027	-	-	-	1 252 225
Deposits and balances from banks and other financial institutions	14 537 628	16 120 298	17 911 108	15 128 389	1 082 967	-	64 780 390
Amounts payable under repurchase agreements	59 091	781	825	-	-	-	60 697
Current accounts and deposits from customers	54 084 230	138 593 768	83 246 764	13 624 077	-	-	289 548 839
Own securities issued	3 436 096	18 633 170	9 490 596	12 089 816	5 034	-	43 654 712
Other borrowed funds	5 790	7 229 831	895 564	5 559 303	128 922	-	13 819 410
Other liabilities	631 423	510 416	180 469	109 261	619	368 800	1 800 988
Current income tax payable	18 062	9 279	-	-	-	-	27 341
Deferred tax liability	-	-	-	-	-	313 033	313 033
Subordinated borrowings	203 249	187 266	-	6 913 303	10 444 543	-	17 748 361
Total liabilities	73 749 985	181 721 591	111 766 353	53 424 149	11 662 085	681 833	433 005 996
Net liquidity position as at 31 December 2009	117 621 081	(87 305 309)	(47 120 391)	32 704 775	(1 174 922)	23 480 147	38 205 381
Cumulative liquidity position as at 31 December 2009	117 621 081	30 315 772	(16 804 619)	15 900 156	14 725 234	38 205 381	

Promsvyazbank**Notes to the consolidated financial statements – year ended 31 December 2009***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following table shows the maturity analysis as of 31 December 2008:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total
Assets							
Cash and cash equivalents	105 723 210	-	-	-	-	-	105 723 210
Obligatory reserves with central banks	211 101	452 949	138 649	176 096	13 715	-	992 510
Placements with banks and other financial institutions	84 532	2 146 211	194 166	1 943	-	-	2 426 852
Financial assets at fair value through profit or loss	9 956 498	1 325 877	1 008 928	2 070 787	11 333	35 394	14 408 817
Amounts receivable under reverse repurchase agreements	4 574 084	-	-	-	-	-	4 574 084
Loans to customers	36 565 926	89 399 969	57 444 136	107 633 483	9 369 535	-	300 413 049
Investments available for sale	-	-	-	-	-	158 714	158 714
Investments held to maturity	7 091 199	524 590	827 693	436 569	-	-	8 880 051
Other assets	418 141	280 073	272 478	157 173	21 685	367 990	1 517 540
Current income tax prepayments	1 292 982	-	-	-	-	-	1 292 982
Property and equipment	-	-	-	-	-	21 413 219	21 413 219
Total assets	165 917 673	94 129 669	59 886 050	110 476 051	9 416 268	21 975 317	461 801 028
Liabilities							
Financial liabilities at fair value through profit or loss	148 120	234 213	163 798	68 728	-	-	614 859
Deposits and balances from banks and other financial institutions	36 973 593	49 848 983	10 977 498	11 801 296	1 673 987	-	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	-	-	855 837
Current accounts and deposits from customers	59 795 186	116 636 850	31 984 802	21 194 120	-	-	229 610 958
Own securities issued	3 878 261	15 660 755	1 996 882	17 832 542	-	-	39 368 440
Other borrowed funds	-	5 572 801	8 409 833	10 027 628	-	-	24 010 262
Other liabilities	1 541 480	318 958	337 218	175 359	2 754	297 210	2 672 979
Current income tax payable	11 759	36 243	-	-	-	-	48 002
Deferred tax liability	-	-	-	-	-	776 151	776 151
Subordinated borrowings	203 128	82 030	-	6 703 816	5 604 625	-	12 593 599
Total liabilities	103 407 364	188 390 833	53 870 031	67 803 489	7 281 366	1 073 361	421 826 444
Net liquidity position as at 31 December 2008	62 510 309	(94 261 164)	6 016 019	42 672 562	2 134 902	20 901 956	39 974 584
Cumulative liquidity position as at 31 December 2008	62 510 309	(31 750 855)	(25 734 836)	16 937 726	19 072 628	39 974 584	

The following tables show the undiscounted cash flows on financial liabilities and unrecognised credit related commitments on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment.

The gross undiscounted cash flows as at 31 December 2009 are as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities								
Deposits and balances from banks and other financial institutions	14 550 988	16 441 693	19 049 348	16 096 936	1 134 559	-	67 273 524	64 780 390
Amounts payable under repurchase agreements	59 132	796	887	-	-	-	60 815	60 697
Current accounts and deposits from customers	95 221 201	103 784 912	87 138 114	14 479 499	-	-	300 623 726	289 548 839
Own securities issued	3 512 860	19 469 109	10 423 033	14 687 479	5 034	-	48 097 515	43 654 712
Other borrowed funds	15 838	7 516 279	1 076 096	6 233 122	133 025	-	14 974 360	13 819 410
Other liabilities	631 423	510 416	180 469	109 261	619	368 800	1 800 988	1 800 988
Current income tax payable	18 062	9 279	-	-	-	-	27 341	27 341
Subordinated borrowings	193 145	799 542	991 746	13 295 560	12 326 498	-	27 606 491	17 748 361
Spot, derivative and trading liabilities								
- Inflow	(40 008 865)	(8 306 418)	(4 740 113)	-	-	-	(53 055 396)	(75 288)
- Outflow	40 721 873	8 659 610	4 090 890	-	-	-	53 472 373	1 252 225
Total	114 915 657	148 885 218	118 210 470	64 901 857	13 599 735	368 800	460 881 737	432 617 675
Credit related commitments	71 573 473	-	-	-	-	-	71 573 473	71 573 473

The gross undiscounted cash flows as at 31 December 2008 was as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non- derivative liabilities								
Deposits and balances from banks and other financial institutions	38 365 295	50 248 938	11 855 699	13 122 891	1 859 433	-	115 452 256	111 275 357
Amounts payable under repurchase agreements	859 919	-	-	-	-	-	859 919	855 837
Current accounts and deposits from customers	95 376 370	85 316 436	34 036 165	22 695 206	-	-	237 424 177	229 610 958
Own securities issued	3 918 645	16 374 388	2 947 840	21 617 439	-	-	44 858 312	39 368 440
Other borrowed funds	-	5 943 010	8 860 643	10 600 143	-	-	25 403 796	24 010 262
Other liabilities	1 541 480	318 958	337 218	175 359	2 754	297 210	2 672 979	2 672 979
Current income tax payable	11 759	36 243	-	-	-	-	48 002	48 002
Subordinated borrowings	204 109	593 585	790 731	12 099 017	8 555 531	-	22 242 973	12 593 599
Spot and derivative liabilities								
- Inflow	(32 837 593)	(2 398 808)	(991 072)	-	-	-	(36 227 473)	(343 456)
- Outflow	32 283 092	2 511 303	1 094 072	69 246	-	-	35 957 713	614 859
Total	139 723 076	158 944 053	58 931 296	80 379 301	10 417 718	297 210	448 692 654	420 706 837
Credit related commitments	78 683 070	-	-	-	-	-	78 683 070	78 683 070

Operational risk

Operational risk is the risk of losses from inadequacy or failure of internal processes or systems or from external events. The Group's operational risk management strategy, developed and approved by the Management Board, provides for identification, assessment, monitoring and control of operational risks and allocates operational risk management responsibilities. Fraud risk forms a separate type of operational risk.

The Group manages its operational and legal risks, fraud risk and reputational risk through internal monitoring and compliance policies.

The Internal Control Department ("ICD") reviews all internal documentation in order to identify potential shortfalls in internal control procedures and business operations, notifies the Management Board of violations and supervises the correction of such violations. The ICD, the Legal Department, Financial and Retail Risk Department together with other divisions monitor compliance with, and seek to ensure the proper functioning of, internal policies and procedures designed to minimize operational and legal risks, respectively, and also monitor compliance with relevant Russian legislation. The head of the ICD reports directly to the Group's President and Council.

The Group conducts the majority of its transactions using standard forms approved by its Legal Department. The Legal Department reviews all non-standard forms before the relevant transactions take place.

The Group has in place internal documents and procedures that set forth the job descriptions and responsibilities of its personnel. The decision-making capacity and authority of particular departments and members of management are strictly regulated. The Group is also in the process of developing internal documents describing all of its business processes in compliance with existing legislation.

The Group applies various kinds of insurance to minimize potential loss from transaction risks, including insurance of cash in transit, other property and obligatory deposit insurance. The Bank has also an insurance policy covering numerous types of operational losses including losses from fraud and crimes committed in the electronic and computer area (Bankers Blanket Bond).

The Operational and Fraud Prevention Division of the Financial and Retail Risk Department is responsible for risks detection and valuation, development of instructions for risks minimization and aggregation of occurred losses database. A separate database exists for registering all known fraud cases as well as databases for legal issues and reputational damages.

The developed approach of determination of key risk indicators allows the Group to monitor the level of operational risk and forecasts the possibility of operational risk events in the future. This will help the Group to move to the advanced approach of risk analysis in accordance with Basel II.

34 Capital management

The Central Bank of Russia sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital to risk weighted assets (“statutory capital ratio”) above the prescribed minimum level. As at 31 December 2009, this minimum level is 10%. The Bank was in compliance with the statutory requirements related to the capital ratio during the years ended 31 December 2009 and 2008.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I. The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2009:

	2009	2008
Tier 1 Capital		
Share capital	10 062 544	10 062 544
Share premium	13 319 695	13 319 695
Additional paid-in-capital	1 056 102	1 167 515
Retained earnings	11 147 632	11 773 411
Minority interest	265 341	525 714
Total tier 1 capital	35 851 314	36 848 879
Tier 2 Capital		
Asset revaluation reserves	2 353 907	3 192 346
Revaluation reserve of investments available for sale	160	(66 641)
Subordinated debt excluding accrued interest	13 612 802	9 917 485
Total Capital	51 818 183	49 892 069
Risk-weighted assets		
Banking book	332 027 436	360 663 445
Trading book	29 913 496	19 139 291
Total Risk-weighted assets	361 940 932	379 802 736
Tier 1 Ratio	9.91%	9.70%
Total Capital Adequacy Ratio	14.32%	13.14%

As at 31 December 2009 included in Tier 2 Capital is RUB 13 612 802 thousand of subordinated debt net of accrued interest, which represent loans and subordinated loan participation notes issued by the Group with the following conditions:

- original maturity is not less than 5 years;
- creditors have no right to claim the deposits before maturity;
- in the event of bankruptcy or default, subordinated deposits and loan participation notes are to be repaid only after the settlement of all other liabilities.

Long-term subordinated debt may not exceed 50% of tier 1 capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under syndicated loans and a subordinated loan from EBRD. These covenants prescribe that the Group must maintain a total capital adequacy ratio not less than 12%. The Group complied with all externally imposed capital requirements during the years ended 31 December 2009 and 2008.

35 Spot and derivative financial instruments

Spot and derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recorded in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the exposure to credit or price risks. The spot and derivative financial instruments become favorable (asset) or unfavorable (liability) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of spot and derivative financial instruments held and the aggregate fair values of spot and derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of spot and derivative instruments held are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2009 and 2008, respectively.

	2009			2008		
	Contract/ notional amount	Fair value Assets	Liabilities	Contract/ notional amount	Fair value Assets	Liabilities
Foreign currency spot and derivative contracts						
Foreign currency spot contracts	11 544 717	13 903	(20 184)	2 133 013	8 388	(18 044)
Foreign currency forward contracts	6 927 963	7 998	(37 394)	4 355 063	42 726	(35 958)
Foreign currency swap contracts	30 029 687	32 113	(667 372)	26 403 689	258 815	(330 160)
Precious metals derivative contracts						
Precious metal forward contracts with fixed rates	-	-	-	957 863	226	(79 394)
Precious metal forward contracts with floating rates	4 646 013	21 274	-	2 150 256	10 995	-
Securities derivative contracts						
Securities forward contracts	-	-	-	152 026	22 306	-
Other derivative contracts						
Interest rate swaps	9 073 260	-	(168 814)	8 814 120	-	(151 303)
Total recognised spot and derivative assets/(liabilities)		75 288	(893 764)		343 456	(614 859)

The total positive fair value of spot and derivative financial instruments amounting to RUB 75 288 thousand (2008: RUB 343 456 thousand) is disclosed in note 7, and the total negative fair value amounting to RUB 893 764 thousand (2008: RUB 614 859 thousand) is disclosed in note 15.

36 Credit related and capital commitments

Credit related commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments and contingent liabilities as at 31 December 2009 and 2008 are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	2009	2008
Contracted amount		
Guarantees	38 437 358	39 237 569
Undrawn overdraft facilities	25 159 134	17 384 885
Letters of credit	3 529 135	16 072 268
Undrawn loan facilities	4 447 846	5 988 348

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Maturity and currency analyses of credit related commitments are disclosed in note 33. The information on related party balances is disclosed in note 42.

Capital commitments

During 2008 the Group acquired the investment rights for 23 915 square meters of an office building under construction by a Russian developer. The total amount invested in the construction as at 31 December 2009 is RUB 8 244 504 thousand (2008: RUB 5 506 180 thousand) and the Group has capital commitments in respect of this construction in the amount of USD 42 million payable in 2010-2011.

37 Operating leases

Leases as lessee

Non-cancelable operating lease rentals as at 31 December are payable as follows:

	2009	2008
Less than one year	702 490	710 201
From one to five years	1 344 743	2 118 454
More than five years	367 427	229 444
	2 414 660	3 058 099

The Group leases a number of premises under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the year ended 31 December 2009 RUB 796 951 thousand was recognised as an expense in profit or loss in respect of operating leases (2008: RUB 769 425 thousand). Refer to note 30.

38 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the consolidated financial condition or the results of future operations.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

39 Custody activities

The Group provides custody services to its customers whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated statement of financial position.

40 Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of *IFRS 7 "Financial Instruments: Disclosures"*. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of financial instruments at fair value through profit or loss, loan participation notes and domestic bonds are based on quoted market prices at the reporting date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the reporting date.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated statement of financial position of the Group is presented below:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	108 322 648	108 322 648	105 723 210	105 723 210
Placements with banks and other financial institutions	5 075 800	5 075 800	2 426 852	2 426 852
Financial assets at fair value through profit or loss	41 751 838	41 751 838	14 408 817	14 408 817
Amounts receivable under reverse repurchase agreements	10 080 301	10 080 301	4 574 084	4 574 084
Loans to customers	266 421 579	263 009 011	300 413 049	291 354 674
Investments available for sale	35 083	35 083	158 714	158 714
Investments held to maturity	7 204 938	7 075 003	8 880 051	8 144 117
Financial liabilities at fair value through profit or loss	1 252 225	1 252 225	614 859	614 859
Deposits and balances from banks and other financial institutions	64 780 390	64 159 283	111 275 357	108 528 699
Amounts payable under repurchase agreements	60 697	60 697	855 837	855 837
Current accounts and deposits from customers	289 548 839	289 121 742	229 610 958	227 436 302
Own securities issued	43 654 712	44 070 359	39 368 440	30 704 562
Other borrowed funds	13 819 410	14 008 385	24 010 262	24 010 262
Subordinated borrowings	17 748 361	17 755 560	12 593 599	7 610 056

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques as at 31 December 2009:

	Quoted market prices	Valuation techniques based on market observable inputs	Valuation techniques involving the use of non-market observable inputs	Total
Financial assets				
Securities held for trading	38 326 622	2 223 116	983 016	41 532 754
Derivative financial instruments	-	75 288	-	75 288
Other financial instruments at fair value through profit or loss	143 796	-	-	143 796
Investments available for sale	29 140	-	5 943	35 083
Financial liabilities				
Derivative financial instruments	-	1 252 225	-	1 252 225

The following table shows an analysis of financial instruments recorded at fair value, between those whose fair value is based on quoted market prices or calculated using valuation techniques as at 31 December 2008:

	Quoted market prices	Valuation techniques based on market observable inputs	Valuation techniques involving the use of non- market observable inputs	Total
Financial assets				
Securities held for trading	11 079 645	2 905 056	50 004	14 034 705
Derivative financial instruments	-	343 456	-	343 456
Other financial instruments at fair value through profit or loss	30 656	-	-	30 656
Investments available for sale	-	-	158 714	158 714
Financial liabilities				
Derivative financial instruments	-	614 859	-	614 859

Valuation techniques involving the use of non-market observable inputs were based on the analysis of discounted cash flows due from issuers. As at 31 December 2009 a discount rate of 15% is used for discounting future cash flows from corporate bonds in this category.

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

The following table shows the movement of financial instruments recorded at fair value whose fair value is based on valuation techniques involving the use of non-market observable inputs for the year ended 31 December 2009:

	Securities held for trading	Investments available for sale
Balance as at 1 January 2009	50 004	158 714
Reclassification from other categories	376 941	-
Net purchase and sale during the year 2009	691 681	(152 771)
Net loss recognised in consolidated income statement	(135 610)	-
Balance as at 31 December 2009	983 016	5 943

41 Average effective interest rates

The table below displays the interest bearing assets and interest bearing liabilities as at 31 December 2009 and 2008 and their corresponding average effective interest rates as at those dates.

	2009 Carrying amount	2009 Average Effective Interest Rate	2008 Carrying amount	2008 Average Effective Interest Rate
Interest bearing assets				
Cash and cash equivalents				
- RUB	10 994 356	5.28%	25 873 661	7.65%
- other currencies	54 736 198	0.17%	14 278 077	1.11%
Obligatory reserves with central banks				
- other currencies	477 738	1.00%	476 218	2.50%
Placements with banks and other financial institutions				
- RUB	19 458	19.19%	2 155 070	8.51%
- other currencies	5 056 342	8.43%	271 782	11.10%
Financial assets at fair value through profit or loss				
- RUB	29 931 387	13.95%	11 872 407	16.97%
- other currencies	11 601 361	16.28%	2 157 560	15.73%
Amount receivable under reverse repurchase agreements				
- RUB	10 065 812	5.97%	4 574 084	10.21%
- other currencies	14 489	23.63%	-	-
Loans to customers				
- RUB	135 845 198	18.28%	149 052 984	16.09%
- other currencies	130 576 381	12.55%	151 360 065	12.59%
Investments held to maturity				
- RUB	7 071 017	7.13%	8 492 341	8.26%
- other currencies	133 921	12.17%	387 710	12.76%
Interest bearing liabilities				
Vostro accounts of banks and other financial institutions				
- RUB	4 639 941	0.37%	3 152 222	11.15%
- other currencies	3 699 486	0.11%	2 689 259	1.01%
Deposits and balances from banks and other financial institutions, other borrowed funds and subordinated borrowings due to banks except for vostro accounts				
- RUB	11 434 550	9.32%	53 407 540	11.32%
- other currencies	59 055 077	5.37%	76 979 618	5.80%
Amounts payable under repurchase agreements				
- RUB	60 697	2.63%	855 837	11.76%
Term deposits from customers, other borrowed funds and subordinated borrowings due to customers				
- RUB	121 471 391	11.52%	85 870 733	9.56%
- other currencies	103 914 338	6.59%	78 565 914	7.62%

	2009	2009	2008	2008
	Carrying	Average	Carrying	Average
	amount	Effective	amount	Effective
		Interest Rate		Interest Rate
Current accounts from customers				
- RUB	53 502 389	0.01%	57 030 360	0.01%
- other currencies	12 893 009	0.01%	10 840 643	0.01%
Loan participation notes including subordinated and domestic bonds				
- RUB	6 229 540	15.10%	9 541 000	9.02%
- other currencies	31 710 453	11.26%	26 843 411	10.29%
Promissory notes and certificates of deposit				
- RUB	13 955 028	12.86%	7 385 189	9.92%
- other currencies	7 046 509	6.42%	4 552 727	5.28%

42 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The outstanding balances and the related average interest rates as at 31 December 2009 with related parties are as follows:

	Nominal shareholders		Directors and Management Board		Other Related Parties		Total
	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount
Statement of Financial Position							
Assets							
Financial assets at fair value through profit or loss	-	-	-	-	318 076	16.64%	318 076
Loans to customers (gross amount)	-	-	61 152	11.36%	9 783 687	10.63%	9 844 839
less collective impairment allowance	-	-	(535)	-	(49 152)	-	(49 687)
Other assets	-	-	-	-	34 401	-	34 401
Liabilities							
Current accounts and deposits from customers	173 193	1.95%	1 059 890	11.13%	2 822 824	3.86%	4 055 907
Own securities issued	-	-	228	7.07%	63	11.17%	291
Other liabilities	-	-	-	-	30 500	-	30 500
Off balance sheet items							
Guarantees received	-	-	-	-	6 018 659	-	6 018 659
Guarantees issued	-	-	-	-	989 901	-	989 901
Letters of credit issued	-	-	-	-	367 658	-	367 658

Other related parties comprise mainly entities controlled by the ultimate shareholders of the Group.

The outstanding balances and the related average interest rates as of 31 December 2008 with related parties are as follows:

	Nominal shareholders		Directors and Management Board		Other Related Parties		Total
	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount
Statement of Financial Position							
Assets							
Financial assets at fair value through profit or loss	-	-	-	-	456 309	52.31%	456 309
Loans to customers (gross amount)	-	-	88 086	11.29%	8 199 558	12.33%	8 287 644
less collective impairment allowance	-	-	(813)	-	(196 619)	-	(197 432)
Investments available for sale (gross amount)	-	-	-	-	3 309	-	3 309
less impairment allowance	-	-	-	-	(3 109)	-	(3 109)
Investments held to maturity	-	-	-	-	187 384	10.99%	187 384
Other assets	-	-	-	-	53 646	-	53 646
Liabilities							
Current accounts and deposits from customers	110 711	2.90%	715 982	9.23%	2 454 500	2.27%	3 281 193
Own securities issued	-	-	6 369	9.95%	851 706	5.00%	858 075
Subordinated borrowings	1 178 306	14.61%	-	-	-	-	1 178 306
Other liabilities	-	-	-	-	637 909	-	637 909
Off balance sheet items							
Guarantees received	-	-	13 586	-	1 573 398	-	1 586 984
Guarantees issued	-	-	-	-	1 392 041	-	1 392 041
Letters of credit issued	-	-	-	-	642 112	-	642 112

Other related parties comprise mainly entities controlled by the ultimate shareholders of the Group.

