

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 A PUBLIC 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

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, the “**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 11 April 2012 (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 IS REGISTERED UNDER REGULATION (EC) NO 1060/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 16 SEPTEMBER 2009 ON CREDIT RATING AGENCIES, AS AMENDED (THE “CRA REGULATION”). AS SUCH, FITCH RATINGS LTD. IS INCLUDED IN THE LIST OF CREDIT RATING AGENCIES PUBLISHED BY THE EUROPEAN SECURITIES AND MARKETS AUTHORITY (“ESMA”) ON ITS WEBSITE IN ACCORDANCE WITH THE CRA REGULATION. 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 REGISTERED UNDER THE CRA REGULATION AND, AS SUCH, IS INCLUDED IN THE LIST OF CREDIT RATING AGENCIES PUBLISHED BY ESMA ON ITS WEBSITE IN ACCORDANCE WITH THE CRA REGULATION) 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

BARCLAYS

PSB

CITIGROUP

CREDIT SUISSE

The date of this Base Prospectus is 11 April 2012

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 (the “**RCS**”) 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 (OTHER THAN PSB) 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 (OTHER THAN PSB) 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 (OTHER THAN PSB) 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 421-B**”) 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 “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 but one 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 Group’s financial information set forth herein, unless otherwise indicated, has been derived from the Group’s audited consolidated financial statements as at and for each of the years ended 31 December 2011, 2010 and 2009 (the “**2011 Annual Financial Statements**”, “**2010 Annual Financial Statements**” and “**2009 Annual Financial Statements**”, respectively, and together, the “**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 reports of ZAO PricewaterhouseCoopers Audit in respect of the 2011 and 2010 Annual Financial Statements and the independent auditor’s report of ZAO KPMG in respect of the 2009 Annual Financial Statements, are incorporated by reference in and form part of this Base Prospectus. The Russian rouble is the functional and reporting currency for the Financial Statements. See “Documents Incorporated by Reference”.

The financial statements of the Issuer as of and for the years ended 31 December 2010, 2009 and 2008 (the “**Issuer Financial Statements**”) have been prepared in accordance with the Luxembourg Generally Accepted Accounting Principles (“**Luxembourg GAAP**”) on a non-consolidated basis. The Issuer Financial Statements, together with the *réviseurs d’entreprises agréé*’s report of H.R.T. Révision S.A. (RCS registration number B 51238) in respect of the 2010 financial statements and the *réviseurs d’entreprises agréé*’s reports of AACO (Accounting, Auditing, Consulting & Outsourcing), S.à.r.l. (RCS registration number B 88833) in respect of the 2009 and 2008 financial statements are incorporated by reference in and form part of this Base Prospectus. See “Documents Incorporated by

Reference". The Issuer Financial Statements incorporated by reference in this Base Prospectus have, unless otherwise noted, been presented in Euros.

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 statement of income and balance sheet items as compared to the presentation in the 2009 Annual Financial Statements. The 2009 Annual Financial Statements were not required to be, and were not, restated for these changes in presentation. Accordingly, certain items in the 2009 Annual Financial Statements are not presented on a directly comparable basis to the current presentation in the 2010 and 2011 Annual Financial Statements. 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 2011, 2010 and 2009. These changes in presentation had no impact on net interest income, operating income or net profit on the statement of income, or total assets, total liabilities or net assets on the statement of financial position. Accordingly, the financial information for the year ended 31 December 2009 presented in this Base Prospectus has been extracted from the 2009 Annual Financial Statements.

The presentation of the following items of the consolidated income statement has been changed in the 2010 and 2011 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 Annual Financial Statements it was presented as a separate line item of the consolidated income statement;
- 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 Annual Financial Statements as part of general expenses;
- The category "Net gain on purchase of interest in subsidiaries" was combined with the category "Other income and expense" in the 2010 and 2011 Annual Financial Statements, whereas in the 2009 Annual Financial Statements they were presented as separate line items of the consolidated income statement;
- The categories "Administrative expenses" and "General expenses" were combined in the category "General and administrative expenses" in the 2010 and 2011 Annual Financial Statements; and
- The category "Other income" was renamed "Other income and expense" in the 2010 and 2011 Annual Financial Statements.

Additionally, the presentation of certain captions of the disclosures on loans to customers was changed as at 31 December 2010 and 2011 as compared to the presentation as at 31 December 2009 to better present the nature of the underlying transactions. The industry classification of loans to customers was revised in the 2010 and 2011 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 and 2011 as compared to the presentation as at 31 December 2009 to better reflect the way the Group's management analyses the business. In the 2010 and 2011 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 Annual Financial Statements they were included in the category "International business, investments and financial markets".

Impact of New Accounting Standards

As at the date of the 2011 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, 2011 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 2011 Annual Financial Statements.

Independent Current and Former Auditors

The Group's 2011 and 2010 Annual Financial Statements incorporated by reference 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 reports appearing therein. 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 Annual Financial Statements of the Group incorporated by reference in this Base Prospectus, as stated in their audit report appearing therein. 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).

The 2010 Issuer Financial Statements incorporated by reference in this Base Prospectus have been audited by H.R.T. Révision S.A. (RCS registration number B 51238), the *réviseurs d'entreprises agréé* of the Issuer. H.R.T. Révision S.A. has its registered office at 163, rue du Kiem, L-8030 Strassen. H.R.T. Révision S.A. is a member of the *Institut des Réviseurs d'Entreprises* of Luxembourg.

The 2009 and 2008 Issuer Financial Statements incorporated by reference in this Base Prospectus have been audited by AACO (Accounting, Auditing, Consulting & Outsourcing), S.à.r.l. (RCS registration number B 88833), the *réviseurs d'entreprises agréé* of the Issuer. AACO (Accounting, Auditing, Consulting & Outsourcing), S.à.r.l. has its registered office at 163, rue du Kiem, L-8030 Strassen. AACO (Accounting, Auditing, Consulting and Outsourcing) S.à.r.l. is a member of the *Institut des Réviseurs d'Entreprises* of Luxembourg.

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

PSB's Financial Statements are prepared in accordance with IFRS as issued by IASB, which may be different from IFRS as adopted pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/20002 (the “**EU IFRS**”). However, PSB does not believe that these differences are material. The principal differences between IFRS as adopted by the IASB and the EU IFRS relate to 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.

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 2011, there were no unendorsed standards effective for the year ended 31 December 2011 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⁾	
2007.....	26.58	24.26	25.49	24.55
2008.....	29.38	23.13	24.98	29.38
2009.....	36.43	28.67	31.93	30.24
2010.....	31.78	28.93	30.38	30.48
2011.....	32.68	27.26	29.38	32.20

2012	Roubles per U.S. dollar			Period End
	High	Low	Average ⁽¹⁾	
January	31.93	30.36	31.24	30.36
February	30.40	28.95	29.88	28.95
March	29.67	29.02	29.38	29.33

(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.

DOCUMENTS INCORPORATED BY REFERENCE

This Base Prospectus should be read and construed in conjunction with the Financial Statements and the Issuer Financial Statements, together in each case with the auditor's reports thereon which have been previously published. Such documents shall be incorporated in and form part of this Base Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Base Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Base Prospectus. Each document incorporated herein by reference is current only as of the date of such document, and the incorporation by reference herein of such documents shall not create any implication that there has been no change in the Group's affairs since the date thereof or that information contained therein is current as of any time subsequent to its date.

The following documents are deemed to be incorporated by reference into this Base Prospectus:

- the 2011 Annual Financial Statements;
- the 2010 Annual Financial Statements;
- the 2009 Annual Financial Statements;
- the 2010 Issuer Financial Statements;
- the 2009 Issuer Financial Statements; and
- the 2008 Issuer Financial Statements.

Any information and/or documents incorporated by reference in the Financial Statements or the Issuer Financial Statements do not form part of this Base Prospectus.

Copies of the Financial Statements deemed to be incorporated by reference into this Base Prospectus may be obtained from (i) the website of PSB or (ii) the registered office of PSB. Copies of the Issuer Financial Statements deemed to be incorporated by reference into this Base Prospectus may be obtained from the registered office of the Issuer.

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.

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	Barclays Bank PLC, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited and Open Joint-Stock Company Promsvyazbank.
Dealers	Barclays Bank PLC, Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited 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	<p>The Issuer’s payment obligations in respect of each Series of Notes will be secured by a first fixed charge on:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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 registered under the CRA Regulation and, as such, is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation) plans to endorse the ratings issued by it. Fitch is established in the European Union and is registered under the CRA Regulation and, as such, is included in the list of credit rating agencies published by ESMA on its website in accordance with the CRA Regulation.

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 PSB and the Group's Business and Industry

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

The credit markets have faced significant volatility, dislocation and liquidity constraints since the onset of the sub-prime mortgage crisis in the United States in 2007 and the subsequent global financial crisis (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. 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%. In 2010 and 2011 the interbank lending rate was 3.1% and 4.0%, respectively.

Investment capital inflows into Russia also 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. However, following signs of some economic recovery, net capital outflows reduced to U.S.\$56.1 billion in 2009, and to US \$33.6 billion in 2010, before increasing to US \$84.2 billion in 2011, according to the CBR. According to the Federal State Statistics Service, the volume of foreign investment into Russia was U.S.\$81.9 billion in 2009, which increased by 40% to U.S.\$114.7 billion in 2010 and further increased by 66.2% to U.S.\$190.6 billion in 2011.

The Financial Crisis led to reduced liquidity and increased credit risk premiums for certain market participants, resulting in a reduction of available financing across the world, and consequently, a sharp fall in the supply of long- and medium-term financing in the Russian domestic market. PSB's loan to deposit ratio has increased from 92% as at 31 December 2009 to 105% as at 31 December 2010 and 117% as at 31 December 2011. One of PSB's material sources of funding is borrowings on the international capital markets, and as at 31 December 2011, funds raised on international capital markets (which include senior loan participation notes, syndicated loans, subordinated borrowings and deposits from foreign banks) represented 12.8% of PSB's total liabilities. The principal source of funding for PSB is domestic current account balances and deposits from customers. Current accounts and deposits from customers accounted for 66.7% of PSB's total liabilities as at 31 December 2011 as compared to 69% as at 31 December 2010 and 67% as at 31 December 2009. According to the CBR's statistics, 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. 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. 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 and November 2008 the CBR provided PSB with financing to support the financial stability of OAO “Yarsotsbank” (“**Yarsotsbank**”), OAO Nizhny Novgorod Bank (“**Nizhny Novgorod Bank**”) and OAO “Volgoprombank” (“**Volgoprombank**”).