Profit or loss amounts in respect of transactions with related parties for the year ended 31 December 2009 are as follows:

	Nominal shareholders	Directors and Management Board	Other Related Parties	Total
Interest income	-	10 660	1 128 389	1 139 049
Fee and commission income	78	55	91 965	92 098
Other income	-	6	4 273	4 279
Interest expense	(137 156)	(81 386)	(66 584)	(285 126)
Fee and commission expense	-	-	(5 193)	(5 193)
Recovery of impairment losses	-	278	147 467	147 745
Administrative expenses	-	(312 926)	(410 541)	(723 467)

Profit or loss amounts in respect of transactions with related parties for the year ended 31 December 2008 are as follows:

	Nominal shareholders	Directors and Management Board	Other Related Parties	Total
Interest income	-	7 500	664 989	672 489
Fee and commission income	218	1 415	81 177	82 810
Other income	-	-	4 749	4 749
Interest expense	(144 712)	(61 885)	(92 617)	(299 214)
Fee and commission expense	-	-	(3 628)	(3 628)
Impairment losses	-	(529)	(165 907)	(166 436)
Administrative expenses	-	(582 387)	(354 815)	(937 202)

Other related parties comprise mainly of entities controlled by the ultimate shareholders of the Group.

During the year ended 31 December 2009, short-term compensation of the Directors and members of the Management Board amounts to RUB 312 926 thousand (2008: RUB 582 387 thousand) and payments to pension funds for the benefit of the Directors and members of Management Board amounted to nil.

During the year ended 31 December 2009 the Group purchased from other related parties computers and software for RUB 582 953 thousand.

During the year ended 31 December 2008 the Group purchased from other related parties property and equipment for RUB 1 311 833 thousand including a building amounting to RUB 1 203 067 thousand and computers and software of RUB 108 766 thousand.

43 Acquisition of subsidiaries

In December 2009 the Group acquired control over OOO “Promsvyazfactoring” (OOO “PSF”) through an option agreement dated 31 December 2009 with its owner which is a related party of the Group’s shareholders. Accordingly, the sum of net liabilities acquired and purchase price was shown as distribution to shareholders. Under the terms of the agreement the Group acquired an unconditional right to buy 100% of OOO “PSF” share capital for a cash consideration of RUB 5,500 thousand for a period of 5 years starting from the date of the option agreement.

If the acquisition had occurred on 1 January 2009, the Group’s net loss attributable to shareholders of the parent for the year ended 31 December 2009 would have been RUB 634 116 thousand.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

	IFRS carrying amount immediately before business combination
Cash and cash equivalents	21 962
Loans and advances to customers	2 432 268
Deferred tax asset	7 010
Deposits and balances from banks and other financial institutions	(2 445 236)
Other liabilities	(13 812)
Current income tax payable	(4 945)
Net liabilities acquired	(2 753)
Acquired interest in net assets of the subsidiary	(2 753)
Purchase price	(5 500)
Distribution to shareholders	8 253
Cash and cash equivalents of the subsidiary acquired	21 962
Inflow of cash and cash equivalents on acquisition	21 962

44 Subsequent events

On 9 February 2010 the Central Bank of the Russian Federation registered an additional issue of 144 850 846 000 shares with a nominal value of RUB 1 448 508 thousand and a share premium amounting to RUB 3 983 398 thousand. As a result of the additional issue the European Bank of Reconstruction and Development became a new shareholder of the Group with 11.75% share, Commerzbank Auslandsbanken Holding AG kept its 15.32% share, and the share of Promsvyaz Capital B. V. decreased to 72.93%.

On 11 February 2010 the Group exercised its option to acquire 85.7% share in OAO “Volgoprombank” from Promsvyaz Capital B.V. for a cash consideration of RUB 1 434 774 thousand.

On 18 February 2010 the Group repaid in advance a subordinated loan from the European Bank of Reconstruction and Development amounting to RUB 1 500 million. The original due date was 7 March 2015.

On 2 April 2010 the shareholders approved a decision to reorganise the Group and merge OAO “Volgoprombank” and OAO “Nizhny Novgorod Bank” with the Bank.

On 12 April 2010 the Group repaid the first tranche of a syndicated loan from the European Bank of Reconstruction and Development amounting to USD 232 000 thousand.

On 12 April 2010 the Group repaid in advance a subordinated loan from Reserve Invest Limited amounting to USD 30 000 thousand. The original due date was 1 December 2011.

PROMSVYAZBANK

Consolidated financial statements
for the year ended
31 December 2008

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Independent Auditors' Report

To the Council of OAO "Promsvyazbank"

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OAO "Promsvyazbank" (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in shareholders' equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
6 April 2009

Promsvyazbank
Consolidated Balance Sheet as at 31 December 2008
(expressed in thousands of Russian Roubles – refer to Note 2)

	Notes	2008	2007
ASSETS			
Cash and cash equivalents	4	105 723 210	38 088 343
Obligatory reserves with central banks	5	992 510	3 319 898
Placements with banks and other financial institutions	6	2 426 852	1 518 651
Financial assets at fair value through profit or loss	7	14 408 817	25 749 506
-Unpledged		13 524 941	23 555 428
-Pledged under sale and repurchase agreements		883 876	2 194 078
Amounts receivable under reverse repurchase agreements	8	4 574 084	3 362 081
Loans to customers	9	300 413 049	208 425 336
Investments available for sale	10	158 714	187 112
Investments held to maturity	11	8 880 051	-
Current income tax prepayments		1 292 982	243 793
Other assets	12	1 517 540	1 128 464
Property and equipment	13	21 413 219	11 222 215
TOTAL ASSETS		461 801 028	293 245 399
LIABILITIES			
Financial liabilities at fair value through profit or loss	14	614 859	156 148
Deposits and balances from banks and other financial institutions	15	111 275 357	50 667 904
Amounts payable under repurchase agreements	16	855 837	2 175 112
Current accounts and deposits from customers	17	229 610 958	141 000 963
Own securities issued	18	48 322 327	45 038 656
Other borrowed funds	19	27 649 974	24 299 108
Other liabilities	20	2 672 979	993 490
Current income tax payable		48 002	38 737
Deferred tax liability	21	776 151	1 193 032
TOTAL LIABILITIES		421 826 444	265 563 150
SHAREHOLDERS' EQUITY			
Share capital	22	10 062 544	7 468 794
Share premium		13 319 695	7 613 445
Additional paid-in-capital		1 167 515	30 496
Revaluation reserve for property and equipment		3 192 346	2 357 758
Revaluation reserve for investments available for sale		(66 641)	-
Retained earnings		11 773 411	10 211 756
Total equity attributable to equity holders of the parent		39 448 870	27 682 249
Minority interest		525 714	-
TOTAL SHAREHOLDERS' EQUITY		39 974 584	27 682 249
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		461 801 028	293 245 399

Commitments and Contingencies

35-37

Approved by the Management Board on 6 April 2009.

Levkovskiy A.A.
President



Volchenko A.U.
Senior Vice-president, CEO

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

Promsvyazbank
Consolidated Income Statement for the year ended 31 December 2008
(expressed in thousands of Russian Roubles – refer to Note 2)

	Notes	2008	2007
Interest income		42 781 988	23 691 779
Interest expense		(20 812 220)	(11 558 806)
Net interest income	23	21 969 768	12 132 973
Fee and commission income	24	5 780 146	2 959 104
Fee and commission expense	25	(1 055 809)	(586 033)
Net fee and commission income		4 724 337	2 373 071
Net loss on financial instruments at fair value through profit or loss	26	(1 842 840)	(123 911)
Net foreign exchange gain		2 142 569	915 449
Net loss on sale of subsidiaries	42	(21 942)	-
Gain on acquisition of subsidiaries	43	456 625	-
Other income	27	820 903	319 334
Operating income		28 249 420	15 616 916
Impairment losses	28	(13 266 161)	(2 586 888)
Loss on revaluation of fixed assets recognized in income statement	13	(456 100)	-
Administrative expenses	29	(11 952 858)	(7 623 484)
General expenses	29	(431 997)	(386 590)
		(26 107 116)	(10 596 962)
Profit before tax		2 142 304	5 019 954
Income tax expense	30	(580 649)	(1 315 431)
Profit for the year		1 561 655	3 704 523
Attributable to:			
Shareholders of the parent		1 561 655	3 704 523
Minority interest		-	-

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission receipts		46 337 270	26 680 159
Interest and fee and commission payments		(19 337 376)	(11 529 255)
Net (payments)/receipts from financial instruments at fair value through profit or loss		(840 816)	72 698
Net receipts from foreign exchange transactions		861 540	512 414
Other income received		800 112	277 454
General and administrative expenses paid		(11 413 160)	(7 349 277)
		16 407 570	8 664 193
(Increase)/decrease in operating assets			
Obligatory reserves with central banks		2 450 860	560 813
Placements with banks and other financial institutions with original maturity of over one month		(3 162 995)	751 378
Financial assets at fair value through profit or loss		3 922 129	(324 400)
Amounts receivable under reverse repurchase agreements		(1 294 669)	(2 342 566)
Loans to customers		(65 571 667)	(98 458 415)
Other assets		(93 537)	(463 130)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks and other financial institutions		50 864 167	15 200 474
Amounts payable under repurchase agreements		(1 320 304)	2 141 008
Current accounts and deposits from customers		65 395 352	56 458 017
Promissory notes and certificates of deposit		(11 134 034)	12 743 870
Other liabilities		232 858	188 416
		56 695 730	(4 880 342)
Net cash from/(used in) operating activities before taxes paid		56 695 730	(4 880 342)
Taxes paid		(2 249 633)	(1 123 877)
		54 446 097	(6 004 219)
Cash flows from/(used in) operations			
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of investments available for sale		5 560	-
Disposal of subsidiaries		12 976	-
Acquisition of subsidiaries		3 799 193	(136 906)
Purchases of investments available for sale		(59 804)	(178 845)
Purchases of investments held to maturity		(1 884 722)	-
Purchases of property and equipment		(7 896 050)	(5 811 800)
Disposals of property and equipment		72 481	11 729
		(5 950 366)	(6 115 822)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of loan participation notes and domestic bonds		9 039 065	9 049 321
Repayment of other borrowed funds		(13 807 539)	(10 455 112)
Proceeds from other borrowed funds		13 987 871	21 452 757
Proceeds from issuance of share capital		6 370 000	4 096 000
		15 589 397	24 142 966
Cash flows from financing activities		15 589 397	24 142 966
Net increase in cash and cash equivalents		64 085 128	12 022 925
Effect of changes in exchange rates on cash and cash equivalents		3 549 739	(419 550)
Cash and cash equivalents at the beginning of the year		38 088 343	26 484 968
Cash and cash equivalents at the end of the year	4	105 723 210	38 088 343

Promsvyazbank
Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2008
(expressed in thousands of Russian Roubles – refer to Note 2)

	Attributable to equity holders of the parent						Minority interest	Total equity
	Share capital	Share premium	Additional paid-in-capital	Revaluation reserve for property and equipment	Revaluation reserve for investments available for sale	Retained earnings		
Balance at 1 January 2007	6 188 794	4 797 445	52 402	830 002	-	6 507 233	-	18 375 876
Profit for the year ended 31 December 2007	-	-	-	-	-	3 704 523	-	3 704 523
Revaluation of property and equipment	-	-	-	2 010 205	-	-	-	2 010 205
Deferred tax related to revaluation of property and equipment (Note 21)	-	-	-	(482 449)	-	-	-	(482 449)
Total income						5 232 279	-	5 232 279
Share issue	1 280 000	2 816 000	-	-	-	-	-	4 096 000
Increase of amount payable under option agreement (Note 2)	-	-	(21 906)	-	-	-	-	(21 906)
Balance at 31 December 2007	7 468 794	7 613 445	30 496	2 357 758	-	10 211 756	-	27 682 249

Promsvyazbank
Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2008
(expressed in thousands of Russian Roubles – refer to Note 2)

	Attributable to equity holders of the parent							Minority interest	Total equity
	Share capital	Share premium	Additional paid-in capital	Revaluation reserve for property and equipment	Revaluation reserve for investments available for sale	Retained earnings	Total		
Profit for the year ended 31 December 2008	-	-	-	-	-	1 561 655	1 561 655	-	1 561 655
Revaluation of property and equipment (Note 13)	-	-	-	989 281	-	-	989 281	6 530	995 811
Deferred tax related to revaluation of property and equipment (Note 21)	-	-	-	(197 856)	-	-	(197 856)	(1 306)	(199 162)
Disposal of property and equipment	-	-	-	(101 165)	-	-	(101 165)	-	(101 165)
Deferred tax related to disposal of property and equipment (Note 21)	-	-	-	24 280	-	-	24 280	-	24 280
Revaluation of investments available for sale	-	-	-	-	(83 301)	-	(83 301)	-	(83 301)
Deferred tax related to revaluation of investments available for sale (Note 21)	-	-	-	-	16 660	-	16 660	-	16 660
Effect of change in income tax rates (Note 21)	-	-	-	120 048	-	-	120 048	-	120 048
Total income						2 329 602	2 329 602	5 224	2 334 826
Share issue (Note 22)	2 593 750	5 706 250	-	-	-	-	8 300 000	-	8 300 000
Acquisition of subsidiaries (Note 43)	-	-	1 085 596	-	-	-	1 085 596	520 490	1 606 086
Disposal of subsidiaries (Note 42)	-	-	51 423	-	-	-	51 423	-	51 423
Balance at 31 December 2008	10 062 544	13 319 695	1 167 515	3 192 346	(66 641)	11 773 411	39 448 870	525 714	39 974 584

1 Background

Principal activities

Promsvyazbank Group (the “Group”) consists of various legal entities formed under the laws of the Russian Federation and other countries (Refer to Note 2 for the list of subsidiaries). OAO Promsvyazbank (the “Bank”), which is the parent company of the Group, was initially established in the Russian Federation as a limited liability company converting subsequently to a closed joint-stock company in July 2001 and finally to an open joint-stock company in September 2007. The Bank was granted a banking license for operations in roubles on 12 May 1995. The Bank’s operations were expanded to include operations with all types of foreign currencies and operations with individuals in foreign currencies on 30 December 1996 and 31 December 1997, respectively.

The activities of the Bank are regulated by the Central Bank of the Russian Federation (the “CBR”). The Bank holds a full (general) banking license from the CBR and is also authorised by the CBR to trade in precious metals. In October 2004, the CBR accepted the Bank into the state deposit insurance system. In addition, the Group holds licenses from the Federal Commission for the Securities Market of the Russian Federation (the “FCSM”, later renamed the Federal Service for Financial Markets (the “FSFM”) to act as a broker, dealer, custodian and a securities manager in the Russian securities market. The Group also holds a license from the “FSFM” as a commodities exchange broker to trade futures and options.

The Group’s principal activities are currently in commercial banking. These activities consist of corporate banking and retail banking. Corporate banking includes deposit taking and lending to corporate borrowers and small and medium entities (“SME”), factoring, settlements and cash operations. Corporate banking services also include trade and project finance. Retail banking includes deposit taking and retail lending, money transfer and banking card services, foreign exchange and cash operations with individuals.

The Group also offers investment banking services, including corporate finance, debt and equity capital markets, brokerage, repo transactions and securities trading, foreign exchange, precious metals and banknote operations.

The table below summarises information about the Group’s branch network.

	2008	2007
Branches	48	43
Full-service sub-branches	127	103
Retail sub-branches	77	104
Representative offices	5	5
Total number of offices	257	255

As at 31 December 2008 the Bank operated 47 branches (2007: 42 branches) located within the Russian Federation and a branch located in Limassol (Cyprus). The Bank’s representative offices are located in Russian Federation, China, India, Ukraine and Kirgizstan.

The Bank’s head office is registered at the following address: 109052, Smirnovskaya 10, Moscow, Russian Federation.

Shareholders as at 31 December 2008

	% Ownership/ % Votes
<i>Promsvyaz Capital B. V.*</i>	84.68%
<i>Commerzbank Auslandsbanken Holding AG</i>	15.32%
	100.00%

* - Promsvyaz Capital B. V. (Netherlands) is owned by Peters International N. V. (Netherlands). Mr D. N. Ananyev and Mr A. N. Ananyev each beneficially own 50% of Peters International N.V.

Russian business environment

The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is in practice not convertible in most countries outside of the Russian Federation, relatively high inflation and risks that typically do not exist in other markets. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. 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 difficulties experienced 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.

The banking sector in the Russian Federation is sensitive to adverse fluctuations in confidence and economic conditions. From the beginning of September 2008 the Russian economy experienced certain difficulties as a result of the global financial crisis, which include falls in confidence in the banking sector accompanied by reductions in liquidity and significant decreases in equity and bond markets. The ongoing global liquidity crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the Russian banking sector, and higher interbank lending rates. The uncertainties in the global financial market have also led to bank failures and bank rescues in the US, Western Europe and Russia. Such circumstances could 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. Borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed to the Group. Management is unable to predict all factors which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

2 Basis of preparation**Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and available for sale investments which fair value can be reliably measured are stated at fair value, and buildings are revalued periodically.

Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble (“RUB”). Functional currency for each group company has been determined as the currency of the primary economic environment in which the company operates. Management have determined the RUB as the functional currency for the Bank, group companies domiciled in the Russian Federation and group companies domiciled outside of the Russian Federation, because it reflects the economic substance of the underlying events and circumstances. The RUB is also the Group’s presentation currency for the purpose of these consolidated financial statements.

Financial information presented in RUB has been rounded to the nearest thousand.

Consolidated companies

The consolidated financial statements include the following principal subsidiaries of the Bank:

Name	Country of Incorporation	Main Activity	% Consolidated as at 31 December 2008	% Consolidated as at 31 December 2007
Promsvyaz Finance PLC	Ireland	Financial Activity	100%	100%
PSB Finance S.A.	Luxembourg	Financial Activity	100%	100%
OOO “UK Promsvyaz”	Russian Federation	Financial Activity	100%	100%
OOO “Open Leasing Company”	Russian Federation	Leasing	100%	100%
OAo “Volgoprombank”	Russian Federation	Banking Activity	95.5%	-
OAo “Nizhny Novgorod Bank”	Russian Federation	Banking Activity	85.1%	-
OAo “Yarsotsbank”	Russian Federation	Banking Activity	51.3%	-
“Atna Capital Management Investments Limited”	Cyprus	Financial Activity	-	100%
OOO “Association of Leasing Companies”	Russian Federation	Leasing	-	100%

Promsvyaz Finance PLC and *PSB Finance S.A.* are special purpose entities established to facilitate the Group’s issues of debt securities (refer to Note 18). The entities are not owned by the Group and the control arises through the predetermination of the entities’ activities.

OOO “UK Promsvyaz”

The principal activity of OOO “UK Promsvyaz” is asset management. The Group directly controls 100% of this entity.

“Atna Capital Management Investments Limited”

Until April 2008 the Group controlled Atna Capital Management Investments Limited through the right to exercise a call option. In April 2008 the Group cancelled this call option. For more details refer to Note 42.

OOO “Association of Leasing Companies”

On 26 June 2006 the Group acquired 100% in OOO “Association of Leasing Companies”. In September 2008 the Group sold this company to a third party. For more details refer to Note 42.

OOO “Open Leasing Company” was established by the Group in July 2007. The Group controls 100% in OOO “Open Leasing Company”.

OAO “Volgoprombank”

The Group obtained control over OAO “Volgoprombank” on 23 June 2008 through the granting of a call option by Promsvyaz Capital B.V. (parent company of the Group). This call option granted to the Bank gives the Bank the right to acquire 95.5% share in OAO “Volgoprombank” from 23 June 2008 for a year. Also, from this date more than half of the Board of directors’ members of OAO “Volgoprombank” were nominated by the Bank. For more details refer to Note 43.

OAO “Yarsotsbank” and OAO “Nizhny Novgorod Bank”

At the end of December 2008 the Group purchased 51.3% share capital of OAO “Yarsotsbank” and 85.1% of the share capital of OAO “Nizhny Novgorod Bank”. The acquisitions were made to assist in the stabilization of the banking sector in Russia and to expand the Group’s regional network. For more details refer to Note 43.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors, that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from these estimates.

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

- Loan impairment estimates - Note 9;
- Building revaluation estimates - Note 13.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied. Changes in accounting policies are described at the end of this Note.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Special purpose entities

The Group has established a number of special purpose entities (“SPE”) to facilitate the Group’s issue of debt securities. The Group does not have any direct or indirect shareholdings in these entities and control arises through the predetermination of the entities’ activities.

Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases. When the Group’s share of losses exceeds the Group’s interest in the associate, that interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Acquisitions and disposals of subsidiaries

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Where the cost of acquisition is below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) the difference is credited to the consolidated income statement in the period of acquisition. The minority interest is stated at the minority’s proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders’ interests are shown separately in the consolidated balance sheet and income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the Group.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of income statement on the date of disposal.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is allocated to cash-generating units and is stated at cost less impairment losses.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Negative goodwill arising on an acquisition is recognised immediately in the consolidated income statement.

Minority interest

Minority interest is that part of the profit or loss and net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent company.

Minority interest is presented in the consolidated balance sheet within equity, separately from the equity attributable to equity holders of the parent company. Minority interest in the profit or loss of the Group is separately disclosed in the consolidated income statement.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities that are stated at fair value and whose appraised value is denominated in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates the fair values were determined. Foreign exchange differences arising on translation are recognised in the consolidated income statement. At 31 December 2008 the principal rate of exchange used for translating foreign currency balances was USD 1 = RUB 29.3804 (2007: USD 1 = RUB 24.5462), EUR 1 = RUB 41.4411 (2007: EUR 1 = RUB 35.9332).

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Group's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group considers cash and nostro accounts with the CBR, as well as nostro accounts and placements with banks and other financial institutions with an original maturity less than one month to be cash and cash equivalents. The minimum reserve deposits with central banks are not considered to be a cash equivalent due to restrictions on their withdrawability.

Financial instruments

Classification

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

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

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

- the assets or liabilities are managed and evaluated on a fair value basis;

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or

- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

- the Group intends to sell immediately or in the near term;
- the Group upon initial recognition designates as at fair value through profit or loss;
- the Group upon initial recognition designates as available for sale; or
- the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

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

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

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

Management determines the appropriate classification of financial instruments at the time of the initial recognition.

Recognition

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

Measurement

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

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

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

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost. Amortised cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where a valuation based on observable market data indicates a fair value gain or loss on initial recognition of an asset or liability, the gain or loss is recognised immediately in the consolidated statement of income. Where an initial gain or loss is not based entirely on observable market data, it is deferred and recognised over the life of the asset or liability on an appropriate basis, or when prices become observable, or on disposal of the asset or liability.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

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

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

Gains and losses on subsequent measurement

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

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognised in the consolidated income statement;

- a gain or loss on an available for sale financial asset is recognised directly in equity through the consolidated statement of changes in shareholders' equity (except for impairment losses and foreign exchange gains and losses) until the asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement. Interest income on available for sale debt securities is recognised as earned in the consolidated income statement and calculated using the effective interest method.

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

Derecognition

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

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

Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase ("repo") agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repo transactions. The difference between the sale and repurchase price represents interest expense and is recognised in the consolidated income statement over the term of the repo agreement using the effective interest rate method.

Securities purchased under agreements to resell ("reverse repo") are recorded as amounts receivable under reverse repo transactions. The differences between the purchase and resale prices are treated as interest income and accrued over the term of the reverse repo agreement using the effective interest method.

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

Spot and derivative financial instruments

Derivative financial instruments include swap, forward transactions in foreign exchange and precious metals.

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

Changes in the fair value of spot and derivative financial instruments are recognised immediately in the consolidated statement of income.

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

Offsetting

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

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Revaluation

Buildings of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognised directly in equity except to the extent that it reverses a previous revaluation decrease recognised in the consolidated income statement, in which case it is recognised in the consolidated income statement. A revaluation decrease on an item of buildings is recognised in the consolidated income statement except to the extent that it reverses a previous revaluation increase recognised directly in equity, in which case it is recognised directly in equity.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Fixtures and fittings	7 years
Office equipment	6 years
Vehicles	5 years
Leasehold improvements	5 years
Computers	4 years
Other	5 years

Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life for computer software is 4 years.

Impairment

Financial assets carried at amortised cost

Financial assets carried at amortised cost consist principally of loans, other receivables, unquoted promissory notes, placements with banks and other financial institutions, amounts receivable under reverse repurchase agreements and investments held to maturity (“loans and receivables”). The Group reviews its financial assets carried at amortised cost to assess impairment on a regular basis. Financial assets carried at amortised cost are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of financial assets carried at amortised cost and that event (or events) has had an impact on the estimated future cash flows of the asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable’s original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Group uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in the consolidated income statement and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Group writes off a loan balance (and any related allowances for loan losses) when the Group's management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

Financial Assets Carried at Cost

Financial assets carried at cost include unquoted equity instruments included in available for sale assets that are not carried at fair value because their fair value can not be reliably measured. If there is objective evidence that such investments are impaired, the impairment loss is calculated as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

All impairment losses in respect of these investments are recognised in the consolidated income statement and can not be reversed.

Non financial assets

Other non financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in the consolidated income statement and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Provisions

A provision is recognised in the consolidated balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

Credit related commitments

In the normal course of business, the Group enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

Financial guarantee liabilities and provisions for other credit related commitment are included within other liabilities.

Share capital

Share premium

Share premium represents the excess of consideration received for an issue of the Bank's shares over the nominal value of shares issued.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries and associates where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the consolidated balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Income and expense recognition

With the exception of financial assets held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the consolidated statement of income using the effective interest method. Interest income on financial assets held for trading and on other financial instruments at fair value through profit or loss comprises coupon interest only.

Accrued discounts and premiums on financial instruments at fair value through profit or loss are recognised in gains less losses from financial instruments at fair value through profit or loss, respectively.

Loan organization fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related direct costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fees, commissions and other income and expense items are recognised when the corresponding service has been provided.

Dividend income is recognised in the consolidated statement of income on the date that the dividend is declared.

Changes in accounting policies

In October 2008 the IASB issued “Reclassification of Financial Assets” (Amendments to IAS 39 “*Financial Instruments: Recognition and Measurement*” and IFRS 7 “*Financial Instruments: Disclosures*”).

The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss (i.e., trading) category if they are no longer held for the purpose of being sold or repurchased in the near term, would have met the definition of loans and receivables at initial recognition, and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in ‘rare circumstances’.

The amendment also permits an entity to transfer a non-derivative financial asset from the available for sale category to the loans and receivables category provided the non-derivative financial asset would have met the definition of loans and receivables and the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

Pursuant to these amendments, the Group reclassified certain non-derivative financial assets out of trading assets and into held to maturity assets. For details on impact of these reclassifications, refer to Note 11 “Investments held to maturity” of the consolidated financial statements.

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, the following will have an impact on the Group’s operations. The Group plans to adopt these pronouncements when they become effective. The Group has not yet analysed the likely impact of these new standards on its financial statements.

IFRS 8 “*Operating Segments*”, introduces the “management approach” to segment reporting and becomes mandatory for the Group’s 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group’s Chief Operating Decision Maker in order to assess each segment’s performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see Note 31). Under the management approach, the Group will represent segment information in respect of Corporate Banking, Retail Banking and Investment banking and financial markets and Small and medium size enterprises.

Revised IAS 1 “*Presentation of Financial Statements*” (2007) which becomes mandatory for the Group’s 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.

Amended IAS 27 “*Consolidated and Separate Financial Statements*” (2008) which becomes mandatory for the Group’s 2010 consolidated financial statements requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendment is not expected to have significant impact on the consolidated financial statements.

Revised IFRS 3 “*Business Combinations*” (2008) and amended IAS 27 “*Consolidated and Separate Financial Statements*” (2008), which come into effect on 1 July 2009 (i.e. becomes mandatory for the Group’s 2010 financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise for effects of transactions with non-controlling interest directly in equity.

Various “Improvements to IFRS” have been dealt with on a standard-by-standard basis. All amendments which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2009.

4 Cash and cash equivalents

	2008	2007
Cash	12 794 122	8 063 503
Due from the Central Bank of the RF – nostro accounts	52 777 350	6 804 844
Deposits with the Central Bank of the RF	24 224 331	5 000 979
Placements with banks and other financial institutions with an original maturity less than one month		
Rated from AA- to AA+	281 870	9 683 915
Rated A- to A+	10 433 710	5 355 106
Rated BBB	151 819	1 278 740
Rated from BB- to BB+	410 711	20
Rated from B- to B+	33 200	912 922
Rated below B-	104	1 676
Not rated	4 615 993	986 638
Total cash and cash equivalents	105 723 210	38 088 343

Maturity, currency and interest rates analyses of cash and cash equivalents are disclosed in Notes 32 and 40. The information on related party balances is disclosed in Note 41.

5 Obligatory reserves with central banks

	2008	2007
Minimum reserve deposit with the Central Bank of the RF	516 292	2 807 928
Minimum reserve deposit with the Central Bank of Cyprus	476 218	511 970
Total obligatory reserves with central banks	992 510	3 319 898

The minimum reserve deposit with the CBR is a mandatory non-interest bearing deposit.

Maturity, currency and interest rates analyses of obligatory reserves with central banks are disclosed in Notes 32 and 40.

6 Placements with banks and other financial institutions

	2008	2007
Rated A- to A+	-	61 665
Rated BBB	-	1 241
Rated from BB- to BB+	-	515 215
Rated from B- to B+	2 005 410	220 286
Not rated	421 442	720 244
Total placements with banks and other financial institutions	2 426 852	1 518 651

Maturity, currency and interest rates analyses of placements with banks are disclosed in Notes 32 and 40. The information on related party balances is disclosed in Note 41.

Concentration of placements with banks and other financial institutions

As at 31 December 2008 and 2007, placements with banks, which individually comprised more than 10% of total placements with banks, were as follows:

	2008	2007
Bank 1	2 005 410	-
Bank 2	331 979	-
Bank 3	-	515 215
Bank 4	-	251 206
Bank 5	-	200 000
	2 337 389	966 421

7 Financial assets at fair value through profit or loss

	2008	2007
Unpledged		
Financial assets held for trading		
Debt and other fixed-income instruments		
Corporate bonds – listed	6 344 647	4 865 529
Russian municipal and regional bonds	2 449 878	628 651
Corporate Eurobonds	2 157 558	239 191
Russian Government Federal bonds (OFZ)	1 420 994	12 846 183
Promissory notes	773 014	3 860 984
Equity investments		
Corporate shares – listed	4 738	633 671
Spot and derivative financial instruments		
Foreign currency and precious metals contracts	343 456	309 262
Designated at fair value through profit or loss		
Corporate shares - listed	30 656	171 957
Total financial assets at fair value through profit or loss unpledged	13 524 941	23 555 428
Pledged under sale and repurchase agreements		
Financial assets held for trading		
Promissory notes	833 758	2 172 071
Russian Government Federal bonds (OFZ)	50 118	-
Corporate shares - listed	-	22 007
Total financial assets at fair value through profit or loss pledged under sale and repurchase agreements	883 876	2 194 078
Total financial assets at fair value through profit or loss	14 408 817	25 749 506

In accordance with an amendment to IAS 39 “*Financial Instruments: Recognition and Measurement*” issued in October 2008 the management of the Group has decided to reclassify certain debt securities, which are no longer held for the purpose of selling or repurchasing them in the near term, out of “Financial assets at fair value through profit or loss” into “Investments held to maturity”. The fair value of reclassified debt securities as at 31 July 2008 was RUB 6 816 123 thousand (refer to Note 3 and 11).

Corporate bonds are securities issued by medium and large Russian companies and banks denominated in Russian Roubles.

Russian municipal and regional bonds are interest-bearing securities issued by Russian municipal and regional authorities denominated in Russian Roubles.

Corporate Eurobonds are interest-bearing securities denominated in U.S. Dollars and Euros and issued primarily by large Russian and foreign companies and banks.

Russian Government Federal loan bonds (OFZ) are Russian Rouble denominated government securities issued by the Ministry of Finance of the Russian Federation.

Promissory notes represent debt securities denominated in Russian Roubles and U.S. Dollars issued by Russian banks and companies.

The following table provides details of the Group's debt trading securities as at 31 December 2008:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Corporate bonds	February 2009	June 2018	7.30%	15.00%	6.23%	39.89%
Russian municipal and regional bonds	April 2009	June 2013	8.00%	11.00%	6.75%	33.96%
Corporate Eurobonds	January 2009	January 2011	7.13%	13.50%	9.79%	52.91%
Russian Government Federal bonds (OFZ)	March 2009	February 2036	5.80%	10.00%	6.13%	11.69%
Promissory notes	on demand	October 2010	-	-	0%	35.75%

The following table provides details of the Group's debt trading securities as at 31 December 2007:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Corporate bonds	June 2008	May 2015	7.10%	14.50%	6.72%	14.68%
Russian municipal and regional bonds	April 2008	November 2013	8.00%	13.50%	6.78%	9.00%
Corporate Eurobonds	October 2009	November 2010	8.75%	10.00%	9.83%	11.51%
Russian Government Federal bonds (OFZ)	April 2008	November 2021	5.80%	10.00%	5.70%	8.31%
Promissory notes	January 2008	March 2010	-	-	7.57%	14.54%

The following table presents an analysis by rating agency designation of debt securities, based on Standard and Poor's long-term international ratings scale of the issuer. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported against the lower rating.

	2008	2007
Rated from BBB- to BBB+	6 935 703	14 012 903
Rated from BB- to BB+	612 898	1 289 345
Rated from B- to B+	3 885 479	3 878 948
Rated below B-	40 004	-
Not rated	2 555 883	5 431 413
Total debt securities	14 029 967	24 612 609

Equity instruments represent ordinary and preference shares issued primarily by major Russian companies.

The Group designated equity shares of Centertelecom, that are not part of its trading book, as at fair value through profit or loss. These securities meet the criteria for classification as at fair value through profit or loss because management assesses performance of these investments based on their fair values in accordance with a documented policy.

For information on the Group's spot and derivative financial instruments refer to Note 34.

Maturity, currency and interest rates analyses of financial assets at fair value through profit or loss are disclosed in Notes 32 and 40. The information on related party balances is disclosed in Note 41.

8 Amounts receivable under reverse repurchase agreements

The Group purchases financial instruments under agreements to resell them at future dates (“reverse repurchase agreements”). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchase agreements are entered into as a facility to provide funds to customers. As at 31 December 2008 and 2007, amounts lent to customers were, as follows:

	2008	2007
Amounts receivable from banks and other financial institutions		
Rated from B- to B+	449 255	69 181
Rated below B-	-	137 294
Not rated	3 544 396	45 451
Total amounts receivable from banks and other financial institutions	3 993 651	251 926
Amounts receivable from customers		
Rated below B-	-	90 042
Not rated	580 433	3 020 113
Total amounts receivable from customers	580 433	3 110 155
Total amounts receivable under reverse repurchase agreements	4 574 084	3 362 081

As of 31 December 2008 the Group had several overdue reverse repurchase agreements in the amount of RUB 519 994 thousand. All these agreements were collateralised by debt securities issued by the Group and as such no loss is expected from these overdue amounts.

Maturity, currency and interest rates analyses of amounts receivable under reverse repurchase agreements are disclosed in Notes 32 and 40.

Collateral

As of 31 December 2008 and 2007, amounts receivable under reverse repurchase agreements were collateralised by the following securities:

	Fair value 2008	Fair value 2007
Russian Government Federal bonds (OFZ)	3 846 240	-
Promissory notes issued by Russian banks	771 666	3 396 575
Russian corporate bonds	110 591	-
Russian corporate shares	12 880	-
	4 741 377	3 396 575

9 Loans to customers

	2008	2007
Commercial loans		
Loans to corporate clients not involved in international business	162 986 561	115 770 394
Loans to corporate clients involved in international business	64 234 710	41 910 286
Factoring loans	22 437 118	18 506 699
Loans to small and medium enterprises	18 886 308	8 133 116
Total commercial loans	268 544 697	184 320 495
Loans to individuals		
Consumer loans	27 927 311	15 932 978
Auto loans	14 437 107	9 901 905
Credit cards	3 168 271	459 366
Mortgage loans	2 473 258	1 563 037
Loans to VIP clients	1 199 537	671 941
Express-loans	1 173 008	713 177
Total loans to individuals	50 378 492	29 242 404
Gross loans to customers	318 923 189	213 562 899
Impairment allowance	(18 510 140)	(5 137 563)
Net loans to customers	300 413 049	208 425 336

Movements in the loan impairment allowance for the years ended 31 December 2008 and 2007 were as follows:

	2008	2007
Balance at the beginning of the year	5 137 563	2 480 326
Net charge for the year (Note 28)	13 245 407	2 699 902
Acquisition of subsidiaries	657 566	-
Disposal of subsidiaries	(1 692)	-
Write-offs	(528 704)	(42 665)
Balance at the end of the year	18 510 140	5 137 563

As at 31 December 2008 interest accrued on impaired loans net of impairment allowance amounted to RUB 647 261 thousand (2007: RUB 23 249 thousand).

Non-performing loans comprise loans with principal or/and interest overdue by more than 90 days. As at 31 December 2008 non-performing loans amounted to RUB 8 903 454 thousand (2007: RUB 1 406 098 thousand).

Credit quality of commercial loan portfolio

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2008:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Loans to corporate clients not involved in international business				
Total loans for which no impairment has been identified	145 324 215	(1 763 517)	143 560 698	1.21%
Impaired loans:				
- Restructured	5 284 234	(982 135)	4 302 099	18.59%
- Impaired, but not overdue	5 193 286	(999 966)	4 193 320	19.25%
- Overdue less than 30 days	2 541 304	(845 625)	1 695 679	33.28%
- Overdue 30-89 days	2 623 317	(1 078 313)	1 545 004	41.10%
- Overdue 90-179 days	650 222	(227 574)	422 648	35.00%
- Overdue 180-360 days	902 422	(602 759)	299 663	66.79%
- Overdue more than 360 days	467 561	(403 751)	63 810	86.35%
Total impaired loans	17 662 346	(5 140 123)	12 522 223	29.10%
Total loans to corporate clients not involved in international business	162 986 561	(6 903 640)	156 082 921	4.24%
Loans to corporate clients involved in international business				
Total loans for which no impairment has been identified	62 048 578	(989 346)	61 059 232	1.59%
Impaired loans:				
- Restructured	634 392	(180 990)	453 402	28.53%
- Impaired, but not overdue	337 260	(52 246)	285 014	15.49%
- Overdue less than 30 days	469 489	(113 499)	355 990	24.18%
- Overdue 90-179 days	173 195	(79 109)	94 086	45.68%
- Overdue 180-360 days	334 975	(313 505)	21 470	93.59%
- Overdue more than 360 days	236 821	(189 621)	47 200	80.07%
Total impaired loans	2 186 132	(928 970)	1 257 162	42.49%
Total loans to corporate clients involved in international business	64 234 710	(1 918 316)	62 316 394	2.99%
Factoring loans				
Total loans for which no impairment has been identified	20 146 739	(436 664)	19 710 075	2.17%
Impaired loans:				
- Impaired, but not overdue	576 910	(378 430)	198 480	65.60%
- Overdue less than 30 days	619 412	(401 344)	218 068	64.79%
- Overdue 30-89 days	447 445	(322 124)	125 321	71.99%
- Overdue 90-179 days	327 446	(259 868)	67 578	79.36%
- Overdue 180-360 days	275 231	(259 453)	15 778	94.27%
- Overdue more than 360 days	43 935	(38 122)	5 813	86.77%
Total impaired loans	2 290 379	(1 659 341)	631 038	72.45%
Total factoring loans	22 437 118	(2 096 005)	20 341 113	9.34%
Loans to small and medium enterprises				
Total loans for which no impairment has been identified	16 848 467	(443 465)	16 405 002	2.63%
Impaired loans:				
- Restructured	242 854	(103 488)	139 366	42.61%
- Impaired, but not overdue	225 804	(61 923)	163 881	27.42%
- Overdue less than 30 days	506 580	(233 950)	272 630	46.18%
- Overdue 30-89 days	705 472	(344 591)	360 881	48.85%
- Overdue 90-179 days	98 364	(33 980)	64 384	34.55%
- Overdue 180-360 days	243 664	(148 418)	95 246	60.91%
- Overdue more than 360 days	15 103	(13 399)	1 704	88.72%
Total impaired loans	2 037 841	(939 749)	1 098 092	46.11%
Total loans to small and medium enterprises	18 886 308	(1 383 214)	17 503 094	7.32%
Total commercial loans	268 544 697	(12 301 175)	256 243 522	4.58%

The following table provides information on the credit quality of the commercial loan portfolio as at 31 December 2007:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Loans to corporate clients not involved in international business				
Total loans for which no impairment has been identified	114 618 129	(1 828 433)	112 789 696	1.60%
Impaired loans:				
- Impaired, but not overdue	519 248	(85 651)	433 597	16.50%
- Overdue less than 30 days	363 995	(357 894)	6 101	98.32%
- Overdue 30-89 days	40 010	(40 010)	-	100.00%
- Overdue 90-179 days	135 772	(134 807)	965	99.29%
- Overdue 180-360 days	46 900	(23 436)	23 464	49.97%
- Overdue more than 360 days	46 340	(46 340)	-	100.00%
Total impaired loans	1 152 265	(688 138)	464 127	59.72%
Total loans to corporate clients not involved in international business	115 770 394	(2 516 571)	113 253 823	2.17%
Loans to corporate clients involved in international business				
Total loans for which no impairment has been identified	41 633 187	(533 289)	41 099 898	1.28%
Impaired loans:				
- Restructured	245 189	(245 189)	-	100.00%
- Overdue less than 30 days	31 910	(31 910)	-	100.00%
Total impaired loans	277 099	(277 099)	-	100.00%
Total loans to corporate clients involved in international business	41 910 286	(810 388)	41 099 898	1.93%
Factoring loans				
Total loans for which no impairment has been identified	18 426 889	(231 604)	18 195 285	1.26%
Impaired loans:				
- Overdue less than 30 days	31 047	(31 047)	-	100.00%
- Overdue 30-89 days	11 791	(11 791)	-	100.00%
- Overdue 90-179 days	16 466	(16 466)	-	100.00%
- Overdue 180-360 days	20 506	(20 506)	-	100.00%
Total impaired loans	79 810	(79 810)	-	100.00%
Total factoring loans	18 506 699	(311 414)	18 195 285	1.68%
Loans to small and medium enterprises				
Total loans for which no impairment has been identified	8 105 391	(118 658)	7 986 733	1.46%
Impaired loans:				
- Overdue less than 30 days	27 725	(27 725)	-	100.00%
Total impaired loans	27 725	(27 725)	-	100.00%
Total loans to small and medium enterprises	8 133 116	(146 383)	7 986 733	1.80%
Total commercial loans	184 320 495	(3 784 756)	180 535 739	2.05%

The credit quality of normal loans for which no impairment has been identified is not homogeneous due to the variety of industry risks and financial conditions associated with the borrowers.