The volatility and market disruption in the global banking sector has continued through 2011 and into 2012. In particular, global financial markets experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Austria, Greece, Ireland, Portugal, Spain and Italy and continued concerns over the stability of the European monetary system and the stability of certain

European economies, notably Greece, Ireland, Portugal, Spain and Italy. Repeated summits of, and attempts by, European leaders to find a lasting solution to market concerns about such countries' ability to repay their debt have not yet resulted in a bail-out package and there remain continuing doubts concerning the stability of the European monetary system and economy. 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.

Should the ongoing European debt crisis lead to a meaningfully worsening global macroeconomic situation and/or impact commodity prices and global trade flows, Russia's overall economic and financial position in the medium term could also be negatively affected and there can be no assurance that the lack of liquidity experienced in the Russian banking system during the height of the Financial Crisis will not return, or that the Russian Government (the "**Government**") will implement any state support measures to support the Russian banking sector (as it did following the onset of the Financial Crisis; see "The Banking Sector and Banking Regulation in Russia — Russian Banking Sector — *Anti-Crisis Legislation*" for further detail), or that the measures implemented will be effective. Any further turmoil in the global or Russian banking sectors, including the default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions could cause severe stress in the financial system generally and could adversely affect the markets in which the Group operates and the business and economic condition and prospects of the Group's counterparties, customers, suppliers or creditors, directly or indirectly, in ways which are difficult to predict. This could adversely affect PSB's business and operating results as a result of decreases in PSB's net interest income, decreases in the demand for PSB's credit products, significantly increased loan provision charges, loan losses and write-offs.

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

The Russian banking market is highly competitive. According to the CBR, as at 1 February 2012, 1,111 banks and non-bank credit organisations were registered in Russia and the 20 largest banks held 70.2% of total banking assets. With the onset of the Financial Crisis, asset growth in the Russian banking sector declined to 5.0% in 2009, before returning to 14.9% in 2010 and 21.2% in the third quarter of 2011, as compared to 44.1% growth in 2007 and 39.2% in 2008 (according to the CBR), which had supported PSB's growth. This decline has affected, and may continue to affect, PSB's growth and any renewed stagnation or contraction may make it difficult for PSB to expand its operations. For example, in the factoring business, one of the principal contributors to PSB's corporate business, PSB's market share declined from 27% in 2010 to 21% in 2011, due to strong competition in this sector.

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**"). 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 OOO "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 group, Gazprombank and Russian Agricultural Bank. 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 largest clients and, as a result, maintain or increase their market share — which according to PSB's calculations based on official CBR data was 53% of the total assets of Russian banking system as at 31 December 2011.

Another factor behind the significant competition is the limited size of the banking market in Russia. For most 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, which has led, among other things, to the narrowing of spreads between deposit and loan interest rates, affecting Russian banks' profitability. In 2011 and the first quarter of 2012, deposit interest rates increased to 9.52% as at 1 March 2012, as compared to 8.10% as at 1 March 2011, according to the CBR.

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” and the merger of Sberbank and Troika Dialogue. 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.

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 71% of PSB’s operating income for the year ended 31 December 2011 and 73% and 75% for the years ended 31 December 2010 and 2009, respectively.

In 2008 and early 2009, an accelerating domestic consumer price index and a global re-pricing of credit risk as a result of the turmoil in the international financial markets led to increasing interest rates in both lending and deposit-taking across the Russian banking sector. 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 2011, PSB’s loan portfolio grew considerably but there was a decrease in both interest income and interest expense due to declining interest rates. PSB’s net interest margin (calculated on a quarterly basis as described in “Management Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations for the Years Ended 31 December 2011, 2010 and 2009”) for the year ended 31 December 2011 increased to 5.0% as compared with 4.7% and 6.6% for the years ended 31 December 2010 and 2009, respectively.

From the last quarter of 2010 interest rates on lending have slowly but constantly declined and by mid-2011 reached pre-Financial Crisis levels. Rates on new customer deposits were relatively stable during this period. These trends were sharply reversed in the last quarter of 2011 when spillovers from the Eurozone sovereign debt crisis resulted in serious liquidity pressures for Russian banks and an increase in the costs of wholesale borrowing. In order to attract additional funds and avoid outflow of customer deposits, banks significantly increased customer deposit rates. Rates on lending were also raised subsequently in an attempt to maintain margins. Inflationary pressures subsided in 2011 which allowed the CBR to ease monetary policy simultaneously providing extensive liquidity support to the banking system. However, there is still increased pressure on margins resulting from interest rates on customer deposits increasing at a higher rate as compared to lending rates and as a result of competition from state-controlled banks, which have the benefit of significantly larger liquid resources at their disposal than private international and domestic banks. Overall, Russian banks compete with each other for a small number of low risk, high quality corporate borrowers. These factors, together with the necessity to maintain customer deposit interest rates at high levels, has resulted in increased pressure on margins and profitability. See “— *There is significant competition in the Russian banking market, particularly from state-owned banks*”. Further, 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. 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 effect 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 2011, 2010 and 2009 — 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. For example, in 2011, net total loans grew by 27.4% while interest income decreased, reflecting the decrease in margins across its corporate, retail and SME business segments. 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 in accordance with IFRS or Generally Accepted Accounting Principles in the United States (“U.S. GAAP”). With respect to retail customers, there is often less credit history available for such customers as compared to larger corporate customers. Financial information disclosed by retail customers to PSB may not be accurate or complete and PSB may be unable to independently confirm such information. 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. 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.

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. 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 had 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 were 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*”.

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 on PSB’s operations and financial condition.

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

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, and, in particular, adversely impact its ability to expand and achieve profitability in its retail loan portfolio.

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 renegotiated and rescheduled a larger proportion of its loans to borrowers than in prior years. This had an adverse 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. 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” or “NPLs” shall mean loans with principal and/or interest overdue by more than 90 days (except for loans to individuals and SMEs for which the methodology adopted, both in relation to repayment and credit quality monitoring, is different – individual and SME NPLs exclude loans for which there was partial repayment of overdue principal and/or interest during the last quarter of the applicable financial year)), 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 2011, PSB’s impairment allowance decreased to RUB29.2 billion, compared with RUB37.7 billion as at 31 December 2010, a decrease of 22.4%

(though the impairment allowance still covers at least 100% of the NPLs). See “Management Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations for the Years Ended 31 December 2011, 2010 and 2009 — *Loan Impairment*”. Further, as at 31 December 2011, the level of NPLs decreased to 5.7% of the total gross loan portfolio, as compared to 9.2% of the total gross loan portfolio as at 31 December 2010 and 12.3% of the total gross loan portfolio as at 31 December 2009.

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.

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. See “Management Discussion and Analysis of Financial Condition and Results of Operations — *Individual vs Commercial Loans and Distribution of Loans to Customers by Industry*”. Therefore, if events of default occur and borrowers fail to pay amounts due in a timely fashion, PSB may, in certain circumstances, acquire controlling or minority stakes in and be required to manage, or contribute to the management of, defaulting companies which operate in sectors that are not core to 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 sureties under Russian law

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

A substantial portion of PSB’s loans to its corporate and retail customers is supported by sureties from 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 surety’s financial condition deteriorates or if the borrower does not honour an assurance arrangement, PSB may not be able to recover on sureties 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

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 that 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, as of the date of this Base Prospectus, PSB has two minority shareholders – Commerzbank Auslandsbanken Holding AG has a shareholding of 14.37% in PSB and the European Bank for Reconstruction and Development ("**EBRD**") has an 11.75% stake in PSB. Each of Commerzbank Auslandsbanken Holding AG and EBRD have nominated one member to the Board of Directors pursuant to a shareholders' agreement (the "**Shareholders' Agreement**"), who were elected at the annual general shareholders' meeting held on 17 June 2011. As Commerzbank Auslandsbanken Holding AG and the EBRD are 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.

On 19 January 2012, Commerzbank AG announced that its board of managing directors had approved a set of measures to strengthen its Core Tier 1 ratio. These measures include the sale of non-strategic assets, including Commerzbank Auslandsbanken Holding AG's 14.37% shareholding in PSB. On 31 January 2012, Commerzbank Auslandsbanken Holding AG entered into an agreement with Promsvyaz Capital B.V. whereby Promsvyaz Capital B.V. will, subject to regulatory approvals, purchase 159,985,846,000 shares held by Commerzbank Auslandsbanken Holding AG in PSB, equal to 14.37% of the issued share capital of PSB. As at the date of this Base Prospectus, PSB is unable to give any indication as to the timing of this transfer. Following completion of this sale, Promsvyaz Capital B.V. will own more than 85% of the shares of PSB. As a consequence, minority shareholders will have very limited blocking rights and Mr. Alexey Ananiev and Mr. Dmitry Ananiev will have a greater ability to influence shareholder matters. See "— A significant part of PSB's business is with or dependent upon related parties".

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.

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 material transactions with related parties with a value in excess of 3% of PSB's own funds are vetted by PSB's Board of Directors, and procedures required by Russian law are complied with before entering into a transaction with a related party. 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, and in certain circumstances a majority vote of the disinterested shareholders of the company holding voting shares is also required. 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 2011, food production and food trade, durables trade, real estate management and other non-food trade accounted for 12%, 8%, 8% and 7% of the Group’s loan portfolio (gross of impairment allowance), respectively. 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. 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.