The Group has estimated loan impairment for the commercial loan portfolio for which no impairment has been identified based on the past loss experience and factoring in the current economic conditions.

In many cases the Group has estimated loan impairment for the commercial loans for which impairment has been identified based on the discounted cash flows which could be received from sale of different types of collateral. To estimate the realizable value of the collateral (taking into account the costs of sale) the Group has used different discount rates applied to the fair value of collateral as at 31 December 2008: real estate – 20%-30%, automobiles – 50%, equipment – 50%-75%, inventory – 90%.

As at 31 December 2008 50% of impaired loans were secured by property, 15% were secured by equipment and vehicles and 35% were secured by other collateral or were uncollateralised.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment allowance on commercial loans as of 31 December 2008 would be RUB 2 562 435 thousand lower/higher (2007: RUB 1 805 357 thousand).

The portfolio allowance reflects management's estimate of the losses in the portfolio as at 31 December 2008. Deterioration in the Russian economy after period end may give rise to further deterioration in asset quality.

During the year ended 31 December 2008 the Group renegotiated commercial loans that would otherwise be past due or impaired of RUB 6 161 480 thousand (2007: RUB 245 189 thousand). Such restructuring activity is aimed at managing customer relationships and maximising collection opportunities.

Analysis of collateral

There is a special Collateral Department in the Group, which is responsible for managing all types of collateral, accepted by the Group for the commercial loan portfolio. The policies and procedures for valuing and managing collateral comprise two stages.

The first stage is related to decision-making process about granting a loan or acquisition of a financial asset, which are subject to credit risk. At this stage, Collateral Department performs an examination of proposed collateral, which includes preparation of a package of documents related to collateral, physical inspection of collateral, verification of any encumbrances, assessment of fair value of collateral, forecasting of possible changes in the fair value of collateral.

The second stage is related to monitoring and managing of collateral, which has already been accepted by the Group. At this stage the current monitoring of collateral is considered, which includes regular monitoring of the collateral and reassessment of its fair value.

Principal types of collateral accepted by the Group for commercial loans are pledges over real estate, securities, property rights, motor vehicles, equipment, debt claims and inventories or guarantees and sureties.

Impaired commercial loans with a gross value of RUB 12 371 967 thousand are secured by pledge over real estate, automobiles, equipment and inventory with a fair value of RUB 9 555 414 thousand. For the remaining impaired loans of RUB 11 804 731 thousand there is no collateral or it is impracticable to determine fair value of collateral.

During the year ended 31 December 2008 the Group didn't obtain any assets by taking control of collateral accepted as security for commercial loans (2007: nil).

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2008 are as follows:

	Loans to corporate clients not involved in international business	Loans to corporate clients involved in international business	Factoring loans	Loans to small and medium enterprises	Total
Loan impairment allowance as at 1 January	2 516 571	810 388	311 414	146 383	3 784 756
Loan impairment losses during the year	3 863 522	1 107 928	1 775 209	1 210 563	7 957 222
Acquisition of subsidiaries	549 192	-	15 049	31 721	595 962
Disposal of subsidiaries	(1 692)	-	-	-	(1 692)
Loans written off during the year as uncollectible	(23 953)	-	(5 667)	(5 453)	(35 073)
Loan impairment allowance as at 31 December	6 903 640	1 918 316	2 096 005	1 383 214	12 301 175

Movements in the loan impairment allowance by classes of commercial loans for the year ended 31 December 2007 are as follows:

	Loans to corporate clients not involved in international business	Loans to corporate clients involved in international business	Factoring loans	Loans to small and medium enterprises	Total
Loan impairment allowance as at 1 January	1 665 522	359 204	196 407	-	2 221 133
Loan impairment losses during the year	856 279	487 795	115 007	146 383	1 605 464
Loans written off during the year as uncollectible	(5 230)	(36 611)	-	-	(41 841)
Loan impairment allowance as at 31 December	2 516 571	810 388	311 414	146 383	3 784 756

Credit quality of loans to individuals

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2008:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Consumer loans				
- Not past due	22 126 433	(235 129)	21 891 304	1.06%
- Overdue less than 30 days	1 100 225	(271 671)	828 554	24.69%
- Overdue 30-89 days	1 653 425	(785 691)	867 734	47.52%
- Overdue 90-179 days	1 209 955	(782 439)	427 516	64.67%
- Overdue 180-360 days	1 255 842	(1 099 437)	156 405	87.55%
- Overdue more than 360 days	581 431	(581 431)	-	100.00%
Total consumer loans	27 927 311	(3 755 798)	24 171 513	13.45%
Auto loans				
- Not past due	11 258 185	(99 881)	11 158 304	0.89%
- Overdue less than 30 days	758 116	(136 647)	621 469	18.02%
- Overdue 30-89 days	938 213	(344 800)	593 413	36.75%
- Overdue 90-179 days	618 404	(348 818)	269 586	56.41%
- Overdue 180-360 days	634 164	(516 705)	117 459	81.48%
- Overdue more than 360 days	230 025	(230 025)	-	100.00%
Total auto loans	14 437 107	(1 676 876)	12 760 231	11.62%
Credit cards				
- Not past due	2 376 695	(97 006)	2 279 689	4.08%
- Overdue less than 30 days	153 457	(22 754)	130 703	14.83%
- Overdue 30-89 days	287 657	(115 192)	172 465	40.04%
- Overdue 90-179 days	208 851	(100 692)	108 159	48.21%
- Overdue 180-360 days	114 129	(73 508)	40 621	64.41%
- Overdue more than 360 days	27 482	(27 482)	-	100.00%
Total credit cards	3 168 271	(436 634)	2 731 637	13.78%
Mortgage loans				
- Not past due	2 217 635	(203)	2 217 432	0.01%
- Overdue less than 30 days	88 059	(470)	87 589	0.53%
- Overdue 30-89 days	95 169	(6 977)	88 192	7.33%
- Overdue 90-179 days	46 881	(3 859)	43 022	8.23%
- Overdue 180-360 days	22 070	(3 907)	18 163	17.70%
- Overdue more than 360 days	3 444	(3 444)	-	100.00%
Total mortgage loans	2 473 258	(18 860)	2 454 398	0.76%
Loans to VIP clients				
- Not past due	1 158 230	(988)	1 157 242	0.09%
- Overdue less than 30 days	1 224	(70)	1 154	5.72%
- Overdue 30-89 days	7 117	(713)	6 404	10.02%
- Overdue 90-179 days	4 114	(687)	3 427	16.70%
- Overdue 180-360 days	27 739	(5 799)	21 940	20.91%
- Overdue more than 360 days	1 113	(1 113)	-	100.00%
Total loans to VIP clients	1 199 537	(9 370)	1 190 167	0.78%
Express-loans				
- Not past due	735 732	(15 509)	720 223	2.11%
- Overdue less than 30 days	46 177	(12 385)	33 792	26.82%
- Overdue 30-89 days	92 938	(44 203)	48 735	47.56%
- Overdue 90-179 days	99 229	(59 074)	40 155	59.53%
- Overdue 180-360 days	116 567	(97 891)	18 676	83.98%
- Overdue more than 360 days	82 365	(82 365)	-	100.00%
Total express-loans	1 173 008	(311 427)	861 581	26.55%
Total loans to individuals	50 378 492	(6 208 965)	44 169 527	12.32%

The following table provides information on the credit quality of loans to individuals portfolios as at 31 December 2007:

	Gross loans	Impairment allowance	Net loans	Impairment allowance to gross loans
Consumer loans				
- Not past due	14 570 999	(74 290)	14 496 709	0.51%
- Overdue less than 30 days	386 319	(69 891)	316 428	18.09%
- Overdue 30-89 days	301 318	(120 958)	180 360	40.14%
- Overdue 90-179 days	228 227	(149 464)	78 763	65.49%
- Overdue 180-360 days	275 392	(227 898)	47 494	82.75%
- Overdue more than 360 days	170 723	(170 723)	-	100.00%
Total consumer loans	15 932 978	(813 224)	15 119 754	5.10%
Auto loans				
- Not past due	9 212 342	(30 132)	9 182 210	0.33%
- Overdue less than 30 days	241 490	(25 446)	216 044	10.54%
- Overdue 30-89 days	127 533	(46 401)	81 132	36.38%
- Overdue 90-179 days	93 778	(58 407)	35 371	62.28%
- Overdue 180-360 days	149 993	(133 326)	16 667	88.89%
- Overdue more than 360 days	76 769	(76 769)	-	100.00%
Total auto loans	9 901 905	(370 481)	9 531 424	3.74%
Credit cards				
- Not past due	397 647	(210)	397 437	0.05%
- Overdue less than 30 days	42 953	(406)	42 547	0.95%
- Overdue 30-89 days	12 687	(624)	12 063	4.92%
- Overdue 90-179 days	3 486	(805)	2 681	23.09%
- Overdue 180-360 days	625	(389)	236	62.24%
- Overdue more than 360 days	1 968	(1 968)	-	100.00%
Total credit cards	459 366	(4 402)	454 964	0.96%
Mortgage loans				
- Not past due	1 545 521	(207)	1 545 314	0.01%
- Overdue less than 30 days	6 783	(102)	6 681	1.50%
- Overdue 90-179 days	2 988	(665)	2 323	22.26%
- Overdue 180-360 days	3 462	(1 129)	2 333	32.61%
- Overdue more than 360 days	4 283	(4 283)	-	100.00%
Total mortgage loans	1 563 037	(6 386)	1 556 651	0.41%
Loans to VIP clients				
- Not past due	662 916	(30)	662 886	0.00%
- Overdue less than 30 days	2 353	(7)	2 346	0.30%
- Overdue 30-89 days	2 890	(86)	2 804	2.98%
- Overdue 90-179 days	371	(28)	343	7.55%
- Overdue more than 360 days	3 411	(3 411)	-	100.00%
Total loans to VIP clients	671 941	(3 562)	668 379	0.53%
Express-loans				
- Not past due	533 589	(11 679)	521 910	2.19%
- Overdue less than 30 days	26 786	(7 262)	19 524	27.11%
- Overdue 30-89 days	28 164	(17 154)	11 010	60.91%
- Overdue 90-179 days	21 540	(17 074)	4 466	79.27%
- Overdue 180-360 days	30 613	(29 098)	1 515	95.05%
- Overdue more than 360 days	72 485	(72 485)	-	100.00%
Total express-loans	713 177	(154 752)	558 425	21.70%
Total loans to individuals	29 242 404	(1 352 807)	27 889 597	4.63%

The Group estimates loan impairment based on its past historical loss experience on these types of loans. Management estimated losses based on historic loss migration pattern for the past 24 months and adjusted such statistics to reflect the current market environment.

Changes in these estimates could effect the loan impairment allowance. For example, to the extent that the net present value of the estimated cash flows differs by plus/minus one percent, the loan impairment on retail loans as of 31 December 2008 would be RUB 441 695 thousand lower/higher (2007: RUB 278 896 thousand).

Analysis of collateral

Mortgage loans are secured by underlying housing real estate. Auto loans are secured by the underlying car. Certain consumer loans and loans to VIP clients are secured by third parties sureties although the majority of consumer loans and loans to VIP clients are not secured. Credit cards and express loans are not secured.

Management believes that it is impracticable to estimate fair value of collateral held in respect of impaired loans to individuals.

Analysis of movements in the impairment allowance

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2008 are as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Loans to VIP clients	Express- loans	Total
Loan impairment allowance as at 1 January	813 224	370 481	4 402	6 386	3 562	154 752	1 352 807
Loan impairment losses during the year	3 181 485	1 410 597	434 789	12 466	11 423	237 425	5 288 185
Acquisition of subsidiaries	58 706	1 144	-	8	-	1 746	61 604
Loans written off during the year as uncollectible	(297 617)	(105 346)	(2 557)	-	(5 615)	(82 496)	(493 631)
Loan impairment allowance as at 31 December	3 755 798	1 676 876	436 634	18 860	9 370	311 427	6 208 965

Movements in the loan impairment allowance by classes of retail loans for the year ended 31 December 2007 are as follows:

	Consumer loans	Auto loans	Credit cards	Mortgage loans	Loans to VIP clients	Express- loans	Total
Loan impairment allowance as at 1 January	145 343	37 584	3 476	-	6 169	66 621	259 193
Loans written off during the year as uncollectible	(107)	-	(72)	-	-	(645)	(824)
Loan impairment losses during the year	667 988	332 897	998	6 386	(2 607)	88 776	1 094 438
Loan impairment allowance as at 31 December	813 224	370 481	4 402	6 386	3 562	154 752	1 352 807

Industry and geographical analysis of the loan portfolio

Loans to customers are issued to customers operating in the following economic sectors:

	2008		2007	
Loans to individuals	50 378 492	15.80%	29 242 404	13.69%
Commercial loans				
Wholesale trade	42 472 388	13.32%	25 470 936	11.93%
Real estate investment and development	29 727 241	9.32%	14 249 036	6.67%
Food production	21 601 883	6.77%	15 320 075	7.17%
Construction	20 207 312	6.34%	12 388 311	5.80%
Finance, leasing and insurance	15 739 153	4.94%	12 947 476	6.06%
Retail trade	15 597 357	4.89%	18 607 009	8.71%
Agriculture	15 520 858	4.87%	8 769 167	4.11%
Transport	12 838 179	4.03%	4 687 826	2.20%
Services	11 983 575	3.76%	6 135 498	2.87%
Automobile trading and production	10 830 786	3.40%	8 166 192	3.82%
Wood processing	9 975 322	3.13%	4 260 836	2.00%
Metallurgy	8 107 508	2.54%	5 210 184	2.44%
Chemical production	7 730 051	2.42%	7 215 596	3.38%
Energy	7 335 291	2.30%	12 199 872	5.71%
Machinery	6 833 484	2.14%	2 671 979	1.25%
Construction materials	6 274 517	1.97%	4 075 383	1.91%
Information technology	6 002 662	1.88%	3 962 371	1.86%
Telecommunications	3 671 450	1.15%	3 405 470	1.59%
Pharmaceutical	3 372 384	1.06%	2 200 468	1.03%
Media	2 621 801	0.82%	2 300 216	1.08%
Light industry	1 354 512	0.42%	1 996 841	0.94%
Mineral resources	1 048 884	0.33%	1 560 156	0.73%
Aircraft	387 765	0.12%	2 183 803	1.02%
Other	7 310 334	2.28%	4 335 794	2.03%
	318 923 189	100.00%	213 562 899	100.00%
Impairment allowance	(18 510 140)		(5 137 563)	
Total loans to customers	300 413 049		208 425 336	

Loans have been granted to customers in the following geographical areas:

	2008	2007
Russian Federation		
Moscow and Moscow region	159 795 925	103 540 948
Siberia	45 969 296	34 072 142
Central Chernozem and Central region	38 045 721	25 357 330
South region	21 332 058	10 916 130
Volgo-Viatskiy and Volga region	21 027 088	13 145 876
North-Western and North region	20 792 352	17 895 962
Far East	6 234 478	3 740 254
Urals	5 713 839	4 894 257
Customers outside the Russian Federation	12 432	-
	318 923 189	213 562 899
Impairment allowance	(18 510 140)	(5 137 563)
Total loans to customers	300 413 049	208 425 336

In 2008 the Group revised the basis of allocation of individuals to different geographical areas. As at 31 December 2008 the classification is based on geographical area in which the borrower is currently employed rather than geographical area in which the borrower is registered. The presentation of comparative information as at 31 December 2007 has been changed accordingly.

Significant credit exposures

As at 31 December 2008 and 2007 the Group had 8 and 5 borrowers or groups of related borrowers, respectively, whose loan balances exceeded 10% of shareholder's equity. The gross value of exposures as of 31 December 2008 and 2007 were RUB 48 440 626 thousand and RUB 24 289 943 thousand, respectively.

Loan maturities

The maturity of the Group's loan portfolio is presented in Note 32, which shows the remaining period from the reporting date to the contractual maturity of the loans comprising the loan portfolio. Due to the short-term nature of the loans issued by the Group, it is likely that many of the Group's loans to customers will be prolonged on maturity. Accordingly, the effective maturity of the loan portfolio may be significantly longer than the classification indicated based on contractual terms.

Maturity, currency and interest rates analyses of loans to customers are disclosed in Notes 32 and 40. The information on related party balances is disclosed in Note 41.

Net investment in leases

Included within loans to customers as of 31 December 2008 and 2007 are net investment in leases. As of 31 December 2008 and 2007, the gross investment in leases and the related unearned finance income and impairment allowance were as follows:

	2008	2007
Gross investment in leases	1 770 545	1 299 245
Unearned finance income	(599 074)	(351 066)
Net investment in leases	1 171 471	948 179
Impairment allowance	(29 941)	(19 109)
Net investment in leases less impairment allowance	1 141 530	929 070

The contractual maturity of the net investment in leases as of 31 December 2008 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
Less than one year	706 768	(279 454)	(9 692)	417 622
One year to five years	1 063 777	(319 620)	(20 249)	723 908
	1 770 545	(599 074)	(29 941)	1 141 530

The contractual maturity of the net investment in leases as of 31 December 2007 is as follows:

	Gross lease receivable	Unearned income	Impairment allowance	Net investment in leases
Less than one year	622 796	(224 039)	(11 015)	387 742
One year to five years	676 449	(127 027)	(8 094)	541 328
	1 299 245	(351 066)	(19 109)	929 070

10 Investments available for sale

	2008	2007
Corporate shares	158 514	194 645
Other	3 309	3 358
Impairment allowance	(3 109)	(10 891)
Total investments available for sale	158 714	187 112

The unlisted equity instruments are stated at cost less impairment allowance except for investment in shares of a medium-sized regional bank for which the fair value is evaluated using valuation technique. This investment was acquired in November 2007 for RUB 178 810 thousand and a further stake in September 2008 for RUB 59 804 thousand. As at 31 December 2008 the estimated fair value of the investment was RUB 155 313 thousand.

Maturity and currency analyses of investments available for sale are disclosed in Note 32. The information on related party balances is disclosed in Note 41.

Analysis of movements in the impairment allowance

	2008	2007
Balance at the beginning of the year	10 891	10 891
Write-off	(7 782)	-
Balance at the end of the year	3 109	10 891

11 Investments held to maturity

	2008	2007
<i>Debt and other fixed-income instruments</i>		
Russian Government Federal bonds (OFZ)	5 327 720	-
Corporate bonds	3 172 611	-
Corporate Eurobonds	387 710	-
Impairment allowance	(7 990)	-
Total investments held to maturity	8 880 051	-

Reclassifications out of financial assets at fair value through profit or loss

Pursuant to the amendments to IAS 39 and IFRS 7 (described in Note 3), the Group reclassified certain trading securities to investments held to maturity. The Group identified securities eligible under the amendments, for which it had changed its intent such that it no longer held these securities for the purpose of selling in the short term. For those trading securities identified for reclassification, the Group determined that the fundamental change in the securities markets constituted rare circumstances that permit reclassification out of the trading category.

Under IAS 39 as amended, the reclassifications were made with effect from 31 July 2008 at fair value at that date. The table below sets out the quoted securities reclassified and their carrying and fair values:

RUB'000	31 July 2008		31 December 2008	
	Carrying value	Fair value	Carrying value	Fair value
Trading securities reclassified to investments held to maturity	6 816 123	6 816 123	6 892 058	6 353 607

The table below sets out the amounts actually recognised in the income statement during 2008 in respect of trading securities reclassified out of financial assets at fair value through profit or loss:

RUB'000	Profit or loss
Period before reclassification	
Trading securities reclassified to investments held to maturity:	
Net gain on debt securities - trading	38 515
Interest income	133 736
	172 251
Period after reclassification	
Trading securities reclassified to investments held to maturity:	
Interest income	206 180
Impairment losses for investments held to maturity	(7 990)
	198 190

The table below sets out the amounts that would have been recognised in the period following reclassification during 2008 if the reclassifications had not been made:

RUB'000	Profit or loss
Trading securities reclassified to investments held to maturity:	
Net loss on debt securities - trading	(567 163)
Interest income	187 603
	(379 560)

At 31 July 2008 the effective interest rates on trading securities reclassified to investments held to maturity ranged from 6.03% to 15.64% with expected recoverable cash flows of RUB 7 790 357 thousand.

The following table provides details of the Group's debt investments held to maturity as at 31 December 2008:

	Maturity		Coupon rate per annum		Yield to maturity per annum	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Russian Government Federal bonds (OFZ)	January 2010	July 2013	5.80%	10.00%	5.52%	6.82%
Corporate bonds	April 2009	July 2016	7.55%	15.00%	7.78%	27.41%
Corporate Eurobonds	March 2009	July 2011	6.13%	13.75%	9.55%	16.29%

The following table presents an analysis by rating agency designation of debt investments held to maturity, based on Standard and Poor's long-term international ratings scale of the issuer. If major rating agencies have different ratings for the same issuer, the securities of the issuer are reported against the lower rating.

	2008	2007
Rated from BBB- to BBB+	5 647 699	-
Rated from BB- to BB+	274 097	-
Rated from B- to B+	1 453 583	-
Rated below B-	148 432	-
Not rated	1 356 240	-
Total investments held to maturity	8 880 051	-

Maturity, currency and interest rates analyses of investments held to maturity are disclosed in Notes 32 and 40.

12 Other assets

	2008	2007
Advances and prepayments	695 346	616 150
Deferred expenses	367 990	195 683
Value added tax (VAT)	287 696	190 085
Equipment purchased for leases	57 522	105 614
Other	108 986	20 932
Total other assets	1 517 540	1 128 464

Maturity and currency analyses of other assets are disclosed in Note 32. The information on related party balances is disclosed in Note 41.

13 Property and equipment

	Land and Buildings	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
Cost/Revalued amount									
At 1 January 2008	8 159 791	595 564	997 633	187 358	161 078	583 400	6 014	1 622 005	12 312 843
Acquisition of subsidiaries	2 059 403	56 350	140 371	45 207	19 968	-	1 916	270 275	2 593 490
Additions and transfers	2 344 800	386 120	469 308	81 891	97 845	179 460	1 723	6 154 534	9 715 681
Disposals and transfers	(138 844)	(6 739)	(24 132)	(6 214)	(4 965)	(688)	(1 858)	(1 603 761)	(1 787 201)
Elimination of accumulated depreciation of revalued assets	(213 601)	-	-	-	-	-	-	-	(213 601)
Revaluation	539 711	-	-	-	-	-	-	-	539 711
At 31 December 2008	12 751 260	1 031 295	1 583 180	308 242	273 926	762 172	7 795	6 443 053	23 160 923
Depreciation and amortisation									
At 1 January 2008	-	305 088	366 000	63 968	64 515	289 648	1 409	-	1 090 628
Acquisition of subsidiaries	10 390	39 762	69 960	19 699	6 601	-	1 458	-	147 870
Depreciation charge (Note 29)	205 155	182 376	178 720	44 818	25 365	115 654	1 305	-	753 393
Disposals	(1 944)	(6 369)	(13 666)	(5 357)	(2 353)	(166)	(731)	-	(30 586)
Elimination of accumulated depreciation of revalued assets	(213 601)	-	-	-	-	-	-	-	(213 601)
At 31 December 2008	-	520 857	601 014	123 128	94 128	405 136	3 441	-	1 747 704
Carrying value									
at 31 December 2008	12 751 260	510 438	982 166	185 114	179 798	357 036	4 354	6 443 053	21 413 219

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Notes to the consolidated financial statements – year ended 31 December 2008

(expressed in thousands of Russian Roubles – refer to Note 2)

	Land and Buildings	Computers and software	Office equipment	Vehicles	Furniture fixtures and fittings	Leasehold improvements	Other	Construction in progress	Total
Cost/Revalued amount									
At 1 January 2007	2 301 299	393 568	711 679	121 929	125 518	474 321	1 296	320 143	4 449 753
Additions and transfers	3 959 550	205 757	293 765	77 235	37 465	113 350	4 769	1 463 029	6 154 920
Disposals and transfers	-	(3 761)	(7 811)	(11 806)	(1 905)	(4 271)	(51)	(161 167)	(190 772)
Elimination of accumulated depreciation of revalued assets	(119 704)	-	-	-	-	-	-	-	(119 704)
Revaluation	2 018 646	-	-	-	-	-	-	-	2 018 646
At 31 December 2007	8 159 791	595 564	997 633	187 358	161 078	583 400	6 014	1 622 005	12 312 843
Depreciation and amortisation									
At 1 January 2007	32 182	218 356	237 821	47 552	47 384	187 774	765	-	771 834
Depreciation charge (Note 29)	87 522	90 475	135 151	26 217	18 196	102 520	685	-	460 766
Disposals	-	(3 743)	(6 972)	(9 801)	(1 065)	(646)	(41)	-	(22 268)
Elimination of accumulated depreciation of revalued assets	(119 704)	-	-	-	-	-	-	-	(119 704)
At 31 December 2007	-	305 088	366 000	63 968	64 515	289 648	1 409	-	1 090 628
Carrying value at 31 December 2007	8 159 791	290 476	631 633	123 390	96 563	293 752	4 605	1 622 005	11 222 215

During 2008 the Group acquired the investment rights for 23 915 square meters of an office building under construction by a Russian developer. The total amount invested in the construction as at 31 December 2008 was RUB 5 506 180 thousand (USD 208 million at historic foreign exchange rate) and the Group has capital commitments in respect of this construction in the amount of USD 114 million payable in 2009 - 2011.

At 31 December 2008 included in office equipment, computer software and vehicles are assets held under finance leases at carrying amount of RUB 313 297 thousand (2007: RUB 165 590 thousand).

Revalued assets

Buildings were independently valued at 31 December 2008. The valuation was carried out by two independent firms of appraisers, OOO “Centr Expertizi Sobstvennosti” and OOO “Otsenochnaya kompaniya “Nizhegorodsky Capital”, which hold recognised and relevant professional qualifications and which have recent experience in valuation of assets of similar location and category.

The appraisals were performed using the market approach of valuation only which was based upon an analysis of the results of comparable sales of similar buildings.

Included in the above table is RUB 539 711 thousand representing the revaluation surplus relating to these buildings. Positive revaluation of RUB 995 811 thousand was recorded in consolidated equity, and negative revaluation of RUB 456 100 thousand was recognized in the consolidated income statement.

The appraisers apply various adjustment factors to market prices of similar buildings to make them comparable with the Groups’ buildings. These adjustments could effect the value of the buildings. For example, to the extent that adjustments differs by plus/minus three percent, the building valuation as of 31 December 2008 would be RUB 382 538 thousand lower/higher.

The carrying value of buildings as of 31 December 2008, if the buildings would not have been revalued, would be RUB 9 220 870 thousand (2007: RUB 5 035 997 thousand).

14 Financial liabilities at fair value through profit or loss

	2008	2007
Spot and derivative financial instruments	614 859	156 148
Total financial liabilities at fair value through profit or loss	614 859	156 148

For information on the Group’s spot and derivative financial instruments refer to Note 34.

Maturity and currency analyses of financial liabilities at fair value through profit or loss are disclosed in Note 32.

15 Deposits and balances from banks and other financial institutions

	2008	2007
Term deposits from the Central Bank of the RF	51 527 551	-
Trade finance from foreign banks	26 545 890	24 581 034
Long-term finance from foreign banks	16 346 508	9 005 068
Term deposits from foreign banks	10 167 919	9 139 984
Vostro accounts	5 841 481	4 001 680
Term deposits from local banks	846 008	3 940 138
Total deposits and balances from banks and other financial institutions	111 275 357	50 667 904

Trade finance and long-term finance from foreign banks represent funds received by the Group to be used in documentary credit transactions. Trade finance is used for financing working capital of clients of the Group through documentary letters of credit. Long-term finance is used for financing of targeted assets of clients of the Group through documentary letters of credit.

Maturity, currency and interest rates analyses of deposits and balances from banks and other financial institutions are disclosed in Notes 32 and 40. The information on related party balances is disclosed in Note 41.

Concentration of deposits and balances from banks and other financial institutions

As of 31 December 2008 and 2007, the ten largest aggregate balances of deposits and balances from banks and other financial institutions (except for term deposits from the Central Bank of the RF) amounted to RUB 25 254 376 thousand or 42.3% of total deposits and balances from banks and other financial institutions excluding term deposits from the Central Bank of the RF (2007: RUB 18 480 153 thousand or 36.5% of deposits and balances from banks and other financial institutions).

16 Amounts payable under repurchase agreements

	2008	2007
Amounts payable to banks and other financial institutions	855 837	807 654
Amounts payable to customers	-	1 367 458
Total amounts payable under repurchase agreements	855 837	2 175 112

Maturity, currency and interest rates analyses of amounts payable under repurchase agreements are disclosed in Notes 32 and 40. The information on related party balances is disclosed in Note 41.

Securities pledged

As at 31 December 2008 and 2007, the Group had pledged certain securities as collateral under repurchase agreements (refer to Note 7).

17 Current accounts and deposits from customers

	2008	2007
Current accounts and demand deposits		
- Corporate	59 566 765	53 018 663
- Retail	8 304 238	6 992 441
Term deposits		
- Corporate	95 987 911	48 594 964
- Retail	45 086 652	28 373 889
- State and local authorities	20 665 392	4 021 006
Total current accounts and deposits from customers	229 610 958	141 000 963

Maturity, currency and interest rates analyses of current accounts and deposits from customers are disclosed in Notes 32 and 40. The information on related party balances is disclosed in Note 41.

Blocked accounts

As at 31 December 2008, the Group maintained customer deposit balances of RUB 1 530 911 thousand (2007: RUB 1 146 376 thousand) which were blocked by the Group as collateral for loans and off-balance sheet credit instruments granted by the Group.

Concentrations of current accounts and deposits from customers

As at 31 December 2008 the ten largest aggregate balances of current account and deposits from customers amounted to RUB 87 979 495 thousand or 38.3% of total current accounts and deposits from customers (2007: RUB 30 390 334 thousand or 21.6% of total current accounts and deposits from customers).

Funds were attracted from the customers operating in the following economic sectors:

	2008		2007	
	Amount	%	Amount	%
Retail	53 390 890	23.25%	35 366 330	25.08%
Corporate				
Finance and investment	40 462 509	17.62%	36 187 612	25.67%
Energy and mineral resources	32 065 542	13.97%	4 504 792	3.19%
Trade and commerce	24 474 567	10.66%	20 730 096	14.71%
State and local authorities	20 665 392	9.00%	4 021 006	2.85%
Public organisations	13 876 001	6.04%	108 557	0.08%
Media and telecommunications	12 037 492	5.24%	5 392 138	3.82%
Development and construction	9 443 967	4.11%	10 987 921	7.79%
Manufacturing	6 741 460	2.94%	6 661 781	4.72%
Transport and other services	6 691 556	2.91%	3 720 403	2.64%
IT and science	4 570 000	1.99%	5 385 976	3.82%
Food production and agriculture	1 003 841	0.44%	1 109 576	0.79%
Other	4 187 741	1.83%	6 824 775	4.84%
Total current accounts and deposits from customers	229 610 958	100.00%	141 000 963	100.00%

18 Own securities issued

	2008	2007
Promissory notes	11 676 688	21 827 658
Loan participation notes	26 843 411	17 891 463
Domestic bonds	9 541 000	4 528 624
Certificates of deposit	261 228	790 911
Total own securities issued	48 322 327	45 038 656

The Group issued promissory notes at a discount to nominal value and interest bearing promissory notes denominated in Russian Roubles, US dollars and Euro with effective interest rates from 1.46% p.a. to 25.4% p.a. and the maturity dates from January 2008 to January 2013.

Loan participation notes comprise notes issued through Promsvyaz Finance PLC and PSB Finance S.A. (refer to Note 2).

The table below provides a summary of all loan participation notes issued by the Group:

Special purpose entity used for issue	Principal amount		Issue date	Maturity date	Coupon rate	Commentary	2008	2007
	2008	2007					2008	2007
PSB Finance S.A.	USD 225 mln	USD 225 mln	October 2007 and March 2007	October 2011	8.75%	Non-subordinated	6 696 386	5 580 116
Promsvyaz Finance PLC	USD 200 mln	USD 200 mln	October 2005 and August 2007	October 2010	8.75%	Non-subordinated	5 952 241	4 939 270
PSB Finance S.A.	USD 200 mln	USD 200 mln	and October 2007	May 2012	9.625%	Subordinated	5 879 203	4 887 847
PSB Finance S.A.	USD 150 mln	-	July 2008	July 2013	10.75%	Non-subordinated	4 590 498	-
PSB Finance S.A.	USD 100 mln	USD 100 mln	July 2007	January 2018	12.50%	Subordinated	3 074 684	2 484 230
PSB Finance S.A.	EUR 15 mln	-	July 2008	April 2009	9.625%	Non-subordinated	650 399	-
Total loan participation notes							26 843 411	17 891 463

The table below provides a summary of domestic bonds issued by the Group:

Principal amount	Issue date	Maturity date	Current coupon rate	2008	2007
5 000 000	June 2008	June 2013	9.50%	5 008 594	-
4 500 000	May 2007	May 2012	7.99%	4 532 406	4 528 624
Total domestic bonds				9 541 000	4 528 624

Maturity, currency and interest rates analyses of own securities issued are disclosed in Notes 32 and 40. The information on related party balances is disclosed in Note 41.

19 Other borrowed funds

	2008	2007
Syndicated loans	22 196 034	20 246 816
Subordinated loans	3 639 712	2 275 923
Other borrowed funds	1 814 228	1 776 369
Total other borrowed funds	27 649 974	24 299 108

In May 2008 the Group received a syndicated loan amounting to USD 175 000 thousand from a group of banks from Europe and the United States of America. The loan matures in April 2009 and bears an interest rate of LIBOR plus 1% per annum.

In August 2008 the Group received a syndicated loan amounting to USD 280 000 thousand from a group of banks from Europe and the United States of America. The loan matures in August 2009 and bears an interest rate of LIBOR plus 1.2% per annum.

In September 2008 the Group received a subordinated deposit from the parent company, Promsvyaz Capital B.V., in the amount USD 40 000 thousand which matures in September 2018. This subordinated deposit bears interest at 13.75% per annum.

In April 2008 the Group repaid the first tranche of loan agreement with EBRD, received in October 2005 for development of small and medium size enterprises segment amounting to USD 1 429 thousand.

In May 2008 the Group repaid a syndicated loan amounting to USD 125 000 thousand, received in June 2007 from a group of international banks.

In June 2008 the Group repaid the first tranche of a loan agreement with National City Bank, received in June 2007 for development of the retail segment amounting to USD 3 125 thousand.

In July 2008 the Group repaid the first tranche of a syndicated loan amounting to USD 200 000 thousand received in July 2007 from a group of international banks.

In December 2008 the Group repaid the second tranche of a syndicated loan amounting to USD 200 000 thousand received in July 2007 from a group of international banks.

Maturity, currency and interest rates analyses of other borrowed funds are disclosed in Notes 32 and 40.

20 Other liabilities

	2008	2007
Financial guarantee liabilities	710 254	301 352
Deferred subsidiary purchase consideration (refer to Note 43)	640 231	-
Employee compensation payable	484 001	266 865
Taxes payable	377 952	99 982
Payables and advances received	177 344	189 425
Obligations under option agreements (refer to Note 2)	86 895	60
Payables on factoring deals	74 283	67 796
Liability to purchase leasing equipment	20 422	42 830
Other	101 597	25 180
Total other liabilities	2 672 979	993 490

Maturity and currency analyses of other liabilities are disclosed in Note 32. The information on related party balances is disclosed in Note 41.

21 Deferred tax liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets and liabilities as of 31 December 2008 and 2007.

These deductible temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

	Assets		Liabilities		Provision on deferred tax assets	Net	
	2008	2007	2008	2007	2008	2008	2007
Placements with banks and other financial institutions	-	-	-	(1 378)	-	-	(1 378)
Financial assets at fair value through profit or loss	204 577	208 890	-	(24 053)	(9 180)	195 397	184 837
Amounts receivable under reverse repurchase agreements	-	-	(927)	(1 029)	-	(927)	(1 029)
Loans to customers	293 061	166 273	(325 126)	(522 307)	-	(32 065)	(356 034)
Investments available for sale	17 251	2 614	-	(1 901)	-	17 251	713
Investments held to maturity	-	-	(38 228)	-	-	(38 228)	-
Other assets	67 638	68 805	(686)	-	-	66 952	68 805
Property and equipment	-	-	(1 074 475)	(1 086 093)	-	(1 074 475)	(1 086 093)
Financial liabilities at fair value through profit or loss	-	-	(23 918)	(34 328)	-	(23 918)	(34 328)
Deposits and balances from banks and other financial institutions	-	-	(11 687)	(28 650)	-	(11 687)	(28 650)
Amounts payable under repurchase agreements	556	582	-	-	-	556	582
Own securities issued	-	-	(37 975)	(46 549)	-	(37 975)	(46 549)
Other borrowed funds	-	-	(36 358)	(29 971)	-	(36 358)	(29 971)
Other liabilities	199 326	136 063	-	-	-	199 326	136 063
Net tax liability	782 409	583 227	(1 549 380)	(1 776 259)	(9 180)	(776 151)	(1 193 032)

During November 2008 the Government of the Russian Federation announced that the income tax rate will change from 24% to 20% effective 1 January 2009. Accordingly as at 31 December 2008 the rate of tax applicable for deferred taxes was 20%.

Movement in temporary differences during the year ended 31 December 2008:

	Balance as at 1 January 2008	Recognised in income	Recognised in equity	Changes in income tax rates in income	Changes in income tax rates in equity	Acquisition of subsidiaries	Balance as at 31 December 2008
Placements with banks and other financial institutions	(1 378)	1 378	-	-	-	-	-
Financial assets at fair value through profit or loss	184 837	51 454	-	(40 912)	-	18	195 397
Amounts receivable under reverse repurchase agreements	(1 029)	(83)	-	185	-	-	(927)
Loans to customers	(356 034)	285 040	-	17 214	-	21 715	(32 065)
Investments available for sale	713	(4)	16 660	(118)	-	-	17 251
Investments held to maturity	-	(45 874)	-	7 646	-	-	(38 228)
Other assets	68 805	12 361	-	(13 528)	-	(686)	66 952
Property and equipment	(1 086 093)	280 879	(174 882)	32 163	120 048	(246 590)	(1 074 475)
Financial liabilities at fair value through profit or loss	(34 328)	5 626	-	4 784	-	-	(23 918)
Deposits and balances from banks and other financial institutions	(28 650)	14 626	-	2 337	-	-	(11 687)
Amounts payable under repurchase agreements	582	85	-	(111)	-	-	556
Own securities issued	(46 549)	979	-	7 595	-	-	(37 975)
Other borrowed funds	(29 971)	(13 659)	-	7 272	-	-	(36 358)
Other liabilities	136 063	103 129	-	(39 866)	-	-	199 326
	(1 193 032)	695 937	(158 222)	(15 339)	120 048	(225 543)	(776 151)

Movement in temporary differences during the year ended 31 December 2007:

	Balance as at 1 January 2007	Recognised in income	Recognised in equity	Balance as at 31 December 2007
Obligatory reserves with central banks	(1 467)	1 467	-	-
Placements with banks and other financial institutions	(4 694)	3 316	-	(1 378)
Financial assets at fair value through profit or loss	(55 977)	240 814	-	184 837
Amounts receivable under reverse repurchase agreements	(128)	(901)	-	(1 029)
Loans to customers	(539 994)	183 960	-	(356 034)
Investments available for sale	713	-	-	713
Other assets	20 574	48 231	-	68 805
Property and equipment	(351 549)	(252 095)	(482 449)	(1 086 093)
Financial liabilities at fair value through profit or loss	6 638	(40 966)	-	(34 328)
Deposits and balances from banks and other financial institutions	18 407	(47 057)	-	(28 650)
Amounts payable under repurchase agreements	7	575	-	582
Own securities issued	(52 813)	6 264	-	(46 549)
Other borrowed funds	(14 992)	(14 979)	-	(29 971)
Other liabilities	75 631	60 432	-	136 063
	(899 644)	189 061	(482 449)	(1 193 032)

22 Share capital

Issued capital

	Number of ordinary shares	Nominal amount	Nominal value	Inflation adjusted amount
Balance as at 1 January 2008	128 015	50	6 400 750	7 468 794
Issued during the year	51 875	50	2 593 750	2 593 750
Balance as at 31 December 2008	179 890		8 994 500	10 062 544

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank's shareholders.

In April the Bank increased its share capital by RUB 4 300 000 thousand through issue of 26 875 additional shares with a par value of RUB 50 thousand per share, which were sold at RUB 160 thousand per share. The additional share issue was placed through a private offering with the existing shareholders, on a pro-rata basis.

In December 2008 the Bank increased its share capital by RUB 4 000 000 thousand through issue of 25 000 additional shares with a par value of RUB 50 thousand per share, which were sold at RUB 160 thousand per share. The additional share issue was placed through a private offering with the existing shareholders, on a pro-rata basis. This additional share issue was partly financed by transfer to share capital of a RUB 1 930 000 thousand subordinated deposit placed earlier by the Bank shareholders.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Bank, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, reserves available for distribution amount to RUB 8 178 280 thousand (2007: RUB 8 267 415 thousand).

No dividends were declared or paid during the years ended 31 December 2008 and 2007.

23 Net interest income

	2008	2007
Interest income		
Loans to customers	39 557 566	21 164 864
Financial assets at fair value through profit or loss	1 440 239	1 470 225
Placements with banks and other financial institutions and cash and cash equivalents	870 826	684 070
Reverse repurchase agreements	619 655	372 620
Investments held to maturity	293 702	-
Total interest income	42 781 988	23 691 779
Interest expense		
Current accounts and deposits from customers	9 733 398	4 586 872
Deposits and balances from banks and other financial institutions	5 227 360	2 567 552
Own securities issued	3 986 969	2 557 627
Other borrowed funds	1 706 243	1 626 980
Repurchase agreements	158 250	219 775
Total interest expense	20 812 220	11 558 806
Net interest income	21 969 768	12 132 973

24 Fee and commission income

	2008	2007
Commission on documentary operations	1 331 953	566 987
Money transfer fees	1 080 417	559 398
Commission for servicing plastic cards	945 511	468 918
Commission on foreign currency operations	674 521	328 354
Commission for operations with cash	651 601	505 502
Commission on banknote operations	337 312	225 905
Commission on undrawn loan commitments	215 758	23 991
Investment banking fees	211 975	49 640
Agent fees	113 385	72 244
Cash collection fees	82 875	49 430
Securities trading fees	63 512	79 431
Other	71 326	29 304
Total fee and commission income	5 780 146	2 959 104

25 Fee and commission expense

	2008	2007
Commission on documentary operations	259 449	112 747
Commission for servicing plastic cards	248 488	141 571
Money transfer fees	233 445	137 375
Cash collection fees	102 898	66 193
Agent fees	75 086	23 323
Commission on banknote operations	72 642	65 269
Securities trading fees	32 187	23 470
Other	31 614	16 085
Total fee and commission expense	1 055 809	586 033

26 Net loss on financial instruments at fair value through profit or loss

	2008	2007
Net loss on debt securities - trading	(1 481 344)	(53 665)
Net loss on equity securities - trading	(39 413)	(87 426)
Net (loss)/gain on equity instruments - designated upon initial recognition as at fair value through profit or loss	(141 301)	17 180
Net loss on interest rate swaps	(180 782)	-
Net loss on financial instruments at fair value through profit or loss	(1 842 840)	(123 911)

Net loss on debt securities for the year ended 31 December 2008 includes net gain on non-listed debt instruments in the amount of RUB 425 249 thousand (2007: RUB 475 580 thousand) and net loss on listed debt instruments in the amount of RUB 1 906 593 thousand (2007: RUB 529 245 thousand). Interest income on debt instruments is included in interest income on financial assets at fair value through profit or loss (refer to Note 23).