As at 31 December 2011, PSB’s exposure to its 20 largest borrowers (one of which (OOO Technoserv A/S) is a related party) was RUB115.8 billion or 27.2% of PSB’s gross loan portfolio as compared to RUB96 billion or 27.5% of PSB’s gross loan portfolio as at 31 December 2010 and RUB84.2 billion or 27.6% of PSB’s gross loan portfolio as at 31 December 2009. Additionally, the current accounts and term deposits of PSB’s ten largest depositors represented 25% of PSB’s total current accounts and term deposits from customers as at 31 December 2011. 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**”), increased marginally from 14.3% as at 31 December 2009 to 14.4% as at 31 December 2010, and was 13.9% as at 31 December 2011. PSB’s Tier 1 ratio as at 31 December 2011, 2010 and 2009 was 10.03%, 10.00% and 9.91%, respectively, which is relatively low as compared to the Tier 1 ratios of other similar Russian banks. 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, and in December 2010 the Basel Committee published a revised set of guidelines ("**Basel III**"), the implementation of which will begin on January 1, 2013. The implementation of Basel II or Basel III in Russia has not occurred to date, and the effect that these revised guidelines will have on the capital requirements of PSB and on its capital position is uncertain. See "The Banking Sector and Banking Regulation in Russia — Russian Banking Sector — *Basel implementation in Russia*" for further detail. If any future alterations to the capital adequacy standards under Basel II or Basel III (or CBR regulations implementing Basel II or Basel III) with regard to limits on the deployment and use of capital require 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.

PSB may face counterparty risk from other financial institutions

In light of the unprecedented lack of liquidity and high cost of funds that characterised the interbank lending market in 2008 and 2009 and the recent volatility and market disruption witnessed by the banking sector globally, 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, pension funds and other institutional clients, resulting in a significant credit concentration. As a result, PSB is exposed to counterparty risk and will continue to be exposed to the risk of loss if counterparty financial institutions fail or are otherwise unable to meet their obligations. A default by, or even concerns about the stability of one or more financial service institutions could lead to further significant systematic liquidity problems, or losses or defaults by other financial institutions which could materially and adversely affect 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

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 manage its loan portfolio properly, which could cause PSB's non-performing loans to increase leading to deterioration of PSB's asset quality

PSB's net loan portfolio has increased rapidly in recent years, growing by 27.4% to RUB396.1 billion as at 31 December 2011, compared to RUB311.0 as at 31 December 2010. As at 31 December 2010, PSB's loan portfolio had grown by 16.7% from RUB266.4 billion as at 31 December 2009. The significant increase in the size of the loan portfolio has increased PSB's credit exposure and will require continued monitoring by PSB's management of credit quality and the adequacy of its impairment assessment and continued improvement in PSB's credit risk management program.

PSB's NPLs peaked in 2009 at 12.3% of the total gross loan portfolio, as a result of deterioration of loans that originated largely during the Financial Crisis. In 2010, PSB wrote off RUB3.1 billion bad loans (all of which were corporate (including SME) loans) and sold RUB 13.8 billion bad loans (of which RUB8.5 billion were corporate (including SME) loans and RUB5.3 billion were retail loans). In 2011, PSB wrote off RUB 3.1 billion bad loans (all of which were corporate (including SME) loans) and sold RUB18.7 billion bad loans (of which RUB8.4 billion were corporate (including SME) loans and RUB10.3 billion were retail loans). As a result of these loan sales, write-offs and a significant amount of new origination in 2011, NPLs decreased to 5.7% of PSB's total gross loan portfolio, as compared to 9.2% in 2010. However, PSB continues to be subject to risks associated from a continuation of the "lagging effect" of bad loans and in 2012, has continued to sell bad loans.

If PSB is unable to manage the growth of its loan portfolio properly (particularly the percentage of performing loans), including due to any inability to (i) borrow in the domestic and international market and secure adequate funding (see — "*The instability of the global and the Russian credit markets and banking sectors and the ongoing European sovereign debt crisis could have a material adverse effect on PSB's business, liquidity and financial condition*"), (ii) attract and retain qualified personnel and train new personnel to monitor asset quality (see — "*PSB may be unable to recruit and retain experienced personnel*"), or (iii) manage credit risk (see — "*PSB may be unable to assess adequately the credit risk of potential borrowers*"), then it could result in a material adverse effect on PSB's business, financial condition, results of operations and prospects.

PSB faces increased risk exposure associated with its strategy to expand its retail and SME lending business

PSB's growth strategy includes a focus on expanding its retail and SME business. Loans to retail and SME borrowers are riskier than loans to corporate borrowers, and therefore, PSB's percentage of NPLs may increase which could result in higher allowances for impairment losses and write-offs. A recession or other negative developments in Russia's economy could affect SME and retail borrowers more significantly than larger borrowers and lead to material asset quality deterioration.

Furthermore, SME and retail customers are typically less financially transparent than larger borrowers as there is generally less financial information available for such customers. For SMEs in particular, any financial information available may not be accurate, as there are fewer third party confirmations or quality data that can be collected, and the banking industry in Russia generally recognizes that lending to the SME segment represents a relatively higher degree of

risk than comparable lending to large corporate or retail borrowers. As a result, PSB may not be able to accurately assess the risks, including credit risks, associated with its borrowers, in particular SMEs, and may need to change its estimates of impairment and implement additional risk management policies and procedures. Any inadequacy in PSB's policies and controls may have a material adverse effect on its business results of operations, financial condition and prospects. Further, while the Russian retail banking market is growing, if PSB is unable to significantly increase the volume of its retail banking activities in line with the growth in this market so as to achieve profitability in retail banking, it may have a material adverse effect on its business results of operations, financial condition and prospects.

In addition, the Financial Crisis stimulated Russian legislative initiatives which strengthen the protection of retail customers under Russian law and could place corresponding restrictions on PSB's retail business, thereby adversely affecting its business, financial condition, results of operations and prospects. See "*— Russian banking and financial regulation has been undergoing significant changes*". If there is a substantial increase in PSB's retail business, it will be more vulnerable to the effect of such laws.

PSB may face liquidity risks, which it may fail to mitigate if it is unable to raise sufficient funding

PSB meets a significant portion of its funding requirements using customer deposits. Russian companies have significant liquidity requirements, which have been further increased by the lack of liquidity available from financial markets as a result of the global financial crisis. Accordingly, they often withdraw their deposits and are not in a position to place significant funds with PSB on a long-term basis. The Russian Civil Code (the "**Civil Code**") entitles retail depositors to withdraw deposits, including term deposits, at any time. As a result, unanticipated decreases in corporate customer deposits and/or unexpected withdrawals of retail deposits may result in liquidity gaps that PSB may not be able to cover.

The remainder of PSB's funding is raised in the domestic and international capital, syndicated loan and interbank markets. Adverse market conditions in 2008 and 2009 significantly reduced PSB's access to funding from these markets at commercially justifiable costs. Although PSB issued both rouble- and foreign currency denominated bonds in 2010 and 2011, PSB's ability to raise funding from domestic and international markets in amounts sufficient to meet its liquidity needs could be further adversely affected by a number of factors, including in particular any further deterioration in Russian and international economic conditions and the state of the Russian financial and market systems.

If the sources of short- and, in particular, long-term funding, including from the Government, the international capital markets or inter-bank lending markets, are not available, this could lead to a material adverse effect. See "*Risk Management—Management—Liquidity Risk*".

PSB may not be able to achieve its strategic objectives in a timely manner or at all

PSB's overall strategic goal is to become the leading privately owned Russian bank in terms of market capitalisation within the next three to five years. In connection with this goal, PSB has set certain financial and operational targets, which it expects its businesses to achieve by 2015. See "*Business—Strategy*". There are numerous assumptions that underpin PSB's strategic objectives.

Although many of these assumptions are within PSB's control, many are not, including in particular the impact of the political and economic environment in which PSB's businesses operate. If any of the beliefs and assumptions underlying PSB's strategic development proves to be incorrect, PSB's ability to achieve its strategic objectives could be compromised, and it may fail to meet its financial and operational targets on a timely basis or at all. Any of these outcomes could have a material adverse effect on PSB's business results of operations, financial condition and prospects.

PSB may fail to effectively integrate acquisitions or mergers

PSB has historically and may in the future engage in 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, be insufficient to support future operations, or be subject to Internet attacks

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. Further, any failure by the Group to successfully integrate IT systems of acquired entities or any inadequacies in such integrated systems could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, PSB's systems may be subject to Internet attacks. PSB faced such attacks in August 2009 and in February and November 2011 on its internet service for corporate clients, "PSB On-Line", which resulted in a system slow-down but PSB was able to prevent service failure and restore the systems. There can be no assurances that any steps taken to prevent and to minimize the effects of any Internet attacks will prove successful. If PSB's systems prove inadequate to protect against such future attacks, it could have a material adverse effect on its business and financial condition.

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 growth 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 2011, 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.

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

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

The laws regulating ownership, bankruptcy, internal control and corporate governance 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.

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

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. 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) 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. 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.

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. For example, Bill No. 521063-5 On amendments to the Banking Law and the CBR Law (that is not yet enacted to become law) proposes, among other things, to broaden the CBR supervisory powers and in particular vest in the CBR the right to determine risk management rules of banks, introduce a new definition of "related borrowers" for the purpose of calculating the exposure to related borrowers (N6) that would include both legally and economically related borrowers and decrease the exposure to related parties (N9.1) from the current threshold of 50% to 20%. 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.

Pursuant to 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 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, secured deposits maintained by individuals with Russian banks are insured for an amount of RUB700,000. In 2010, PSB's contribution of RUB384 million to the scheme was recognised in the category "Other income or expense". 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.

In March 2010, the Banking Law was amended to protect the retail banking segment and as a result, all credit organisations are now prohibited from: (i) increasing interest rates, shortening the tenures of loan agreements or charging additional fees and commissions with respect to retail loans, or (ii) decreasing interest rates, shortening the tenure of deposit agreements or charging additional fees and commissions in respect to retail term deposits.