27 Other income

	2008	2007
Fines and penalties received	485 659	152 288
Income on earlier repayment of deposits and debt securities issued	177 098	33 280
Income on sale of property	20 791	11 729
Dividend income	3 181	10 698
Other	134 174	111 339
Total other income	820 903	319 334

28 Impairment losses

	2008	2007
Impairment losses for loans to customers (Note 9)	13 245 407	2 699 902
Charge for/(reversal of) impairment losses for credit related commitments	12 764	(113 014)
Impairment losses for investments held to maturity (Note 11)	7 990	-
Total impairment losses	13 266 161	2 586 888

29 General and administrative expenses

	2008	2007
Administrative expenses		
Employee compensation	6 512 920	4 367 719
Occupancy	769 425	426 763
Depreciation (Note 13)	753 393	460 766
Taxes other than income tax	732 615	461 917
Advertising and marketing	710 459	298 689
Communications and information services	563 744	303 472
Business development	534 606	394 065
Insurance	401 586	254 749
Security	262 768	208 693
Repairs and maintenance	215 468	83 251
Transportation	206 119	156 996
Professional services	114 952	99 849
Other	174 803	106 555
Total administrative expenses	11 952 858	7 623 484
General expenses		
Charity and sponsorship	229 513	246 388
Contributions under obligatory deposit insurance	202 484	140 202
Total general expenses	431 997	386 590

Charity and sponsorship expenses include grants to the Russian Society of Invalids, hospices, hospitals, culture institutions and to the Russian Orthodox Church.

30 Income tax expense

	2008	2007
Current tax expense		
Current year	1 261 247	1 504 492
Deferred tax expense		
Origination and reversal of temporary differences (Note 21)	(680 598)	(189 061)
Total income tax expense	580 649	1 315 431

The Bank's applicable tax rate for current tax is 24% (2007: 24%). Starting from 1 January, 2009 the Government of the Russian Federation changed the income tax rate from 24% to 20%. Accordingly as at 31 December 2008 the rate of tax applicable for deferred taxes was 20% (2007: 24%).

Reconciliation of effective tax rate:

	2008	%	2007	%
Profit before tax	2 142 304		5 019 954	
Theoretical income tax charge at the statutory rate	514 153	24%	1 204 789	24%
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Non deductible expenses including charity expenses	133 967	6%	127 027	2%
- Income on government securities taxed at different rates	(70 453)	(3%)	(76 048)	(1%)
- Loss received in tax free jurisdictions	13 579	1%	35 570	1%
- Effect of income earned by the branch in Cyprus	73 529	3%	24 093	0%
- Effect on acquisition of subsidiaries	(109 590)	(5%)	-	0%
- Provision on deferred tax asset	10 125	0%	-	0%
- Effect of change in income tax rates	15 339	1%	-	0%
Income tax expense	580 649	27%	1 315 431	26%

31 Analysis by segment

The Group's primary format for reporting segment information is by business segments. As the majority of operations, credit related commitments, capital expenditure, and revenues of the Group relates to residents of the Russian Federation, the Group does not have a secondary format for reporting segment information by geographical segments. Information on the geographical concentration of assets and liabilities is disclosed at the end of this note.

In 2008 the Group changed the composition of its reportable business segments due to introduction of small and medium size enterprises as a separate segment. The Group has revised the corresponding items of segment breakdown of assets and liabilities as at 31 December 2007 and income and expenses for the year ended 31 December 2007, to reflect the changes made in 2008.

As of 31 December 2008 the Group is organised into four main business segments:

- Corporate banking – includes corporate banking operations which consist of deposit taking and commercial lending, factoring, leasing operations, settlements and cash operations. Corporate banking services also include trade and project finance.
- Retail banking – includes deposit taking and retail lending, money transfer and banking card services, foreign exchange and cash operations with individuals.
- Investment banking and financial markets – includes corporate finance, debt and equity capital markets, brokerage, repo transactions and securities trading, foreign exchange, precious metals and banknote operations.
- Small and medium size enterprises - includes commercial lending to small and medium size enterprises, as well as deposit taking.

Segment breakdown of assets and liabilities of the Group is set out below:

	2008	2007
Assets		
Corporate banking	247 110 933	179 377 620
Investment banking and financial markets	123 719 836	61 701 117
Retail banking	49 266 916	31 617 993
Small and medium size enterprises	17 646 110	8 080 742
Unallocated assets	24 057 233	12 467 927
Total assets	461 801 028	293 245 399
Liabilities		
Corporate banking	204 988 219	144 573 376
Investment banking and financial markets	157 735 274	82 255 222
Retail banking	53 404 190	35 373 195
Small and medium size enterprises	3 194 650	1 573 316
Unallocated liabilities	2 504 111	1 788 041
Total liabilities	421 826 444	265 563 150

Segment information for the reportable business segments of the Group for the year ended 31 December 2008 is set out below:

	Corporate banking	Retail banking	Investment banking and financial markets	Small and medium size enterprises	Unallo- cated	Total
External revenue	32 958 392	9 840 050	6 470 153	2 522 720	190 916	51 982 231
Net revenue from other segments	(5 849 670)	(373 058)	7 644 563	(1 421 835)	-	-
Revenue	27 108 722	9 466 992	14 114 716	1 100 885	190 916	51 982 231
Impairment losses	(6 759 423)	(5 288 185)	(7 990)	(1 210 563)	-	(13 266 161)
Interest expense	(9 361 709)	(3 242 570)	(8 189 005)	(18 936)	-	(20 812 220)
Fee and commission expense	(533 542)	(346 574)	(174 779)	-	(914)	(1 055 809)
Net loss on financial instruments at fair value through profit or loss	-	-	(1 842 840)	-	-	(1 842 840)
Net loss on sale of subsidiaries	-	-	(21 942)	-	-	(21 942)
Loss on revaluation of fixed assets	-	-	-	-	(456 100)	(456 100)
General and administrative expenses	(6 081 986)	(2 826 273)	(1 077 313)	(913 275)	(1 486 008)	(12 384 855)
Segment result	4 372 062	(2 236 610)	2 800 847	(1 041 889)	(1 752 106)	2 142 304
Income tax expense						(580 649)
Profit for the year						1 561 655
Other segment items						
Additions of property and equipment					8 111 920	8 111 920
Depreciation					753 393	753 393

Interest expense has been allocated on the basis of the amount of liabilities employed by each segment. Net revenue from other segments represents income and expense from lending and borrowing between segments, charged at internal interest rates set by the Group's Asset and Liability Committee. No costs have been charged to segments for the use of shareholders' equity.

The Group allocates the shareholders' equity between segments based on risk-weighted assets employed by each segment.

Segment information for the reportable business segments of the Group for the year ended 31 December 2007 is set out below:

	<u>Corporate banking</u>	<u>Retail banking</u>	<u>Investment banking and financial markets</u>	<u>Small and medium size enterprises</u>	<u>Unallocated</u>	<u>Total</u>
External revenue	19 181 177	4 532 572	3 832 755	219 178	119 984	27 885 666
Net revenue from other segments	<u>(4 316 667)</u>	<u>627 562</u>	<u>3 685 977</u>	<u>3 128</u>	<u>-</u>	<u>-</u>
Revenue	14 864 510	5 160 134	7 518 732	222 306	119 984	27 885 666
Impairment losses	(1 332 744)	(1 107 761)	-	(146 383)	-	(2 586 888)
Interest expense	(4 114 209)	(2 154 997)	(5 289 600)	-	-	(11 558 806)
Fee and commission expense	(289 945)	(195 597)	(100 491)	-	-	(586 033)
Net loss on financial instruments at fair value through profit or loss	-	-	(123 911)	-	-	(123 911)
General and administrative expenses	<u>(4 743 698)</u>	<u>(1 456 956)</u>	<u>(817 622)</u>	<u>(69 115)</u>	<u>(922 683)</u>	<u>(8 010 074)</u>
Segment result	4 383 914	244 823	1 187 108	6 808	(802 699)	5 019 954
Income tax expense						<u>(1 315 431)</u>
Profit for the year						<u>3 704 523</u>
Other segment items						
Additions of property and equipment					5 993 753	5 993 753
Depreciation					460 766	460 766

The geographical concentration of assets and liabilities as of 31 December 2008 was as follows:

	Russian Federation	Non-OECD countries	OECD countries	Total
Assets				
Cash and cash equivalents	94 286 238	76 492	11 360 480	105 723 210
Obligatory reserves with central banks	516 292	476 218	-	992 510
Placements with banks and other financial institutions	2 035 409	390 701	742	2 426 852
Financial assets at fair value through profit or loss	14 246 874	99 955	61 988	14 408 817
Amounts receivable under reverse repurchase agreements	4 531 033	43 051	-	4 574 084
Loans to customers	300 402 140	10 909	-	300 413 049
Investments available for sale	155 840	-	2 874	158 714
Investments held to maturity	8 880 051	-	-	8 880 051
Current income tax prepayments	1 292 982	-	-	1 292 982
Other assets	1 517 540	-	-	1 517 540
Property and equipment	21 413 219	-	-	21 413 219
Total assets	449 277 618	1 097 326	11 426 084	461 801 028
Liabilities				
Financial liabilities at fair value through profit or loss	199 334	74 689	340 836	614 859
Deposits and balances from banks and other financial institutions	55 037 875	6 627 775	49 609 707	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	855 837
Current accounts and deposits from customers	200 997 265	7 686 014	20 927 679	229 610 958
Own securities issued	24 525 141	6 730 944	17 066 242	48 322 327
Other borrowed funds	1 106 074	583 142	25 960 758	27 649 974
Other liabilities	2 672 979	-	-	2 672 979
Current income tax payable	11 992	36 010	-	48 002
Deferred tax liability	776 151	-	-	776 151
Total liabilities	286 182 648	21 738 574	113 905 222	421 826 444
Net position as at 31 December 2008	163 094 970	(20 641 248)	(102 479 138)	39 974 584

Assets and liabilities have been classified depending on the country in which the Group's counterparties are located. Balances with off-shore companies of Russian counterparties are allocated to the caption Russian Federation. Cash and property and equipment have been allocated based on the country in which they are physically held. Own securities issued have been allocated based on the country of the first holder.

The geographical concentration of assets and liabilities as of 31 December 2007 was as follows:

	Russian Federation	Non-OECD countries	OECD countries	Total
Assets				
Cash and cash equivalents	22 150 426	980 598	14 957 319	38 088 343
Obligatory reserves with central banks	2 807 928	511 970	-	3 319 898
Placements with banks and other financial institutions	515 705	941 282	61 664	1 518 651
Financial assets at fair value through profit or loss	25 488 687	15 148	245 671	25 749 506
Amounts receivable under reverse repurchase agreements	3 362 081	-	-	3 362 081
Loans to customers	208 392 002	-	33 334	208 425 336
Investments available for sale	184 620	-	2 492	187 112
Current income tax prepayments	242 368	1 425	-	243 793
Other assets	1 128 464	-	-	1 128 464
Property and equipment	11 222 215	-	-	11 222 215
Total assets	275 494 496	2 450 423	15 300 480	293 245 399
Liabilities				
Financial liabilities at fair value through profit or loss	96 509	10 324	49 315	156 148
Deposits and balances from banks and other financial institutions	4 617 504	7 789 139	38 261 261	50 667 904
Amounts payable under repurchase agreements	2 175 112	-	-	2 175 112
Current accounts and deposits from customers	127 355 363	841 259	12 804 341	141 000 963
Own securities issued	28 065 694	4 680 101	12 292 861	45 038 656
Other borrowed funds	1 410 328	907 292	21 981 488	24 299 108
Other liabilities	993 490	-	-	993 490
Current income tax payable	38 737	-	-	38 737
Deferred tax liability	1 193 032	-	-	1 193 032
Total liabilities	165 945 769	14 228 115	85 389 266	265 563 150
Net position as at 31 December 2007	109 548 727	(11 777 692)	(70 088 786)	27 682 249

Assets and liabilities have been classified depending on the country in which the Group's counterparties are located. Balances with off-shore companies of Russian counterparties are allocated to the caption Russian Federation. Cash and property and equipment have been allocated based on the country in which they are physically held. Own securities issued have been allocated based on the country of the first holder.

32 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group are those related to credit risk (including country and counterparty risk), market risk, which includes price, interest rate and currency risks, and liquidity risk.

The year 2008 passed with uncertainty and turbulence on currency, equity, debt, commodities and other markets. The significant uncertainty in development of global markets and the world economy affected the Russian economy and lead to stress situations in many areas. The consequence is a strengthening of the risk management role in business processes.

The risk management department of the Group together with other departments quickly reacted to the changing environment in Russia and took measures to maintain acceptable levels of risk and to minimize possible losses.

Besides this the Group continues to implement the best practices in respect of culture and principles of risk management and recommendations of Basel Committee. In response to the global crisis and market situation the Group preformed a revision of current methodological approaches and developed a number of new risk policies and improved current processes.

Risk management policies and procedures

The Group's risk management policies aim to identify, analyze and manage the risks faced by the Group, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Council of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board of the Group is responsible for monitoring and implementation of risk mitigation measures and making sure that the Group operates within the established risk parameters. The Head of the Risk Management Department of the Bank is responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Vice-President of the Bank, responsible for "Finance and Risk Management" area, and indirectly to the Council.

Credit, market and liquidity risks both at portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee. In order to facilitate efficient decision-making, the Group has established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the Group's organizational structure. Particular attention is given to developing risk maps that are used to identify the full range of risk factors and serve as a basis for determining the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that movements in market prices, including foreign exchange rates, interest rates, credit spreads and equity prices will affect the Group's income or the value of its portfolios. Market risks comprise currency risk, interest rate risk and price risk. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the Asset and Liability Committee (ALCO), chaired by the President of Bank. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department's Market Risk Management Division.

The Group manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions and stop-loss limits which are monitored on a regular basis and reviewed and approved by the Management Board.

In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Group's overall position. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Group include: risk factor stress testing, where stress movements are applied to each risk category and ad hoc stress testing, which includes applying possible stress events to specific positions.

The management of interest rate risk for the Banking Book by monitoring interest rate gaps is supplemented by monitoring the sensitivity of the Group's net interest margin to various standard and non-standard interest rate scenarios.

The Group also utilizes VaR (Value-at-Risk) methodology to monitor market risk of its trading positions in stable market conditions. In crisis market conditions the Group utilizes stress-testing analysis.

Interest rate risk

Interest rate risk is the risk that movements in interest rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements arise.

Interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period.

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities for which interest rates are reset as market rates change. The Risk Management Department monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

Interest rate repricing risk

An analysis of sensitivity of the Group's net income for the year and equity to interest rate repricing risk based on a simplified scenario of a 100 basis points (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities (except for current accounts and demand deposits which are considered to have negligible and stable interest rates) existing as at 31 December 2008 and 2007 is as follows:

	2008	2007
100 bp parallel fall	311 248	(97 143)
100 bp parallel rise	(324 248)	116 790

Fair value interest rate risk

An analysis of sensitivity of the net income for the year and equity as a result of changes in fair value of debt securities due to changes in the interest rates (also named Present value basis point ("PVBP")) based on positions existing as at 31 December 2008 and 2007 and a simplified scenario of a 100 bp rise in all yield curves is as follows:

	2008	2007
100 bp parallel rise	(125 840)	(307 600)

Promsvyazbank
Notes to the consolidated financial statements – year ended 31 December 2008
(expressed in thousands of Russian Roubles – refer to Note 2)

The table below summarizes the Group's exposure to interest rate risk, as at 31 December 2008. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Overdue	Non interest bearing	Total
Assets								
Cash and cash equivalents	40 151 738	-	-	-	-	-	65 571 472	105 723 210
Obligatory reserves with central banks	476 218	-	-	-	-	-	516 292	992 510
Placements with banks and other financial institutions	84 532	2 146 211	195 367	742	-	-	-	2 426 852
Financial assets at fair value through profit or loss	1 072 387	1 403 708	5 813 286	5 640 158	100 428	-	378 850	14 408 817
Amounts receivable under reverse repurchase agreements	4 054 090	-	-	-	-	519 994	-	4 574 084
Loans to customers	31 498 491	92 014 229	56 751 044	101 373 307	8 257 692	10 518 286	-	300 413 049
Investments available for sale	-	-	-	-	-	-	158 714	158 714
Investments held to maturity	111 745	985 607	1 340 478	6 442 221	-	-	-	8 880 051
Current income tax prepayments	-	-	-	-	-	-	1 292 982	1 292 982
Other assets	-	-	-	-	-	-	1 517 540	1 517 540
Property and equipment	-	-	-	-	-	-	21 413 219	21 413 219
Total assets	77 449 201	96 549 755	64 100 175	113 456 428	8 358 120	11 038 280	90 849 069	461 801 028
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	614 859	614 859
Deposits and balances from banks and other financial institutions	39 083 399	63 864 088	7 966 985	360 885	-	-	-	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	-	-	-	855 837
Current accounts and deposits from customers	104 073 609	75 644 410	30 111 184	19 781 755	-	-	-	229 610 958
Own securities issued	4 073 200	15 718 448	1 996 882	23 654 052	2 879 745	-	-	48 322 327
Other borrowed funds	2 065 702	25 584 272	-	-	-	-	-	27 649 974
Other liabilities	-	-	-	-	-	-	2 672 979	2 672 979
Current income tax payable	-	-	-	-	-	-	48 002	48 002
Deferred tax liability	-	-	-	-	-	-	776 151	776 151
Total liabilities	150 151 747	180 811 218	40 075 051	43 796 692	2 879 745	-	4 111 991	421 826 444
Interest rate sensitivity gap	(72 702 546)	(84 261 463)	24 025 124	69 659 736	5 478 375	11 038 280	86 737 078	39 974 584
Net off-balance sheet position on interest bearing assets and liabilities	-	8 814 120	-	(8 814 120)	-	-	-	-
Net position on interest bearing assets and liabilities	(72 702 546)	(75 447 343)	24 025 124	60 845 616	5 478 375	11 038 280	86 737 078	39 974 584

Promsvyazbank**Notes to the consolidated financial statements – year ended 31 December 2008***(expressed in thousands of Russian Roubles – refer to Note 2)*

The table below summarizes the Group's exposure to interest rate risk, as at 31 December 2007. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Overdue	Non interest bearing	Total
Assets								
Cash and cash equivalents	23 219 996	-	-	-	-	-	14 868 347	38 088 343
Obligatory reserves with central banks	511 970	-	-	-	-	-	2 807 928	3 319 898
Placements with banks and other financial institutions	353 738	708 166	425 506	31 241	-	-	-	1 518 651
Financial assets at fair value through profit or loss	143 211	8 369 696	2 820 396	13 225 731	53 575	-	1 136 897	25 749 506
Amounts receivable under reverse repurchase agreements	3 362 081	-	-	-	-	-	-	3 362 081
Loans to customers	41 109 926	74 453 839	30 432 262	55 829 400	6 191 450	408 459	-	208 425 336
Investments available for sale	-	-	-	-	-	-	187 112	187 112
Current income tax prepayments	-	-	-	-	-	-	243 793	243 793
Other assets	-	-	-	-	-	-	1 128 464	1 128 464
Property and equipment	-	-	-	-	-	-	11 222 215	11 222 215
Total assets	68 700 922	83 531 701	33 678 164	69 086 372	6 245 025	408 459	31 594 756	293 245 399
Liabilities								
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	156 148	156 148
Deposits and balances from banks and other financial institutions	12 005 942	26 347 453	6 804 873	5 476 989	32 647	-	-	50 667 904
Amounts payable under repurchase agreements	2 175 112	-	-	-	-	-	-	2 175 112
Current accounts and deposits from customers	78 135 098	35 627 860	24 125 278	3 112 727	-	-	-	141 000 963
Own securities issued	8 154 057	6 867 100	8 737 345	21 280 154	-	-	-	45 038 656
Other borrowed funds	737 342	23 561 766	-	-	-	-	-	24 299 108
Other liabilities	-	-	-	-	-	-	993 490	993 490
Current income tax payable	-	-	-	-	-	-	38 737	38 737
Deferred tax liability	-	-	-	-	-	-	1 193 032	1 193 032
Total liabilities	101 207 551	92 404 179	39 667 496	29 869 870	32 647	-	2 381 407	265 563 150
Interest rate sensitivity gap	(32 506 629)	(8 872 478)	(5 989 332)	39 216 502	6 212 378	408 459	29 213 349	27 682 249

Currency risk

The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. In addition to the total open foreign exchange position limit, position limits on each currency, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for net off balance sheet foreign exchange positions in order to mitigate market risk for currency trading. Also in crisis market conditions the Group utilizes stress-testing analysis.