The CBR has also been developing regulations on bank capital and bringing them into line with international standards. See “The Banking Sector and Banking Regulation in Russia — Russian Banking Regulations — *Regulation of Capital – Basel Implementation in Russia*”. Currently, CBR regulations on bank regulatory capital are relatively new, and untested, which could lead to uncertainty in their application and interpretation. In particular, the CBR has recently amended its regulations regarding the calculation of risk weighted assets for the purpose of the capital adequacy ratio (N1). Such amendments, which will take effect from 1 July 2012, are expected to affect the Russian banking industry generally. Furthermore, the CBR is considering amending its regulations regarding loan loss provisions with respect to loans granted by banks and if such amendments were to be adopted by the CBR, the applicable rules may become more rigorous. The 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.

Russian regulatory capital regulations are subject to 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, Russian banks rely on letters issued by the CBR in response to their individual requests and verbal explanations given by the CBR representatives. Such letters issued by the CBR, as well as such verbal explanations, are informal individual clarifications and do not have the effect of legislation, and as such they may, at any time, be revoked and/or disappplied.

Following the CBR’s preliminary approval and conclusion (*zakluchenie*) on the regulatory capital treatment of a Subordinated Loan, the CBR usually delivers its final approval and conclusion (*zakluchenie*) on the eligibility of a Subordinated Loan for inclusion as Tier 2 Capital between 30 and 60 days after the issue date of the Notes. There can, however, be no guarantee that such approval and conclusion in respect of a Subordinated Loan will be granted within the specified time period or at all. If the CBR does not initially grant such approval or conclusion in respect of a Subordinated Loan within 60 days after the date of the 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 a Subordinated Loan which would result in the early repayment of the Notes.

A 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 a 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, the CBR has initiated amendments to Russian banking legislation which will clarify the definition of “related borrowers” to include both legally and economically related borrowers. See “— *Russian banking and financial regulation has been undergoing significant changes*”.

Although 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.

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, have been in force for a relatively short period of time in comparison with tax legislation in more developed market economies, and the Russian Government's implementation of such legislation is often unclear or inconsistent. Historically, the system of tax collection has been relatively ineffective, resulting in continuous changes being introduced into existing laws and the interpretation thereof.

Although the quality of the Russian tax legislation has generally improved with the introduction of the Tax Code, the possibility exists that Russia may impose arbitrary and/or onerous taxes and penalties in the future, which could adversely affect 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 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, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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 Resolution No. 53, which introduced a concept of an "unjustified tax benefit". This concept is defined mainly by reference to specific examples of tax benefits (e.g. 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 Resolution No. 53 was to combat the abuse of tax law, it can be seen from the cases relating to Resolution No. 53 that have 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, there are some 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.

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 Constitutional Court of the Russian Federation 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 Code if a court determines that a taxpayer has obstructed or hindered a tax inspection. Moreover, the Tax Code provides for the possibility of an extension of the three-year statute of limitations for tax offences if the taxpayer obstructed the performance of the tax review and this has become an insurmountable obstacle for the tax audit. Because the terms “obstructed”, “hindered” and “insurmountable obstacles” are not specifically defined in Russian law, the 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 extended tax audit, if it is concluded that PSB had significant tax underpayments for respective previous tax periods, may have a material adverse effect on PSB’s business, 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.

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

New Russian transfer pricing legislation became effective on 1 January 2012. The list of the “controlled” transactions under current transfer pricing law includes transactions with related parties and certain types of cross-border transactions. This new law considerably toughened the law which was in effect before 2012 by, inter alia, shifting the burden of proving market prices from the tax authorities to the taxpayer. Although the law is supposed to be in line with international transfer pricing principles developed by OECD, there are some peculiarities of how these principles are reflected in the local rules. Special transfer pricing rules apply to transactions with securities and derivatives. It is currently difficult to evaluate what effect these new provisions may have on the Group. The new transfer pricing legislation 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 operations 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 information for the first six months of the year, which are reviewed by its independent auditors, and IFRS consolidated financial statements for the full year, which are audited by independent 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 different risks as compared to more developed markets, and turmoil in any emerging market could adversely affect the value of investments in Russia

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

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

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia is one of the world's largest producers and exporters of oil, natural gas and metal products, the Russian economy is especially sensitive to commodity prices on the world markets 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. Commodity prices continue to be volatile and 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

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. Although the political situation in Russia has stabilised since 2000, future political instability could result in a worsening overall economic situation, including capital flight and a slowdown of investment and business activity. Following Russian parliamentary elections in December 2011 and the presidential election in 2012, controversy concerning alleged voting fraud in favour of the current ruling party, United Russia, led to organised protests in several Russian cities, including one in the Russian capital in which tens of thousands of individuals participated. 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.

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

Russia is a federative state consisting of 83 constituent entities, or "subjects". The Russian Constitution reserves some governmental powers for the federal government, some for the subjects and some for areas of joint competence. In addition, eight "federal districts" (*federal'nye okruga*), which are overseen by a plenipotentiary representative of the 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, significant deterioration of the country's banking system, significant defaults on hard-currency obligations, a dramatic decline in the prices of Russian debt and equity securities and an inability to raise funds on the international capital markets.

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

The Financial Crisis negatively affected the growth of gross domestic product ("GDP") in Russia and led to severe liquidity problems in the Russian banking sector, rouble depreciation against the US dollar and Euro, and a decline in foreign currency and gold reserves. Furthermore, there 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 January 2011, Fitch lowered its sovereign rating for the Russian Federation from positive to stable based on perceived increased political uncertainty and the global economic outlook, and confirmed it in January 2012. In addition to anticipated slower asset growth on the Russian banking market, the Russian Federation may face slower GDP growth and reduced growth in industrial production. A combination of these factors may result in a significant deterioration in the financial fundamentals of Russian banks, including liquidity, asset quality, and profitability.

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

Emerging markets such as Russia are prone to social risks and increased lawlessness, including significant criminal activity. High levels of official corruption reportedly exist in locations where 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 has in the past led to and could in the future lead again to labour and social unrest, a mood of protest, and a rise in nationalism against migrant workers. 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 social protests in Kaliningrad and Arkhangelsk, respectively. Such labour and social unrest could disrupt normal business operations, which also 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 2007-2011 the consumer price index in the Russian Federation measured by the Federal State Statistics Service was approximately 11.9% in 2007, 13.3% in 2008, 8.8% in 2009, 8.8% in 2010 and 6.1% in 2011. Despite this recent reduction, a return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and the erosion of consumer confidence. Any one of these events could lead to decreased demand for 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 is less developed compared to its Western counterparts. It is unclear how legal and regulatory developments will affect the competitive banking landscape in Russia. The regulatory environment in which 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. In recent times, certain Russian banks have experienced difficulties that have caused them to become insolvent and have their licenses revoked, such as the International Industrial Bank, or to recognise large loan impairment provision losses that required steps to replenish their capital, as in the case of the Bank of Moscow. Similar problems at other Russian banks may cause doubts among investors or depositors about the effectiveness of banking supervision in Russia and the reliability of bank financial statements, even under IFRS. This could result in investors or depositors, as the case may be, reducing their exposure to Russian bank equities, debt or deposits, including those of PSB, which could be materially adverse to PSB's business, financial condition, results of operations and prospects.

Devaluation of the rouble against the U.S. dollar and exchange controls could adversely affect the value of investments in the Russian Federation and may have a material adverse effect on PSB's business, financial condition, results of operations and prospects

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 34% 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 significantly over the past two years — ranging from RUB36.43 per U.S.\$1.00 on 19 February 2009 to RUB28.67 per U.S.\$1.00 on 13 November 2009; from RUB31.78 per U.S.\$1.00 on 8 July 2010 to RUB28.94 per U.S.\$1.00 on 13 April 2010; from RUB32.68 per U.S.\$1.00 on 5 October 2011 to RUB27.27 per U.S.\$1.00 on 6 May 2011 and RUB29.03 per U.S.\$ 1.00 as at 1 March 2012.

While the rouble has stabilised against the U.S. dollar and the Euro — by year-end 2011, the Russian rouble had gained 5.1% against the U.S. dollar compared to year-end 2010 — it is uncertain whether this stability will be maintained in the medium term. 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. 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.

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.\$513.9 billion by March 2012, but are still likely to fluctuate going forward. Although Russia's current foreign currency and gold reserves may be sufficient to sustain the domestic currency market in the short term, there can be no assurance that the currency market will not further deteriorate in the medium or long term. Volatility in the Russian currency market or considerable depreciation of the rouble in the medium or long term may adversely affect 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.

PSB's negative pledge contained in the Facility Agreement applicable to the Notes differs from the negative pledge applicable to other note securities previously issued by the Issuer under this Programme

The Facility Agreement applicable to the Notes contains a negative pledge pursuant to which PSB has agreed that it will not, and it will not permit its Subsidiaries (as defined in the Facility Agreement) to create or permit to subsist any liens other than certain Permitted Liens (as defined in the Facility Agreement) to secure any listed indebtedness unless at the same time PSB secures the Notes equally and ratably therewith. See "Facility Agreement – Covenants – Negative Pledge" for the full terms of the negative pledge applicable to the Notes. This negative pledge differs from the negative pledge of PSB applicable to other note securities previously issued by the Issuer under this Programme. Previously, the negative pledge applied to a broader group of indebtedness than just listed indebtedness. As a result of this difference, there is a risk to Noteholders that PSB may issue secured indebtedness that requires it to equally and ratably secure previously issued note securities of the Issuer under the Programme but not simultaneously secure the Notes.

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 (not including the Notes, which as of the date of this Prospectus have not been rated) 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.

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.

In particular, 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**”) establishes that Russian withholding tax could be eliminated provided certain criteria specified in the Convention are satisfied by the recipient of income.

The application of tax benefits under the Convention could be influenced by the change in practice of the Russian tax authorities with respect to the concept of factual/beneficial owner of income. Specifically, on 30 December 2011 the Russian Ministry of Finance issued letter no. 03-08-13/1 (the “**Letter**”) addressed to the Federal Tax Service (“**FTS**”), in which the Finance Ministry asserted that in the context of a eurobond structure, a foreign issuer of eurobonds cannot benefit from the provisions of the Russia-Ireland double tax treaty in respect of interest paid by the Russian borrower because, in the view of the Ministry, such foreign issuers of eurobonds may not be considered the beneficial owners of interest income. Conversely, the Letter says that holders of the notes could apply the provisions of the respective tax treaty concluded between Russia and the country of residency of each holder of the notes.

Although the Letter refers to a deal structure which is different from the transaction structure (including in terms of the jurisdiction of the issuer) described in the Base Prospectus, PSB cannot exclude the risk that the conclusions made in the Letter may potentially be applied by the Russian tax authorities to the payments of interest under any Loan.

Further, there are a few instances in which the Russian tax authorities have challenged certain eurobond transactions (albeit they were not identical to the one described in the Base Prospectus), arguing that the noteholders rather than the issuers should be regarded as actual recipients of interest income. As at the date of this Base Prospectus, none of these cases have been brought to court. If these cases are brought before a Russian court and such court upholds the position of the Russian tax authorities, it may be difficult for PSB to continue making interest payments on any Loan without deducting withholding on the basis of the Convention.

It should be noted that on 27 January 2012 the Ministry of Finance published a press-release where it confirmed the opinion expressed in the Letter reflects its current position but announced plans to introduce legislation which will remove the obligation imposed on Russian borrowers to act as a tax agent subject to certain conditions. On 20 February 2012 the Ministry of Finance published its proposed amendments to the Tax Code on its website.

According to the proposal of the Ministry of Finance in respect of eurobond structures, Russian borrowers will be fully released from the obligation to withhold tax, i.e., from the obligation to act as tax agents, from interest and some other payments to foreign entities provided (1) these entities have issued bonds or other debt obligations admitted to trading on a recognised foreign exchange and the proceeds from the issue were used to fund the loan or rights to such bonds or other debt obligations have been registered in recognized depository/clearing organizations (e.g. Euroclear, Clearstream, DTC), (2) there is a double tax treaty between Russia and the jurisdiction of tax residence of the issuer which can be confirmed by a tax residency certificate. These provisions are intended to apply retrospectively to income paid since 2007. The lists of recognised foreign exchanges or depository/clearing organisations have not been drafted yet.

Importantly, the proposed legislative changes do not exempt foreign interest income recipients from Russian withholding tax, although currently there is no requirement in Russian tax legislation for the foreign income recipients to self-assess and pay tax to Russian tax authorities. The Ministry of Finance acknowledged in its information letter published on its website that the release from obligation to act as a tax agent means, in effect, that withholding tax should not arise in connection with eurobonds, since there is neither a mechanism nor obligation for a non-resident to independently calculate and pay such tax. There can be no assurance that such rules will not be introduced in the future or that the tax authorities will not make attempts to collect such tax from foreign income recipients.

The Ministry has consulted with the Federal Tax Service and in the information letter published on 20 February 2012 on its website provided an assurance that until the proposed legislative amendments enter into force, there are no plans to challenge Russian borrowers in connection with payments on eurobonds issued prior to or during 2012, in respect of which borrowers are expected to be released from obligations as a tax agent under the proposed legislative amendments. However, such declarations made by the Ministry are not legally binding.

The above mentioned draft law is subject to further changes and is not under consideration in the State Duma as of the date of the Base Prospectus. It is expected that it will be submitted to the State Duma for consideration in the upcoming spring session. It is currently uncertain whether the current version of the draft law will be enacted, when it will be introduced, or how it may be interpreted and applied by the tax authorities and/or courts in practice. Until this draft law is adopted, it remains merely a declaration of intent by the Ministry.

Furthermore, in August 2011 the Russian Government proposed in its Main Directions of Russian Tax Policy

for 2012, and planned for 2013-2014, legislative changes concerning an anti-avoidance mechanism with respect to double tax treaty benefits in cases where ultimate beneficiaries of income do not reside in the relevant double tax treaty country. The introduction of such a concept may result in the inability of foreign entities to claim benefits under double tax treaties through structures which historically were subject to double tax treaty protection in Russia, including the structure of the Programme as described in the Base Prospectus.

Therefore, it is not currently possible to determine the extent to which the proposed changes to the Tax Code and/or changes in the position of the Russian tax authorities could impact the application of the benefits envisaged by the Convention relating to interest and some other payments under any Loan by PSB. Accordingly, in the absence of clarity on the potential amendments to the tax legislation, there can be no assurance that such relief will be available in practice or will continue to be available throughout the term of the Loans.

The new protocol to the Convention was signed in 2011. The protocol introduces certain changes to the provisions of the Convention. Such changes include, inter alia, a limitation on the benefits of a resident of one contracting state if the main purpose or one of the main purposes of the establishment and existence of such resident was the receipt of treaty benefits; as well as the extension of exchange of information procedures. The protocol also provides that income falling under the “other income” category may be subject to Russian withholding tax. Once the protocol is ratified and becomes effective, it may have an impact on future payments under any Loan Agreement including, inter alia, on payments other than interest income and principal.

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 potentially, 30% in respect of non-resident individual Noteholders) 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 non-resident 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. 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 provided certain conditions are met. (See “Taxation — *Luxembourg Taxation*”.) 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. There can be no assurance that such reduction or elimination will be available in practice.

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

The U.S. Foreign Account Tax Compliance rules could materially affect PSB, the Issuer and Noteholders

The U.S. Foreign Account Tax Compliance rules (“**FATCA**”) were enacted as part of the Hiring Incentives to Restore Employment (“**HIRE**”) Act of 2010 to require foreign banks and investment funds to provide information to the U.S. Internal Revenue Service (“**IRS**”) about U.S. customers and investors. This is achieved through a comprehensive information reporting regime that requires foreign financial institutions (which may include PSB and the Issuer) to conduct diligence on their account holders and investors to determine whether their accounts are “U.S. accounts” (defined as financial accounts maintained by certain U.S. persons or certain U.S. owned foreign entities), and either provide detailed information about these U.S. accounts to the IRS or incur a 30% withholding tax on certain payments. The U.S. Treasury Department recently released proposed regulations addressing some issues arising under FATCA, but has not yet issued final regulations implementing FATCA, so the scope and application of FATCA is uncertain at this time. It is possible that FATCA could operate to impose U.S. withholding tax on (i) beginning in 2014, payments to PSB in respect of U.S. debt or equity instruments or other securities, including interest and dividends, (ii) beginning in 2015, payments to PSB of gross proceeds from the disposition of such securities, and (iii) beginning in 2017, certain “pass-thru payments” to PSB. It is also possible that PSB and the Issuer could incur material costs in implementing information-gathering systems to comply with FATCA. Given the lack of final regulations, it is impossible for PSB to evaluate the potential effect of FATCA at this time.

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

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 a 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 2011, PSB had RUB32.8 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 a daily 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 2011 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" and "Business" included elsewhere in this Base Prospectus and the Financial Statements incorporated by reference in this Base Prospectus.

	As at 31 December 2011 (RUB thousands)
Equity	
Share capital	12,201,899
Share premium.....	20,612,247
Additional paid-in-capital	81,919
Revaluation reserve for property	2,836,942
Revaluation reserve for investments available for sale	(231,863)
Retained earnings.....	18,648,805
Total equity attributable to owners of the parent	<u>54,149,949</u>
Non-controlling interest	<u>(44,356)</u>
Total equity	<u>54,105,593</u>
Senior long-term debt	
Domestic bonds issued	14,724,814
Borrowings under senior loan agreements funded by issuances of loan participation notes.....	18,044,239
Subordinated debt net of accrued interest ⁽¹⁾	17,444,489
Total long-term debt⁽²⁾	<u>50,213,542</u>
Total long-term debt and equity	<u>104,319,135</u>

(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.

Except as set forth below, there has been no material change in the Group's consolidated capitalisation since 31 December 2011.

In February 2012, PSB fully placed bonds of BO-2 and BO-4 series for a total amount of RUB10 billion. The bonds mature in three years and the coupon rate is 8.75% per annum.

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 years ended 31 December 2011, 2010 and 2009 has been extracted from the 2011, 2010 and 2009 Annual Financial Statements, respectively. The following data should be read in conjunction with the Financial Statements incorporated by reference 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		
	2011	2010	2009
	(RUB thousands)		
Interest income	45,768,599	46,321,190	54,599,926
Interest expense ⁽¹⁾	(22,129,694)	(25,712,013)	(28,998,318)
Net interest income	23,638,905	20,609,177	25,601,608
Fee and commission income	8,877,951	7,559,980	7,012,078
Fee and commission expense	(1,797,968)	(1,522,700)	(1,406,846)
Net fee and commission income	7,079,983	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	382,071	(350,153)	1,114,182
Net foreign exchange gain	1,209,909	614,460	375,892
Net gain on purchase of interest in subsidiaries ⁽¹⁾	—	—	149,023
Income on early redemption of other financial liabilities ⁽¹⁾	—	—	127,358
Other income and expense ⁽¹⁾	1,202,260	1,309,893	1,096,694
Operating income	33,513,128	28,220,657	34,069,989
Loan impairment charge	(9,362,793)	(10,335,714)	(20,841,815)
Other impairment charge	(43,369)	(82,578)	(93,531)
Net loss on revaluation of property	(83,960)	(68,021)	(457,918)
General and administrative expenses ⁽¹⁾	(16,959,393)	(14,854,862)	(13,302,330)
Profit/(loss) before tax	7,063,613	2,879,482	(625,605)
Income tax expense	(1,845,027)	(402,333)	(248)
Profit/(loss) after tax	5,218,586	2,477,149	(625,853)
Attributable to:			
Owners of the parent	5,259,229	2,477,149	(625,853)

- (1) In connection with the preparation of the Group's 2010 and 2011 Annual Financial Statements, the Group changed the presentation of certain line items compared to the year ended 31 December 2009, thus the presentation of these line items for the year ended 31 December 2009 is different as compared with the presentation for the years ended 31 December 2010 and 2011. See "Presentation of Financial and Other Information — Impact of Changes in Presentation".