The following table shows the currency structure of assets and liabilities as at 31 December 2008:

	RUB	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	59 682 960	20 488 777	25 032 295	519 178	105 723 210
Obligatory reserves with central banks	516 292	-	476 218	-	992 510
Placements with banks and other financial institutions	2 155 070	128 360	143 422	-	2 426 852
Financial assets at fair value through profit or loss	12 010 816	2 318 803	66 534	12 664	14 408 817
Amounts receivable under reverse repurchase agreements	4 574 084	-	-	-	4 574 084
Loans to customers	149 052 984	125 026 071	25 285 639	1 048 355	300 413 049
Investments available for sale	155 840	-	2 874	-	158 714
Investments held to maturity	8 492 341	387 710	-	-	8 880 051
Current income tax prepayments	1 292 982	-	-	-	1 292 982
Other assets	1 431 910	18 969	58 817	7 844	1 517 540
Property and equipment	21 413 219	-	-	-	21 413 219
Total assets	260 778 498	148 368 690	51 065 799	1 588 041	461 801 028
Liabilities					
Financial liabilities at fair value through profit or loss	52 139	499 368	32 676	30 676	614 859
Deposits and balances from banks and other financial institutions	54 985 752	31 836 064	22 606 730	1 846 811	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	855 837
Current accounts and deposits from customers	142 901 093	54 801 351	30 342 939	1 565 575	229 610 958
Own securities issued	16 926 189	28 753 747	2 642 391	-	48 322 327
Other borrowed funds	1 574 010	26 075 964	-	-	27 649 974
Other liabilities	2 383 893	146 023	110 549	32 514	2 672 979
Current income tax payable	11 759	-	36 243	-	48 002
Deferred tax liability	776 151	-	-	-	776 151
Total liabilities	220 466 823	142 112 517	55 771 528	3 475 576	421 826 444
Net on balance sheet position as at 31 December 2008	40 311 675	6 256 173	(4 705 729)	(1 887 535)	39 974 584
Net off balance sheet position as at 31 December 2008	5 632 398	(13 985 970)	4 370 617	3 982 955	-
Net on and off balance sheet positions as at 31 December 2008	45 944 073	(7 729 797)	(335 112)	2 095 420	39 974 584
Guarantees issued as at 31 December 2008	26 953 306	8 295 892	3 988 371	-	39 237 569
Other credit related commitments as at 31 December 2008	14 339 230	19 958 603	5 145 357	2 311	39 445 501

Net off-balance sheet position as at 31 December 2008 includes short-term forward deals in the total amount of RUB 6 021 100 thousand conducted to hedge the Group's investment rights in the office building under construction, which were accounted for in USD under local GAAP.

The following table shows the currency structure of assets and liabilities as at 31 December 2007:

	RUB	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	19 126 085	14 578 038	3 906 584	477 636	38 088 343
Obligatory reserves with central banks	2 807 928	-	-	511 970	3 319 898
Placements with banks and other financial institutions	753 168	675 490	88 752	1 241	1 518 651
Financial assets at fair value through profit or loss	23 695 764	1 807 769	16 626	229 347	25 749 506
Amounts receivable under reverse repurchase agreements	3 362 081	-	-	-	3 362 081
Loans to customers	112 814 947	70 692 289	23 773 197	1 144 903	208 425 336
Investments available for sale	184 620	-	2 492	-	187 112
Current income tax prepayments	242 368	-	-	1 425	243 793
Other assets	978 659	25 735	106 457	17 613	1 128 464
Property and equipment	11 222 215	-	-	-	11 222 215
Total assets	175 187 835	87 779 321	27 894 108	2 384 135	293 245 399
Liabilities					
Financial liabilities at fair value through profit or loss	82 715	67 622	1 633	4 178	156 148
Deposits and balances from banks and other financial institutions	8 121 210	19 637 758	20 797 395	2 111 541	50 667 904
Amounts payable under repurchase agreements	2 175 112	-	-	-	2 175 112
Current accounts and deposits from customers	99 397 529	25 527 328	13 157 688	2 918 418	141 000 963
Own securities issued	26 174 210	18 716 680	147 766	-	45 038 656
Other borrowed funds	1 538 581	22 760 527	-	-	24 299 108
Other liabilities	687 545	176 685	128 334	926	993 490
Current income tax payable	38 223	407	107	-	38 737
Deferred tax liability	1 193 032	-	-	-	1 193 032
Total liabilities	139 408 157	86 887 007	34 232 923	5 035 063	265 563 150
Net on balance sheet position as at 31 December 2007	35 779 678	892 314	(6 338 815)	(2 650 928)	27 682 249
Net off balance sheet position as at 31 December 2007	(7 507 368)	(2 288 445)	5 790 673	4 005 140	-
Net on and off balance sheet positions as at 31 December 2007	28 272 310	(1 396 131)	(548 142)	1 354 212	27 682 249
Guarantees issued as at 31 December 2007	17 636 689	8 220 094	2 086 450	5 435	27 948 668
Other credit related commitments as at 31 December 2007	17 556 858	19 450 971	8 740 030	363 182	46 111 041

An analysis of sensitivity of the Group's net profit for the year and equity to changes in the foreign currency exchange rates based on positions existing as at 31 December 2008 and a simplified scenario of a 3% change in all foreign currencies to Russian Rouble exchange rates is as follows:

	2008	2007
3% appreciation of USD against RUB	(185 515)	(31 832)
3% depreciation of USD against RUB	185 515	31 832
3% appreciation of EUR against RUB	(8 043)	(12 498)
3% depreciation of EUR against RUB	8 043	12 498
3% appreciation of other currencies against RUB	50 290	30 876
3% depreciation of other currencies against RUB	(50 290)	(30 876)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Group takes a long or short position in a financial instrument.

In addition to total equity trading position limit, position limits on each issuer, 1-Day and 40-Days stop loss limits, the Group uses limits on Value-at-Risk for its equity trading portfolio in order to mitigate market risk. Also in crisis market conditions the Group utilizes stress-testing analysis.

An analysis of sensitivity of the Group's net profit for the year and equity to changes in securities prices based on positions existing as at 31 December 2008 and a simplified scenario of a 3% change in all securities prices is as follows:

	2008	2007
Corporate shares at fair value through profit or loss	849	18 368

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the Group. The Group has developed policies and procedures for the management of credit exposures (both for on balance sheet and off balance sheet exposures), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors the Group's credit risk. The Group's credit policy is reviewed and approved by the Management Board.

The Group's credit policy establishes:

- Procedures for review and approval of loan/credit applications;
- Methodology for the credit assessment of borrowers (commercial, SME and retail);
- Methodology for the credit assessment of counterparties, issuers and insurance companies;
- Methodology for the evaluation of collateral;
- Credit documentation requirements;
- Procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan/credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the Group's commercial loan portfolio. Reports produced by the department's credit analysts are based on a structured analysis focusing on the customer's business and financial performance. The loan/credit application and the report are then independently reviewed by the Risk Department's Credit Risk Management Division and a second opinion is given accompanied by a check that credit policy requirements have been met. The Credit Committee reviews the loan/credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Group's Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. The current market value of collateral is regularly assessed by either independent appraisal companies or the Group's specialists, and in the event of negative movements in market prices the borrower is usually requested to put up additional security.

Risk management of the Group quickly reacted to the financial crisis in Russia and undertook a number of steps to prevent deterioration of the quality of credit portfolio. In particular, the Group revised certain areas of the credit policy, as follows:

- Decreased the volume of uncollateralised credit operations;
- Increased the requirements to collateral with priority to tangible collateral;
- Introduced the requirement to have additional guarantees;
- Reduced the average maturity of loans;
- Revised the credit policy in respect of certain industries, which resulted in significant decrease or cancellation of credit limits for certain industries due to negative industry forecast;
- Revised the credit policy in respect of separate and related borrowers: in some cases reduced the limits to the carrying value of loans or closed the limits;
- The Group strengthened the monitoring process of large credit risks: increased frequency of monitoring, reviewed the working procedures in respect of impaired loans.

Retail loan/credit applications are reviewed by the Bank's Retail Lending Division through the use of scoring models and application data verification procedures developed together with the Risk Department.

To reduce the level of overdue retail loans and to improve the efficiency of risk management the Group organised special procedures within its branches. These include analysis of the level of risk by each product in each branch, analysis of reasons for borrowers' defaults and increase of overdue balances and other measures taken together with branches aimed at reduction of risk.

For the purpose reduction of credit risks and possible future losses the Group switched to a more conservative credit policy for retail loans. New rules on new client acceptance take into consideration, among others, industry risk of the employer, and contain more strict solvency requirements.

Also in 2008 the Group improved its collection procedures: the number of collection staff was increased and a new collection support IT-system was implemented.

Apart from individual customer analysis, the whole credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

The Group monitors concentrations of credit risk by industry/sector and by geographic location. For the analysis of concentration of credit risk in respect of loans and advances to customers refer to Note 9 "Loans to customers".

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions, including the Group. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Group's liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy of the Group requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position of the Group are presented to senior management on a weekly basis. Decisions on the Group's liquidity management are made by the Asset and Liability Management Committee and implemented by the Treasury Department.

In 2008 the Group approved the system of limits of liquidity risk which was based on the best work practices and Basel Committee recommendations.

The Bank also calculates mandatory liquidity ratios on a daily basis in accordance with the requirement of the Central Bank of Russia. The Bank was in compliance with these ratios during the years ended 31 December 2008 and 2007.

The following table shows assets and liabilities of the Group by their remaining contractual maturity as at 31 December 2008 and 2007, with the exception of securities included into financial assets at fair value through profit or loss and investments held to maturity as at 31 December 2008. Securities approved by the CBR as collateral for its loans are shown in the category “Less than 1 month”, other securities are shown in accordance with their remaining maturity as at 31 December 2008. As at 31 December 2007 securities included into financial assets at fair value through profit or loss are shown in the category “Less than 1 month”, because as at that date the Group’s management believed that all of these financial instruments could be sold within one month in the normal course of business.

As at 31 December 2008 and 2007 the contractual maturities of securities included into financial assets at fair value through profit or loss were as follows:

	2008	2007
Less than 1 month	598 863	84 698
1 to 6 months	1 523 992	6 331 215
6 months to 1 year	1 890 468	1 784 774
1 year to 5 years	8 315 571	16 040 783
More than 5 years	1 701 073	371 139
No maturity	35 394	827 635
	14 065 361	25 440 244

As at 31 December 2008 and 2007 the contractual maturities or offer date of securities included into investments held to maturity were as follows:

	2008	2007
Less than 1 month	111 745	-
1 to 6 months	985 607	-
6 months to 1 year	1 340 478	-
1 year to 5 years	6 442 221	-
	8 880 051	-

Domestic bonds issued are presented in the table below in accordance with their offer dates. The contractual maturity dates are presented in Note 18.

In accordance with Russian legislation, term deposits of individuals may be withdrawn before maturity. However Management believes that in spite of this early withdrawal option and the fact that a substantial portion of customers accounts are on demand, diversification of these customer accounts and deposits by number and type of depositors, and the past experience of the Group indicates that these customers accounts provide a long-term and stable source of funding for the Group.

The Group has undrawn lines of credit with the CBR and other financial institutions. Accordingly, the Group in its liquidity forecasts estimates that the liquidity gaps in the table below will be sufficiently covered by the continued retention of current accounts and deposits from customers, as well as the undrawn credit line facilities from the CBR and other financial institutions mentioned above.

Promsvyazbank**Notes to the consolidated financial statements – year ended 31 December 2008***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following table shows the maturity analysis as of 31 December 2008:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Overdue	No maturity	Total
Assets								
Cash and cash equivalents	105 723 210	-	-	-	-	-	-	105 723 210
Obligatory reserves with central banks	327 318	336 732	138 649	176 096	13 715	-	-	992 510
Placements with banks and other financial institutions	84 532	2 146 211	194 166	1 943	-	-	-	2 426 852
Financial assets at fair value through profit or loss	9 956 498	1 325 877	1 008 928	2 070 787	11 333	-	35 394	14 408 817
Amounts receivable under reverse repurchase agreements	4 054 090	-	-	-	-	519 994	-	4 574 084
Loans to customers	26 047 640	89 399 969	57 444 136	107 633 483	9 369 535	10 518 286	-	300 413 049
Investments available for sale	-	-	-	-	-	-	158 714	158 714
Investments held to maturity	7 091 199	524 590	827 693	436 569	-	-	-	8 880 051
Current income tax prepayments	1 292 982	-	-	-	-	-	-	1 292 982
Other assets	418 141	280 073	272 478	157 173	21 685	-	367 990	1 517 540
Property and equipment	-	-	-	-	-	-	21 413 219	21 413 219
Total assets	154 995 610	94 013 452	59 886 050	110 476 051	9 416 268	11 038 280	21 975 317	461 801 028
Liabilities								
Financial liabilities at fair value through profit or loss	148 120	234 213	163 798	68 728	-	-	-	614 859
Deposits and balances from banks and other financial institutions	36 973 593	49 848 983	10 977 498	11 801 296	1 673 987	-	-	111 275 357
Amounts payable under repurchase agreements	855 837	-	-	-	-	-	-	855 837
Current accounts and deposits from customers	94 961 013	81 471 023	31 984 802	21 194 120	-	-	-	229 610 958
Own securities issued	4 073 200	15 718 448	1 996 882	23 654 052	2 879 745	-	-	48 322 327
Other borrowed funds	8 189	5 597 138	8 409 833	10 909 934	2 724 880	-	-	27 649 974
Other liabilities	1 541 480	318 958	337 218	175 359	2 754	-	297 210	2 672 979
Current income tax payable	11 759	36 243	-	-	-	-	-	48 002
Deferred tax liability	-	-	-	-	-	-	776 151	776 151
Total liabilities	138 573 191	153 225 006	53 870 031	67 803 489	7 281 366	-	1 073 361	421 826 444
Net liquidity position as at 31 December 2008	16 422 419	(59 211 554)	6 016 019	42 672 562	2 134 902	11 038 280	20 901 956	39 974 584
Cumulative liquidity position as at 31 December 2008	16 422 419	(42 789 135)	(36 773 116)	5 899 446	8 034 348	19 072 628	39 974 584	

Promsvyazbank**Notes to the consolidated financial statements – year ended 31 December 2008***(expressed in thousands of Russian Roubles – refer to Note 2)*

The following table shows the maturity analysis as of 31 December 2007:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	Overdue	No maturity	Total
Assets								
Cash and cash equivalents	38 088 343	-	-	-	-	-	-	38 088 343
Obligatory reserves with central banks	1 359 122	564 531	651 923	678 480	65 842	-	-	3 319 898
Placements with banks and other financial institutions	353 738	706 925	426 747	31 241	-	-	-	1 518 651
Financial assets at fair value through profit or loss	25 510 339	101 875	129 370	7 922	-	-	-	25 749 506
Amounts receivable under reverse repurchase agreements	3 362 081	-	-	-	-	-	-	3 362 081
Loans to customers	29 598 912	80 579 268	32 634 718	58 953 458	6 250 521	408 459	-	208 425 336
Investments available for sale	-	-	-	-	-	-	187 112	187 112
Current income tax prepayments	243 793	-	-	-	-	-	-	243 793
Other assets	350 550	322 578	47 587	212 066	-	-	195 683	1 128 464
Property and equipment	-	-	-	-	-	-	11 222 215	11 222 215
Total assets	98 866 878	82 275 177	33 890 345	59 883 167	6 316 363	408 459	11 605 010	293 245 399
Liabilities								
Financial liabilities at fair value through profit or loss	46 200	109 948	-	-	-	-	-	156 148
Deposits and balances from banks and other financial institutions	9 086 856	21 659 484	9 035 284	9 383 583	1 502 697	-	-	50 667 904
Amounts payable under repurchase agreements	2 175 112	-	-	-	-	-	-	2 175 112
Current accounts and deposits from customers	78 004 194	28 112 917	28 434 839	6 449 013	-	-	-	141 000 963
Own securities issued	5 716 175	6 867 100	8 737 345	21 280 154	2 437 882	-	-	45 038 656
Other borrowed funds	6 271	3 335 663	5 043 691	14 295 731	1 617 752	-	-	24 299 108
Other liabilities	647 202	137 006	69 924	132 394	46	-	6 918	993 490
Current income tax payable	38 737	-	-	-	-	-	-	38 737
Deferred tax liability	-	-	-	-	-	-	1 193 032	1 193 032
Total liabilities	95 720 747	60 222 118	51 321 083	51 540 875	5 558 377	-	1 199 950	265 563 150
Net liquidity position as at 31 December 2007	3 146 131	22 053 059	(17 430 738)	8 342 292	757 986	408 459	10 405 060	27 682 249
Cumulative liquidity position as at 31 December 2007	3 146 131	25 199 190	7 768 452	16 110 744	16 868 730	17 277 189	27 682 249	

The following tables show the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The total gross amount (inflow)/outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The Group's expected cash flows on these financial liabilities and unrecognised loan commitments may vary significantly from this analysis.

The gross undiscounted cash flow of the Group as at 31 December 2008 was as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non- derivative liabilities								
Deposits and balances from banks and other financial institutions	38 365 295	50 248 938	11 855 699	13 122 891	1 859 433	-	115 452 256	111 275 357
Amounts payable under repurchase agreements	859 919	-	-	-	-	-	859 919	855 837
Current accounts and deposits from customers	95 376 370	85 316 436	34 036 165	22 695 206	-	-	237 424 177	229 610 958
Own securities issued	4 102 273	16 657 174	3 414 254	30 376 473	4 590 692	-	59 140 866	48 322 327
Other borrowed funds	20 481	6 253 809	9 184 960	13 940 126	3 964 839	-	33 364 215	27 649 974
Other liabilities	1 541 480	318 958	337 218	175 359	2 754	297 210	2 672 979	2 672 979
Current income tax payable	11 759	36 243	-	-	-	-	48 002	48 002
Spot and derivative liabilities								
- Inflow	(32 837 593)	(2 398 808)	(991 072)	-	-	-	(36 227 473)	(343 456)
- Outflow	32 283 092	2 511 303	1 094 072	69 246	-	-	35 957 713	614 859
Total	139 723 076	158 944 053	58 931 296	80 379 301	10 417 718	297 210	448 692 654	420 706 837
Loan commitments	23 373 233	-	-	-	-	-	23 373 233	23 373 233

The gross undiscounted cash flow of the Group as at 31 December 2007 was as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 months to 1 year	From 1 year to 5 years	More than 5 years	No maturity	Total gross amount outflow/ (inflow)	Carrying amount
Non- derivative liabilities								
Deposits and balances from banks and other financial institutions	9 099 276	22 074 222	9 482 386	10 872 181	2 107 174	-	53 635 239	50 667 904
Amounts payable under repurchase agreements	2 179 979	-	-	-	-	-	2 179 979	2 175 112
Current accounts and deposits from customers	78 196 740	29 445 912	29 841 947	7 007 240	-	-	144 491 839	141 000 963
Own securities issued	5 768 156	7 525 736	10 335 397	27 853 361	3 785 763	-	55 268 413	45 038 656
Other borrowed funds	6 480	3 990 375	5 652 908	16 537 858	1 639 883	-	27 827 504	24 299 108
Other liabilities	647 202	137 006	69 924	132 394	46	6 918	993 490	993 490
Current income tax payable	38 737	-	-	-	-	-	38 737	38 737
Spot and derivative liabilities								
- Inflow	(60 686 866)	(6 563 794)	(828 274)	(990 221)	-	-	(69 069 155)	(309 262)
- Outflow	60 662 358	6 586 028	698 905	982 299	-	-	68 929 590	156 148
Total	95 912 062	63 195 485	55 253 193	62 395 112	7 532 866	6 918	284 295 636	264 060 856
Loan commitments	29 510 229	248 510	96 545	-	-	-	29 855 284	29 855 284

Operational risk

Operational risk is the risk of losses from inadequacy or failure of internal processes or systems or from external events. The Group's operational risk management strategy, developed and approved by the Management Board, provides for identification, assessment, monitoring and control of operational risks and allocates operational risk management responsibilities.

The Group manages its operational and legal risks through internal monitoring and compliance policies. The Internal Control Department ("ICD") reviews all of the Group's internal documentation in order to identify potential shortfalls in internal control procedures and all of the Group's business operations, notifies the Group's Management Board of violations and supervises the correction of such violations. The ICD and the Legal Department monitor compliance with, and seek to ensure the proper functioning of, internal policies and procedures designed to minimize operational and legal risks, respectively, and also monitor compliance with relevant Russian legislation. The head of the ICD reports directly to the Group's President and Council.

The Group conducts the majority of its transactions using standard forms approved by its Legal Department. The Legal Department reviews all non-standard forms before the relevant transactions take place.

The Group has in place internal documents and procedures that set forth the job descriptions and responsibilities of its personnel. The decision-making capacity and authority of particular departments and members of management are strictly regulated. The Group is also in the process of developing internal documents describing all of its business processes in compliance with existing legislation.

The Group applies various kinds of insurance to minimize potential loss from transactions risks, including insurance of cash in transit, other property and obligatory deposit insurance.

Among the responsibilities of the Operational Risk Unit of the Risk Department are the assessment and monitoring of operational risks and the formation of a statistical database of losses.

In 2008 there was a decision to create and implement the fraud risk management system. For this purpose the special database was created where all internal and external fraud facts are stored.

The developed approach of determination of key risk indicators allows to monitor the level of operational risk and forecasts the possibility of operational risk events in the future. This will help to move to the advanced approach of risk analysis in accordance with Basel II.