Selected Group Statement of Financial Position Data

	As at 31 December		
	2011	2010	2009
	(RUB thousands)		
Assets			
Cash and cash equivalents	55,830,766	45,182,249	108,322,648
Obligatory reserves with central banks	5,878,191	3,015,876	3,149,729
Placements with banks and other financial institutions	5,701,366	12,122,032	5,075,800
Financial instruments at fair value through profit or loss	40,269,514	46,004,572	41,751,838
Amounts receivable under reverse repurchase agreements	23,524,806	15,949,846	10,080,301
Loans to customers	396,136,966	310,947,643	266,421,579
Investments available for sale	1,308,984	2,203,213	35,083
Investment held to maturity	2,729,316	3,966,911	7,204,938
Assets held for sale	—	5,944,765	2,600,001
Other assets	2,076,257	2,513,778	2,100,315
Current income tax prepayments	86,908	612,254	660,877
Deferred tax asset	127,732	1,065,008	600,326
Investment property	3,547,874	—	—
Property and equipment	25,335,199	25,598,772	23,207,942

Total assets	562,553,879	475,126,919	471,211,377
Liabilities			
Financial liabilities at fair value through profit or loss	645,799	1,593,384	1,252,225
Deposits and balances from banks and other financial institutions	65,539,190	59,677,877	64,780,390
Amounts payable under repurchase agreements	1,607,662	2,790,016	60,697
Current accounts and deposits from customers	338,602,371	297,046,845	289,548,839
Own securities issued	56,724,741	32,127,497	43,654,712
Other borrowed funds	16,169,918	12,802,195	13,819,410
Other liabilities	2,513,675	2,439,590	1,800,988
Current income tax payable	16,573	948	27,341
Deferred tax liability	49,995	55,645	313,033
Subordinated borrowings	26,578,362	21,817,689	17,748,361
Total liabilities	508,448,286	430,351,686	433,005,996
Equity			
Share capital	12,201,899	11,511,052	10,062,544
Share premium	20,612,247	17,303,093	13,319,695
Additional paid-in-capital	81,919	81,919	1,056,102
Revaluation reserve for property	2,836,942	2,717,232	2,353,907
Revaluation reserve for investments available for sale	(231,863)	(80,230)	160
Retained earnings	18,648,805	13,242,167	11,147,632
Total equity attributable to owners of the parent	54,149,949	44,775,233	37,940,040
Non-controlling interest	(44,356)	—	265,341
Total equity	54,105,593	44,775,233	38,205,381
Total liabilities and equity	562,553,879	475,126,919	471,211,377

Selected Group Financial Ratios and Other Information

	As at or for the year ended 31 December		
	2011	2010	2009
Profitability			
Return on total assets ^{(1),(2)}	1.04%	0.53%	(0.14%)
Return on equity attributable to owners of the parent ^{(1),(2)}	11.2%	5.85%	(1.61%)
Operating expenses/average total assets ^{(1),(3)}	3.37%	3.21%	3.03%
Average equity/average total assets ⁽¹⁾	9.41%	9.15%	8.84%
Net fee and commission income/operating income	21.13%	21.39%	16.45%
Liquidity			
Loans to customers/current accounts and deposits from customers	116.99%	104.68%	92.01%
Total liquid assets ⁽⁴⁾ /total assets	18.0%	20.4%	32.6%
Capital Adequacy⁽⁵⁾			
Total capital	13.94%	14.38%	14.32%
Credit Quality			
Gross overdue loans to customers/gross loans to customers	6.8%	12.0%	15.6%
Impairment allowance for loans to customers/gross loans to customers	6.9%	10.8%	12.7%
Loan impairment charge/average gross loans ⁽¹⁾	2.5%	3.2%	6.6%
Interest and fee and commission income/interest and fee and commission received	(0.6%)	3.9%	16.6%

(1) Calculation is based on the simple average of the opening and closing balances for each quarter of 2009, 2010 and 2011.

(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, investments available for sale 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 incorporated by reference in this Base Prospectus, "Presentation of Financial and Other Information" and "Selected Consolidated Financial Information".

In connection with the preparation of the Group's 2010 and 2011 Annual Financial Statements, the Group changed the presentation of certain statement of income and balance sheet items as compared to the presentation in the 2009 Annual Financial Statements. Accordingly, certain items in the 2009 Annual Financial Statements are not presented on a directly comparable basis to the current presentation in the 2010 and 2011 Annual Financial Statements. See "Presentation of Financial and Other Information — Impact of Changes in Presentation".

This section contains forward-looking statements that involve risks and uncertainties. The Group's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

The Group is one of the leading universal banks in Russia. As at 1 January 2012, the Group was ranked the eleventh largest bank by assets size and the second largest among the banks not controlled by the Russian state-controlled entities or international 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 in Moscow, the Moscow region and other Russian regions. The Group's four principal business lines are: (i) corporate banking services (including services to state and local authorities but 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". The Group's operating income decreased from RUB34.1 billion for the year ended 31 December 2009 to RUB28.2 billion for the year ended 31 December 2010, and increased to RUB33.5 billion for the year ended 31 December 2011. The Group's total assets increased from RUB471.2 billion as at 31 December 2009 to RUB475.1 billion as at 31 December 2010, and to RUB562.6 billion as at 31 December 2011, and total equity increased from RUB38.2 billion as at 31 December 2009 to RUB44.8 billion as at 31 December 2010 and further increased to RUB54.1 billion as at 31 December 2011.

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 September 2011, for the year 2010, Russia was the world's 12th largest economy with GDP of US\$1,480 billion and a population of 142.9 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 Financial Crisis. See "Risk Factors — Risks Relating to PSB and the Group's Business and Industry — *The instability of the global and the Russian credit markets and banking sectors and the ongoing European sovereign debt crisis could have a material adverse effect on PSB's business, liquidity and financial condition*". 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.

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*".

The Russian economy partially recovered in 2010, which helped improve the quality of the Group's newly originated loan portfolio. The European debt crisis of 2011 thus far has had limited impact on the Russian economy since it has not led to significant declines in the prices of Russia's key exports, mainly natural resource commodities, including oil and gas, as well as due to Russia's relatively healthy fiscal finances including a low debt to GDP ratio, small budget deficit, and high level of international reserves.

According to information published by Rosstat, Russia's GDP declined by 7.8% in 2009, after having increased by 5.2% in 2008, and then returned to growth in 2010 and 2011, increasing by 4.3% in both years. Commodity prices also demonstrated high levels of volatility, although they generally increased in 2011. For example, the price of Urals crude oil, Russia's export blend of crude, increased from U.S.\$38.21 per barrel as of February 18, 2009 to U.S.\$122.88 as of April 8, 2011, with a closing price of U.S.\$105.74 as of December 30, 2011, according to Bloomberg. The following table shows Russian GDP, inflation, total GDP and GDP per capita for the periods indicated.

	For the year ended 31 December		
	2011	2010	2009
Real GDP growth/(decrease)	4.3%	4.3%	(7.8%)
Inflation	6.1%	8.8%	8.8%
Total nominal GDP (RUB in billions)	54,369	45,166	38,809
GDP per capita (RUB)	380,342	316,091	273,376

Source: Rosstat.

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 in 2010 and the first half of 2011 there were signs of partial improvement, the volatility and market disruption in the global banking sector continued. In the second half of 2011, the banking sector felt the effects of the European sovereign debt crisis and experienced renewed liquidity tightening and an increase in the costs of wholesale borrowing. As a result, the slow decline in interest rates on lending and the relative stability of rates on new customer deposits achieved during the latter half of 2010 and the beginning of 2011 exhibited a sharp reversal in the last quarter of 2011.

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 2011 increased by 42.2%, from RUB22,003 million as at 31 December 2010 to RUB31,297 million as at 31 December 2011, due to the re-launch of PSB's retail lending programme and improvement in the quality of PSB's retail portfolio, which resulted in a reduction in provisions. PSB's corporate and SME loan portfolios, expanded in 2011 compared to 2010. PSB's net corporate loan portfolio (loans to corporate clients and factoring loans) increased by 23.8% from RUB266,515 million as at 31 December 2010 to RUB329,964 million as at 31 December 2011, and PSB's net SME loan portfolio increased by 55.5% from RUB22,430 million as at 31 December 2010 to RUB34,875 million as at 31 December 2011, primarily due to purchase of Trust Bank's SME loan portfolio. See "Business – *SME Lending*".

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 2011, interest rates on PSB's loan portfolio declined due to increased competition for quality borrowers and resulting pressure on the margins of credit products. PSB's total interest income decreased by 1.2% to RUB45,769 million for the year ended 31 December 2011 as compared with RUB46,321 million for the year ended 31 December 2010, in itself a decrease of 15.2% from RUB54,600 million for the year ended 31 December 2009. However, total interest expense also decreased by 13.9% to RUB22,130 million for the year ended 31 December 2011 as compared to RUB25,712 million for the year ended 31 December 2010, itself a decrease of 11.3% from RUB28,998 million for the year ended 31 December 2009. As a result, PSB's net interest income increased by 14.7% to RUB23,639 million for the year ended 31 December 2011 as compared with RUB20,609 million for the year ended 31 December 2010, which was a decrease of 19.5% from RUB25,602 million for the year ended 31 December 2009. Further, PSB's net interest margin (calculated on a quarterly basis as described in "Management Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations for the Years Ended 31 December 2011, 2010 and 2009") for the year ended 31 December 2011 increased to 5.0% as compared with 4.7% for the year ended 31 December 2010, itself a decrease from 6.6% for the year ended 31 December 2009.

Due to efficient asset and liability management, including reduction in excess liquidity and funding costs, PSB's net interest margin improved in 2011. 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 applicable financial year)) 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 approach adopted by the Group in the context of NPLs for corporate loans is more conservative as compared to loans to individuals and SMEs – in the latter case, if there is partial repayment of overdue principal and/or interest during the last quarter of the year, then the same is excluded when determining NPLs. Further, corporate loans may be categorized as NPLs based on management judgment, even if principal and/or interest is not overdue by more than 90 days.

The level of NPLs as at 31 December 2009 amounted to RUB37,556 million or 12.3% 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. Loan impairment charges made up to 61% of operating income for the year 2009. 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.

As a result of the partial recovery of the Russian economy during 2010 and sales and write-off of loans during 2010 and 2011 and because of the policy changes of the Group with respect to new SME, corporate and retail lending, (see “— Results of Operations for the Years Ended 31 December 2011, 2010 and 2009 — *Loan Impairment*”), the quality of the loan portfolio improved significantly in 2010 and 2011. As at 31 December 2011, the level of NPLs decreased to RUB24,249 million or 5.7% of the total gross loan portfolio, as compared to RUB32,084 million or 9.2% of the total gross loan portfolio as at 31 December 2010 and RUB37,556 million or 12.3% of the total gross loan portfolio as at 31 December 2009. However, PSB continues to suffer the “lagging effect” of bad loans and in February 2012, the Group sold an additional RUB1,526 million of outstanding principal balance of loans to individuals.

All business segments experienced a decline in the level of NPLs during the second half of 2010 and in 2011 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 16.6% to 3.9% 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 RUB29,217 million as at 31 December 2011, a decrease of 22.4% from RUB37,673 million as at 31 December 2010, which itself was a decrease of 3.0% from RUB38,846 million as at 31 December 2009. Loan impairment charges made up to 27.9% of operating income for the year 2011, compared with 36.6% of operating income for the year 2010, and 61% in 2009. The decrease in loan impairment charges in 2011 and 2010 contributed to the net profit (after tax) for the year ended 31 December 2011, which amounted to RUB5,219 million, up from a net profit (after tax) of RUB2,477 million for the year ended 31 December 2010 and a net loss (after tax) of RUB626 million for the year ended 31 December 2009. Operating income increased by 18.8% to RUB33,513 million for the year ended 31 December 2011 as compared with RUB28,221 million for the year ended 31 December 2010, itself a decrease of 17.2% as compared with RUB34,070 million for the year ended 31 December 2009 due to decreases in the net interest margin. The Group’s pre-provision income (calculated as operating income less general and administrative expenses) increased by 23.9% to RUB16.6 billion for the year ended 31 December 2011, as compared with RUB13.4 billion for the year ended 31 December 2010, itself a decrease of 35.6% as compared with RUB20.8 billion for the year ended 31 December 2009.

Going forward the Group intends to maintain a more conservative approach to retail and other lending. See “Risk Management – *Credit Risk*”. Further, NPLs will be managed through the Group’s debt management policy, whereby the collection of long-term bad loans will be outsourced and potentially sold to external collectors.

Central Bank of Russia Funding and Total Assets

In the first quarter of 2009 PSB repaid the state funding it had received from the CBR in the last quarter of 2008, which contributed to a drop in total assets of PSB. In the fourth quarter of 2009 PSB experienced 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 RUB471,211 million as at 31 December 2009, to RUB475,127 million as at 31 December 2010, and RUB562,554 million as at 31 December 2011. PSB expects that if, in the future, it experiences liquidity short-falls, it will be able to receive such funding from the CBR within the limits set by the CBR and the Ministry of Finance.

Equity

Total equity attributable to owners of the parent increased by 20.9% to RUB54,150 million as at 31 December 2011 as compared with RUB44,775 million as at 31 December 2010 due to increase in share capital, revaluation of certain real estate assets and increase in retained earnings. As at 31 December 2011 Tier 1 and total capital adequacy ratios were 10.03% and 13.94%, respectively. 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.

Significant Accounting Policies

Detailed description of the main accounting policies used in preparing the 2011 Annual Financial Statements is set forth in the Note 3 to the 2011 Annual Financial Statements incorporated by reference in this Base Prospectus. Similarly, detailed descriptions of the main accounting policies used in preparing the 2010 and 2009 Annual Financial Statements are set forth in the Notes 3 to the 2010 and 2009 Annual Financial Statements, respectively incorporated by reference 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.

Impact of New Accounting Standards

As at the date of the 2011 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, 2011 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 2011 Annual Financial Statements.

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

The Group recorded a profit (after tax) of RUB5,219 million for the year ended 31 December 2011 from a profit (after tax) of RUB2,477 million for the year ended 31 December 2010 and a loss (after tax) of RUB626 million for the year ended 31 December 2009. The profit for 2011 was due to overall increase in the operating income, partially offset by increase in general and administrative expenses. 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. For the year ended 31 December 2010, the cost-to-income ratio (calculated as general and administrative expenses divided by operating income) increased from 39.0% to 52.6% as a result of decline in operating revenues driven by considerably narrower net interest margins as compared to 2009 but decreased to 50.6% for the year ended 31 December 2011 as a result of increase in the operating income which exceeded the growth of general and administrative expenses.

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

	Year ended 31 December		
	2011	2010	2009
	(RUB thousands)		
Interest income	45,768,599	46,321,190	54,599,926
Interest expense ⁽¹⁾	(22,129,694)	(25,712,013)	(28,998,318)
Net interest income	23,638,905	20,609,177	25,601,608
Fee and commission income.....	8,877,951	7,559,980	7,012,078
Fee and commission expense	(1,797,968)	(1,522,700)	(1,406,846)
Net fee and commission income	7,079,983	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	382,071	(350,153)	1,114,182
Net foreign exchange gain	1,209,909	614,460	375,892
Net gain on purchase of interest in subsidiaries ⁽¹⁾	—	—	149,023
Income on early redemption of other financial liabilities ⁽¹⁾	—	—	127,358
Other income and expense ⁽¹⁾	1,202,260	1,309,893	1,096,694
Operating income	33,513,128	28,220,657	34,069,989
Loan impairment charge	(9,362,793)	(10,335,714)	(20,841,815)
Other impairment charge	(43,369)	(82,578)	(93,531)
Net loss on revaluation of property	(83,960)	(68,021)	(457,918)
General and administrative expenses ⁽¹⁾	(16,959,393)	(14,854,862)	(13,302,330)
Profit/(loss) before tax	7,063,613	2,879,482	(625,605)
Income tax expense	(1,845,027)	(402,333)	(248)
Profit/(loss) after tax	5,218,586	2,477,149	(625,853)
Profit/(loss) attributable to:			
Owners of the parent	5,218,586	2,477,149	(625,853)

- (1) In connection with the preparation of the Group's 2010 and 2011 Annual Financial Statements, the Group changed the presentation of certain line items compared to the year ended 31 December 2009, thus the presentation of these line items for the year ended 31 December 2009 is different as compared with the presentation for the years ended 31 December 2010 and 2011. See "Presentation of Financial and Other Information — 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 2009, 2010 and 2011. Calculation of these average balances on monthly, weekly or daily basis could result in materially different average results.

	For the year ended 31 December								
	2011			2010			2009		
	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)}	31,171,117	2.9%	897,781	53,036,855	2.6%	1,377,981	40,223,366	1.3%	541,021
Financial assets at fair value through profit or loss ⁽⁴⁾	35,089,672	8.5%	2,970,767	35,829,519	9.0%	3,229,142	19,574,103	12.7%	2,481,705
Amounts receivable under reverse repurchase agreements.....	21,658,554	3.5%	747,292	16,486,178	4.4%	719,663	6,065,437	8.6%	519,270
Loans to customers ⁽³⁾	377,124,059	10.9%	40,918,351	324,332,431	12.5%	40,651,403	314,824,566	16.0%	50,401,496
Investments held to maturity	3,339,185	7.0%	234,408	5,241,453	6.5%	343,001	8,101,495	8.1%	656,434
Total interest-earning assets	468,382,587	9.8%	45,768,599	434,926,436	10.7%	46,321,190	388,788,967	14.0%	54,599,926
Non-interest earning assets	70,645,660	—	—	68,287,342	—	—	79,777,218	0.0%	—
Impairment allowance.....	(35,582,417)	—	—	(40,067,560)	—	—	(29,678,945)	0.0%	—
Total assets	503,445,830	9.1%	45,768,599	463,146,218	10.0%	46,321,190	438,887,240	12.4%	54,599,926
Liabilities and equity									
Deposits and balances from banks and other financial institutions	58,798,608	3.7%	2,147,250	57,450,199	4.3%	2,489,136	77,459,292	7.0%	5,442,845
Amounts payable under repurchase agreements	3,767,536	4.3%	163,312	3,257,350	4.2%	135,606	1,845,352	11.3%	209,000
Current accounts and deposits from customers	304,990,592	4.2%	12,928,777	286,783,570	5.9%	16,983,882	244,659,991	6.8%	16,572,417
Own securities issued.....	49,504,806	7.5%	3,716,579	38,209,172	8.6%	3,283,850	40,469,065	10.5%	4,264,295
Other borrowed funds	11,930,969	5.9%	705,285	12,795,588	5.5%	708,163	18,226,145	4.9%	884,046
Subordinated borrowings	22,933,040	10.8%	2,468,491	18,628,050	11.3%	2,111,376	14,188,733	11.5%	1,625,715
Total interest bearing liabilities	451,925,551	4.9%	22,129,694	417,123,929	6.2%	25,712,013	396,848,578	7.3%	28,998,318
Non-interest bearing liabilities	4,137,211	—	—	3,657,444	—	—	3,252,926	0.0%	—
Total equity attributable to owners of the parent	47,413,630	—	—	42,256,909	—	—	38,342,126	0.0%	—
Non-controlling interest	(30,562)	—	—	107,936	—	—	443,610	0.0%	—
Total liabilities and equity	503,445,830	4.4%	22,129,694	463,146,218	5.6%	25,712,013	438,887,240	6.6%	28,998,318
Net interest income	—	—	23,638,905	—	—	20,609,177	—	—	25,601,608
Net interest spread ⁽⁵⁾	—	4.9%	—	—	4.5%	—	—	6.7%	—
Net interest margin ⁽⁶⁾	—	5.0%	—	—	4.7%	—	—	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 for the year before loan impairment allowance expressed as a percentage of average interest-earning assets. Average interest earning assets are calculated for the year using quarterly averages.