33 Capital management

The Central Bank of Russia sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the Central Bank of Russia banks have to maintain a ratio of capital to risk weighted assets ("statutory capital ratio") above the prescribed minimum level. As at 31 December 2008, this minimum level is 10%. The Bank was in compliance with the statutory requirements related to the capital ratio during the years ended 31 December 2008 and 2007.

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I. The following table shows the composition of the Group's capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December 2008:

	2008	2007
Tier 1 Capital		
Share capital	10 062 544	7 468 794
Share premium	13 319 695	7 613 445
Additional paid-in-capital	1 167 515	30 496
Retained earnings	11 773 411	10 211 756
Minority interest	525 714	-
Total tier 1 capital	36 848 879	25 324 491
Tier 2 Capital		
Asset revaluation reserves	3 192 346	2 357 758
Revaluation reserve of investments available for sale	(66 641)	-
Subordinated debt excluding accrued interest	9 917 485	8 679 764
Total Capital	49 892 069	36 362 013
Risk-weighted assets		
Banking book	360 663 445	247 896 970
Trading book	19 139 291	21 303 917
Total Risk-weighted assets	379 802 736	269 200 887
Tier 1 Ratio	9.70%	9.41%
Total Capital Adequacy Ratio	13.14%	13.51%

Included in Tier 2 Capital is RUB 9 917 485 thousand of subordinated debt net of accrued interest, which represent deposits and subordinated loan participation notes issued by the Group with the following conditions:

- original maturity is not less than 5 years;
- creditors have no right to claim the deposits before maturity;
- in the event of the Group's bankruptcy or default, subordinated deposits and loan participation notes are to be repaid only after the settlement of all other liabilities.

Long-term subordinated debt may not exceed 50% of tier 1 capital.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under syndicated loans and subordinated loan from EBRD obtained by the Group. These covenants prescribe the Group to have a total capital adequacy ratio not less than 12%. The Group has complied with all externally imposed capital requirements during the years ended 31 December 2008 and 2007.

34 Spot and derivative financial instruments

Spot and derivative financial instruments are generally traded in an over-the-counter market with professional market counterparties on standardised or specific contractual terms and conditions.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recorded on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The spot and derivative financial instruments become favorable (asset) or unfavorable (liability) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of spot and derivative financial instruments held and the aggregate fair values of spot and derivative financial assets and liabilities can fluctuate significantly from time to time.

The principal or agreed amounts and fair values of spot and derivative instruments held are set out in the following table. This table reflects gross positions before the netting of any counterparty positions by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2008 and 2007, respectively.

	2008			2007		
	Contract/ notional amount	Fair value Assets	Liabilities	Contract/ notional amount	Fair value Assets	Liabilities
Foreign currency spot and derivative contracts						
Foreign currency spot contracts	2 133 013	8 388	(18 044)	33 514 528	24 018	(25 654)
Foreign currency forward contracts	4 355 063	42 726	(35 958)	1 696 916	13 891	(3 309)
Foreign currency swap contracts	26 403 689	258 815	(330 160)	30 989 712	43 426	(126 742)
Precious metals derivative contracts						
Precious metal forward contracts with fixed rates	957 863	226	(79 394)	1 188 019	216 984	(443)
Precious metal forward contracts with floating rates	2 150 256	10 995	-	1 356 970	10 943	-
Securities derivative contracts						
Securities forward contracts	152 026	22 306	-	-	-	-
Other derivative contracts						
Interest rate swaps	8 814 120	-	(151 303)	-	-	-
Total recognised spot and derivative assets/(liabilities)		343 456	(614 859)		309 262	(156 148)

The total positive fair value of spot and derivative financial instruments amounting to RUB 343 456 thousand (2007: RUB 309 262 thousand) is disclosed in Note 7, and the total negative fair value amounting to RUB 614 859 thousand (2007: RUB 156 148 thousand) is disclosed in Note 14.

35 Credit related and capital commitments

Credit related commitments

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits and overdraft facilities.

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The contractual amounts of commitments and contingent liabilities as at 31 December 2008 and 2007 are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	2008	2007
Contracted amount		
Guarantees	39 237 569	27 948 668
Undrawn overdraft facilities	17 384 885	19 732 531
Letters of credit	16 072 268	16 255 757
Undrawn loan facilities	5 988 348	10 122 753

The total outstanding contractual commitments to extend credit indicated above does not necessarily represent future cash requirements, as these commitments may expire or terminate without being funded.

Maturity and currency analyses of credit related commitments are disclosed in Note 32. The information on related party balances is disclosed in Note 41.

Capital commitments

During 2008 the Group has acquired investment rights for 23 915 square meters of an office building under construction by a Russian developer. The total amount invested in the construction as at 31 December 2008 was RUB 5 506 180 thousands (USD 208 million at historic foreign exchange rate) and the Group has further capital commitments in respect of this construction in the amount of USD 114 million payable in 2009 - 2011.

36 Operating leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:

	2008	2007
Less than one year	710 201	424 567
From one to five years	2 118 454	882 059
More than five years	229 444	361 821
	3 058 099	1 668 447

The Group leases a number of premises under operating leases. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the current year RUB 769 425 thousand was recognised as an expense in the income statement in respect of operating leases (2007: RUB 426 763 thousand).

37 Contingencies

Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the consolidated financial conditions or the results of future operations of the Group.

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

38 Custody activities

The Group provides custody services to its customers whereby it holds securities on behalf of customers and receives fee income for providing these services. These securities are not assets of the Group and are not recognised in the consolidated balance sheet.

39 Fair value of financial instruments

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 “*Financial Instruments: Disclosures*”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in a forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

The estimated fair values of financial instruments at fair value through profit or loss, loan participation notes and domestic bonds are based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for similar instruments at the balance sheet date.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the consolidated balance sheet of the Group is presented below:

	2008		2007	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	105 723 210	105 723 210	38 088 343	38 088 343
Placements with banks and other financial institutions	2 426 852	2 426 852	1 518 651	1 518 651
Financial assets at fair value through profit or loss	14 408 817	14 408 817	25 749 506	25 749 506
Amounts receivable under reverse repurchase agreements	4 574 084	4 574 084	3 362 081	3 362 081
Loans to customers	300 413 049	291 354 674	208 425 336	208 425 336
Investments available for sale	158 714	158 714	187 112	187 112
Investments held to maturity	8 880 051	8 144 117	-	-
Financial liabilities at fair value through profit or loss	614 859	614 859	156 148	156 148
Deposits and balances from banks and other financial institutions	111 275 357	108 528 699	50 667 904	50 667 904
Amounts payable under repurchase agreements	855 837	855 837	2 175 112	2 175 112
Current accounts and deposits from customers	229 610 958	227 436 302	141 000 963	141 000 963
Own securities issued	48 322 327	34 674 906	45 038 656	43 752 398
Other borrowed funds	27 649 974	27 649 974	24 299 108	24 686 909

40 Average effective interest rates

The table below displays the Group's interest earning assets and interest bearing liabilities as at 31 December 2008 and 2007 and their corresponding average effective interest rates as at those dates.

	2008 Carrying amount	2008 Average Effective Interest Rate	2007 Carrying amount	2007 Average Effective Interest Rate
Interest earning assets				
Cash and cash equivalents				
- RUB	25 873 661	7.65%	7 284 447	3.41%
- other currencies	14 278 077	1.11%	15 935 549	2.74%
Obligatory reserves with central banks				
- other currencies	476 218	2.50%	511 970	4.00%
Placements with banks and other financial institutions				
- RUB	2 155 070	8.51%	753 168	11.24%
- other currencies	271 782	11.10%	765 483	6.20%
Financial assets at fair value through profit or loss				
- RUB	11 872 407	16.97%	22 845 095	8.14%
- other currencies	2 157 560	15.73%	1 767 514	11.26%
Amount receivable under reverse repurchase agreements				
- RUB	4 574 084	10.21%	3 362 081	9.26%

	2008	2008	2007	2007
	Carrying	Average	Carrying	Average
	amount	Effective	amount	Effective
		Interest Rate		Interest Rate
Loans to customers				
- RUB	149 052 984	16.09%	112 814 947	13.34%
- other currencies	151 360 065	12.59%	95 610 389	11.26%
Investments held to maturity				
- RUB	8 492 341	8.26%	-	-
- other currencies	387 710	12.76%	-	-
Interest bearing liabilities				
Vostro accounts of banks and other financial institutions				
- RUB	3 152 222	11.15%	3 726 076	1.80%
- other currencies	2 689 259	1.01%	275 604	1.51%
Deposits and balances from banks and other financial institutions and other borrowed funds due to banks except for vostro accounts				
- RUB	53 407 540	11.32%	5 933 715	9.18%
- other currencies	76 979 618	5.80%	63 741 832	6.55%
Amounts payable under repurchase agreements				
- RUB	855 837	11.76%	2 175 112	6.00%
Term deposits from customers and other borrowed funds due to customers				
- RUB	85 870 733	9.56%	48 029 729	7.95%
- other currencies	78 565 914	7.62%	34 249 915	6.83%
Current accounts from customers				
- RUB	57 030 360	0.01%	51 367 800	0.01%
- other currencies	10 840 643	0.01%	8 643 304	0.01%
Loan participation notes and domestic bonds				
- RUB	9 541 000	9.02%	4 528 624	8.21%
- other currencies	26 843 411	10.29%	17 891 463	9.69%
Promissory notes and certificates of deposit				
- RUB	7 385 189	9.92%	21 645 586	6.84%
- other currencies	4 552 727	5.28%	972 983	3.99%

41 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. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Promsvyazbank**Notes to the consolidated financial statements – 31 December 2008***(expressed in thousands of Russian Roubles – refer to Note 2)*

The outstanding balances and the related average interest rates as at 31 December 2008 with related parties are as follows:

	Nominal shareholders		Directors and Management Board		Other Related Parties		Total
	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount
Balance Sheet							
Assets							
Financial assets at fair value through profit or loss	-	-	-	-	456 309	52.31%	456 309
Loans to customers (gross amount) less collective impairment allowance	-	-	88 086	11.29%	8 199 558	12.33%	8 287 644
Investments available for sale (gross amount)	-	-	(813)	-	(196 619)	-	(197 432)
less impairment allowance	-	-	-	-	3 309	-	3 309
Investments held to maturity	-	-	-	-	(3 109)	-	(3 109)
Other assets	-	-	-	-	187 384	10.99%	187 384
	-	-	-	-	53 646	-	53 646
Liabilities							
Current accounts and deposits from customers and other borrowed funds	110 711	2.90%	715 982	9.23%	2 454 500	2.27%	3 281 193
Own securities issued	-	-	6 369	9.95%	851 706	5.00%	858 075
Other borrowed funds	1 178 306	14.61%	-	-	-	-	1 178 306
Other liabilities	-	-	-	-	637 909	-	637 909
Off balance sheet items							
Guarantees received	-	-	13 586	-	1 573 398	-	1 586 984
Guarantees issued	-	-	-	-	1 392 041	-	1 392 041
Letters of credit issued	-	-	-	-	642 112	-	642 112

Other related parties comprise mainly of entities controlled by the ultimate shareholders of the Group.

Promsvyazbank**Notes to the consolidated financial statements – 31 December 2008***(expressed in thousands of Russian Roubles – refer to Note 2)*

The outstanding balances and the related average interest rates as of 31 December 2007 with related parties are as follows:

	Nominal shareholders		Directors and Management Board		Other Related Parties		Total
	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount	Average Interest Rate	Carrying amount
Balance Sheet							
Assets							
Nostro accounts	-	-	-	-	7 101	0.00%	7 101
Placements with banks and other financial institutions	-	-	-	-	281 206	13.12%	281 206
Financial assets at fair value through profit or loss	-	-	-	-	664 779	12.92%	664 779
Loans to customers (gross amount)	-	-	6 111	10.12%	3 964 646	11.26%	3 970 757
less collective impairment allowance	-	-	(284)	-	(30 712)	-	(30 996)
Investments available for sale (gross amount)	-	-	-	-	16 651	-	16 651
less impairment allowance	-	-	-	-	(10 891)	-	(10 891)
Other assets	-	-	-	-	78 907	-	78 907
Liabilities							
Vostro accounts	-	-	-	-	215 752	1.97%	215 752
Current accounts and deposits from customers and other borrowed funds	42 782	5.57%	803 683	9.80%	2 893 050	1.39%	3 739 515
Own securities issued	-	-	-	-	1 462 789	8.83%	1 462 789
Other liabilities	-	-	-	-	27 500	-	27 500
Off balance sheet items							
Guarantees received	-	-	19 353	-	1 205 097	-	1 224 450
Guarantees issued	7 172	-	-	-	2 088 945	-	2 096 117
Letters of credit issued	-	-	-	-	58 756	-	58 756

Other related parties comprise mainly of entities controlled by the ultimate shareholders of the Group.

Income statement amounts in respect of transactions with related parties for the year ended 31 December 2008 are as follows:

	Nominal shareholders	Directors and Management Board	Other Related Parties	Total
Interest income	-	7 500	664 989	672 489
Fee and commission income	218	1 415	81 177	82 810
Other income	-	-	4 749	4 749
Interest expense	(144 712)	(61 885)	(92 617)	(299 214)
Fee and commission expense	-	-	(3 628)	(3 628)
Impairment losses	-	(529)	(165 907)	(166 436)
Administrative expenses	-	(582 387)	(354 815)	(937 202)

Income statement amounts in respect of transactions with related parties for the year ended 31 December 2007 are as follows:

	Nominal shareholders	Directors and Management Board	Other Related Parties	Total
Interest income	-	726	344 572	345 298
Fee and commission income	49	4 391	86 282	90 722
Other income	-	-	12 995	12 995
Interest expense	(8 917)	(147 823)	(138 318)	(295 058)
Fee and commission expense	-	-	(3 234)	(3 234)
Impairment losses	-	7	9 172	9 179
Administrative expenses	-	(509 789)	(246 059)	(755 848)

Other related parties comprise mainly of entities controlled by the ultimate shareholders of the Group.

During the year ended 31 December 2008, short-term compensation of the Directors and members of the Management Board amounted to RUB 582 387 thousand (2007: RUB 439 789 thousand) and payments to pension funds for the benefit of the Directors and members of Management Board amounted to nil (2007: RUB 70 000 thousand).

During the year ended 31 December 2008 the Group purchased from other related parties property and equipment of RUB 1 311 833 thousand including buildings amounting to RUB 1 203 067 thousand and computers and software of RUB 108 766 thousand.

During the year ended 31 December 2007 the Group purchased from other related parties property and equipment of RUB 710 071 thousand including a building amounting to RUB 673 487 thousand and computers and software of RUB 36 584 thousand.

42 Disposal of subsidiaries

In April 2008 the Group disposed of its investment in Atna Capital Management Investments Limited. This was executed through the cancellation of call options held by the Group which allowed it to purchase shares in Atna Capital Management Investments Limited for a nominal amount from a related party. The disposed subsidiary contributed RUB 56 578 thousand of net loss to the Group for the current period till the date of disposal.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

	<u>Carrying amount at the date of disposal</u>
Assets	
Cash	1 769
Financial instruments at fair value through profit or loss	512 360
Amounts receivable under reverse repurchase agreements	81 559
Liabilities	
Deposits and balances from banks and other financial institutions	(646 914)
Other liabilities	(137)
Net identifiable assets and liabilities related to investment interest disposed	(51 363)
Additional paid-in-capital recognised	51 423
Terminated obligations under option agreements	(60)
Less: cash and cash equivalents disposed	(1 769)
Net cash outflow on disposal	(1 769)

As a result of the disposal of the subsidiary the Group recognised additional paid-in-capital in the amount of RUB 51 423 thousand.

At the end of September 2008 the Group sold its investment in OOO “Association of Leasing Companies” to a third party. The disposed subsidiary contributed RUB 751 thousand of net income to the Group for the current period till the date of disposal.

The disposal of the subsidiary had the following effect on the Group’s assets and liabilities at the date of disposal:

	<u>Carrying amount at the date of disposal</u>
Assets	
Cash	1 968
Loans and advances to customers	277 217
Current income tax prepayments	376
Other assets	6 439
Liabilities	
Deposits and balances from banks and other financial institutions	(55 189)
Customer accounts	(10 078)
Own securities issued	(178 890)
Other liabilities	(3 188)
Net identifiable assets and liabilities related to investment interest disposed	38 655
Loss on sale of subsidiary	(21 942)
Less: cash and cash equivalents disposed	(1 968)
Net cash inflow on disposal	14 745

As a result of the disposal of the subsidiary the Group recognised net loss in the amount of RUB 21 942 thousand.

43 Acquisition of subsidiaries

On 23 June 2008 the Group obtained control over 95.5% shares of OAO “Volgoprombank” through the granting of a call option to the Group by Promsvyaz Capital B.V. allowing the Group to purchase 95.5% of OAO “Volgoprombank” shares at their nominal amount from 23 June 2008 for a year.

If the acquisition had occurred on 1 January 2008, the Group’s net profit attributable to shareholders of the parent for the year ended 31 December 2008 would have been RUB 1 575 195 thousand.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

	IFRS carrying amount immediately before business combination
Cash and cash equivalents	618 734
Obligatory reserves with central banks	49 476
Financial assets at fair value through profit or loss	48 498
Loans and advances to customers	3 226 366
Current income tax prepayments	36 738
Other assets	17 653
Property and equipment	796 327
Deposits and balances from banks and other financial institutions	(570 323)
Customer accounts	(2 693 683)
Own securities issued	(116 166)
Other liabilities	(21 143)
Deferred tax liability	(164 609)
Net assets of the subsidiary	1 227 868
Less: minority interest	(55 377)
Acquired interest in net assets of the subsidiary	1 172 491
Additional paid-in-capital arising from the acquisition	(1 085 596)
Payable on acquisition	(86 895)
Cash and cash equivalents of the subsidiary acquired	618 734
Inflow of cash and cash equivalents on acquisition	618 734

As a result of the acquisition the Group recorded the additional paid-in-capital in the amount of RUB 1 085 596 thousand as part of its consolidated equity. This amount represents the difference between net assets of OAO “Volgoprombank” and the consideration payable in accordance with the option agreement with the Bank’s controlling shareholder Promsvyaz Capital B.V.

In the end of December 2008 the Group purchased 51.3% shares of OAO “Yarsotsbank”.

If the acquisition had occurred on 1 January 2008, the Group’s net profit attributable to shareholders of the parent for the year ended 31 December 2008 would have been RUB 1 616 065 thousand.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

	IFRS carrying amount immediately before business combination
Cash and cash equivalents	2 447 279
Obligatory reserves with central banks	6 015
Placements with banks and other financial institutions	30 742
Financial assets at fair value through profit or loss	52 276
Loans and advances to customers	1 765 950
Investments available for sale	4
Other assets	181 330
Property and equipment	741 995
Deposits and balances from banks and other financial institutions	(207)
Customer accounts	(4 508 885)
Own securities issued	(7 911)
Other liabilities	(19 757)
Deferred tax liability	(45)
Net assets of the subsidiary	688 786
Less: minority interest	(335 369)
Acquired interest in net assets of the subsidiary	353 417
Total purchase consideration	(5)
Cash and cash equivalents of subsidiary acquired	2 447 279
Inflow of cash and cash equivalents on acquisition	2 447 274

As a result of the acquisition the Group recognised a gain in the consolidated income statement in the amount of RUB 353 412 thousand which represents the difference between purchase consideration and acquired interest in net assets of the subsidiary.

At the end of December 2008 the Group purchased 85.1% shares of OAO “Nizhny Novgorod Bank”.

If the acquisition had occurred on 1 January 2008, the Group’s net profit attributable to shareholders of the parent for the year ended 31 December 2008 would have been RUB 1 519 267 thousand.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

	IFRS carrying amount immediately before business combination
Cash and cash equivalents	733 185
Obligatory reserves with central banks	4 729
Loans and advances to customers	3 005 504
Investments available for sale	322
Current income tax prepayments	23 619
Other assets	4 706
Property and equipment	907 298
Deposits and balances from banks and other financial institutions	(2 104 111)
Customer accounts	(1 610 536)
Own securities issued	(21 619)
Other liabilities	(9 020)
Deferred tax liability	(60 889)
Net assets of the subsidiary	873 188
Less: minority interest	(129 744)
Acquired interest in net assets of the subsidiary	743 444
Total purchase consideration	640 231
Less: deferred purchase consideration	(640 231)
Cash and cash equivalents of subsidiary acquired	733 185
Inflow of cash and cash equivalents on acquisition	733 185

As a result of the acquisition the Group recognised a gain in the consolidated income statement in the amount of RUB 103 213 thousand which represents the difference between purchase consideration and acquired interest in net assets of the subsidiary.

Deferred consideration paid consists of two parts. The first part in the amount of RUB 346 139 thousand is payable in January 2009. The second part in the amount of RUB 336 000 thousand is payable at the end of 2009 if several conditions will be met. Management assesses the meeting of these conditions as probable. The second part of the deferred purchase consideration was discounted using the borrowing market rate as at 31 December 2008 and included in calculation of above in the amount of RUB 294 092 thousand.

44 Subsequent events

On 9 March 2009 the Group repaid in advance a syndicated loan amounting to USD 175 million. As per the terms of the loan agreement, the loan was due on 24 April 2009.

On 16 March 2009 the shareholders of the Group decided to split the ordinary shares which currently have a nominal value of RUB 50,000 each into 5,000,000 ordinary shares with a nominal value of RUB 0.01 each.

In the first quarter 2009 the Group reduced deposits received from the Central Bank of the RF from RUB 57.5 billion to RUB 27.2 billion.

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