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. 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					
	2011 vs 2010			2010 vs 2009		
	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⁾	(568,106)	87,906	(480,200)	172,347	664,613	836,960
Financial assets at fair value through profit or loss	(66,679)	(191,696)	(258,375)	2,060,945	(1,313,508)	747,437
Amounts receivable under reverse repurchase agreements.....	225,787	(198,158)	27,629	892,133	(691,740)	200,393
Loans to customers	6,616,834	(6,349,886)	266,948	1,522,151	(11,272,244)	(9,750,093)
Investments held to maturity.....	(124,485)	15,892	(108,593)	(231,739)	(81,694)	(313,433)
Total interest income	6,083,351	(6,635,942)	(552,591)	4,415,837	(12,694,573)	(8,278,736)
Interest expense						
Deposits and balances from banks and other financial institutions	58,422	(400,308)	(341,886)	(1,405,982)	(1,547,727)	(2,953,709)
Amounts payable under repurchase agreements	21,239	6,467	27,706	159,919	(233,313)	(73,394)
Current accounts and deposits from customers.....	1,078,255	(5,133,361)	(4,055,106)	2,853,304	(2,441,839)	411,465
Own securities issued.....	970,792	(538,063)	432,729	(238,129)	(742,316)	(980,445)
Other borrowed funds	(47,852)	44,974	(2,878)	(263,405)	87,522	(175,883)
Subordinated borrowings	487,944	(130,829)	357,115	508,648	(22,987)	485,661
Total interest expense	2,568,800	(6,151,120)	(3,582,320)	1,614,355	(4,900,660)	(3,286,305)
Net change in net interest income	3,514,551	(484,822)	3,029,729	2,801,482	(7,793,913)	(4,992,431)

(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		
	2011	2010	2009
	(RUB thousands)		
Interest income			
Loans to customers.....	40,918,351	40,651,403	50,401,496
Financial assets at fair value through profit or loss	2,970,767	3,229,142	2,481,705
Placements with banks and other financial institutions and cash and cash equivalents.....	897,781	1,377,981	541,021
Reverse repurchase agreements.....	747,292	719,663	519,270
Investments held to maturity.....	234,408	343,001	656,434
Total interest income.....	45,768,599	46,321,190	54,599,926
Interest expense			
Current accounts and deposits from customers ⁽¹⁾	12,928,777	16,983,882	16,572,417
Own securities issued ⁽¹⁾	3,716,579	3,283,850	4,264,295
Subordinated borrowings	2,468,491	2,111,376	1,625,715
Deposits and balances from banks and other financial institutions ⁽¹⁾	2,147,250	2,489,136	5,442,845
Other borrowed funds	705,285	708,163	884,046
Repurchase agreements.....	163,312	135,606	209,000
Total interest expense	22,129,694	25,712,013	28,998,318
Net interest income.....	23,638,905	20,609,177	25,601,608

- (1) In connection with the preparation of the Group's 2010 and 2011 Annual Financial Statements, the Group changed the presentation of certain line items compared to the year ended 31 December 2009, thus the presentation of these line items for the year ended 31 December 2009 is different as compared with the presentation for the years ended 31 December 2010 and 2011. See "Presentation of Financial and Other Information — Impact of Changes in Presentation".

Primarily for the reasons set forth below, net interest income increased by 14.7% to RUB23,639 million for the year ended 31 December 2011 as compared with RUB20,609 million for the year ended 31 December 2010, which itself represented a decrease of 19.5% on RUB25,602 million for the year ended 31 December 2009. The Group's annualised interest margin, defined as net interest income, expressed as a percentage of average interest-earning assets increased to 5.0% for the year ended 31 December 2011 and decreased to 4.7% for the year ended 31 December 2010 as compared with 6.6% for the year ended 31 December 2009. 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, increased to 4.9% for the year ended 31 December 2011 and decreased to 4.5% for the year ended 31 December 2010 as compared with 6.7% for the year ended 31 December 2009.

Interest Income

Interest income from loans to customers

Interest income from loans to customers increased by 0.7% to RUB40,918 million for the year ended 31 December 2011 as compared with RUB40,651 million for the year ended 31 December 2010. The Group attributes this change to an increase in the average balance of PSB's loans to customers in 2011 as compared to 2010 though the effect of this increase was absorbed almost completely by lower interest rates. 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 slightly 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.

The average interest rate on gross loans to customers was 10.9% for the year ended 31 December 2011, 12.5% for the year ended 31 December 2010, and 16.0% for the year ended 31 December 2009. The decrease in the year ended 31 December 2011 compared to 2010 was driven by increased competition for quality borrowers and resulting pressure on the margins of credit products. The decrease during the year ended 31 December 2010 was primarily due to significant market-wide tightening of margins, as indicated by the CBR refinancing rate, which decreased from 13% in early 2009 to 8.75% at the beginning of 2010.

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

Interest income from financial assets at fair value through profit or loss decreased by 8.0% to RUB2,971 million for the year ended 31 December 2011, as compared with RUB3,229 million for the year ended 31 December 2010. The

decrease during this period was primarily due to a slight decrease in PSB's portfolio of interest-bearing financial instruments and a decrease in interest rates. 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.

The average interest rate on financial assets at fair value through profit or loss was 8.5%, 9.0% and 12.7% for the years ended 31 December 2011, 2010 and 2009, respectively. The decrease from 2009 to 2011 was primarily due to the significant market-wide tightening of margins, as indicated by the CBR refinancing rate, which decreased from 13% in early 2009 to 8.75% at the beginning of 2010 and to 8% at the end of 2011.

Interest income from investments held to maturity

Interest income from investments held to maturity decreased by 31.8% to RUB234 million for the year ended 31 December 2011 as compared with RUB343 million for the year ended 31 December 2010. The decrease during this period was primarily due to redemption of financial instruments 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.

The average interest rate on investments held to maturity was 7.0% for the year ended 31 December 2011, and 6.5% and 8.1% for the years ended 31 December 2010 and 2009, respectively. The increase from 2010 to 2011 was due to redemption of cheaper instruments. The decline from 2009 to 2010 was primarily due to the significant market-wide tightening of margins.

Interest income from placements with banks and other financial institutions

Interest income from placements with banks and other financial institutions decreased by 34.8% to RUB898 million for the year ended 31 December 2011 as compared with RUB1,378 million for the year ended 31 December 2010. The Group attributes this decrease primarily to falling volumes of placements despite rising interest rates due to the effect of the European sovereign debt crisis on the banking sector. 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.

The average interest rate on placements with banks and other financial institutions was 2.9%, 2.6% and 1.3% for the years ended 31 December 2011, 2010 and 2009, respectively. The increase from 2010 to 2011 was driven by increase in interest rates for inter-bank lending in line with the general market trend, which was supported by the easing of monetary policy by the CBR and the improved liquidity environment. The increase from 2009 to 2010 was driven by the increase in average maturity of placements with banks and other financial institutions.

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

Interest income from reverse repo agreements increased by 3.8% to RUB747 million for the year ended 31 December 2011 as compared with RUB720 million for the year ended 31 December 2010. The Group attributes these changes primarily to a growth in the average volume of reverse repo agreements as part of its business operations, which was significantly offset by the decline in interest rates during this period. 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).

The average interest rate on reverse repo agreements was 3.5%, 4.4% and 8.6% for the years ended 31 December 2011, 2010 and 2009, respectively. The decrease from 2010 to 2011 was driven by market-wide tightening of margins in the first half of 2011. The decrease from 2009 to 2010 was driven by significant market-wide tightening of margins.

Total interest income

Primarily for the reasons set forth above, total interest income decreased by 1.2% to RUB45,769 million for the year ended 31 December 2011 as compared with RUB46,321 million for the year ended 31 December 2010, in itself a

decrease of 15.2% from RUB54,600 million for the year ended 31 December 2009. The average interest rate on interest earning assets was 9.8%, 10.7% and 14.0% for the years ended 31 December 2011, 2010 and 2009, respectively. The decrease in average interest rate over the year ended 31 December 2011 compared to year ended 31 December 2010 was primarily due to market-wide tightening of margins in the first half of 2011. 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.

Interest Expense

Interest expense on current accounts and deposits from customers

Interest expense on current accounts and deposits from customers decreased by 23.9% to RUB12,929 million for the year ended 31 December 2011 as compared with RUB16,984 million for the year ended 31 December 2010. This decrease from 2010 to 2011 was primarily due to falling interest rates offset slightly by an increase in the average balance of interest-bearing liabilities. 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.

The average rate on interest expense on current accounts and deposits from customers was 4.2%, 5.9% and 6.8% for the years ended 31 December 2011, 2010 and 2009, respectively. The decrease in average interest rate over 2010 and 2011 was driven by the overall market-wide tightening of margins.

Interest expense on own securities issued

Interest expense on own securities issued increased by 13.2% to RUB3,717 million for the year ended 31 December 2011 as compared with RUB3,284 million for the year ended 31 December 2010. The Group primarily attributes the increase from 2010 to 2011 to increase of average balances due to new issuance of bonds and promissory notes during 2011, partially offset by decreasing rates. 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.

The average rate on interest expense on own securities issued was 7.5%, 8.6% and 10.5% for the years ended 31 December 2011, 2010 and 2009, respectively. The decrease in average interest rates over 2010 and 2011 was driven by the overall market-wide tightening of margins.

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 13.7% to RUB2,147 million for the year ended 31 December 2011 as compared with RUB2,489 million for the year ended 31 December 2010. The Group primarily attributes the decrease from 2010 to 2011 to falling interest rates. 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.

The average interest rate on deposits and balances from banks and other financial institutions was 3.7%, 4.3% and 7.0% for the years ended 31 December 2011, 2010 and 2009, respectively. The decrease in average interest rates over 2010 and 2011 was driven by the overall market-wide tightening of margins.

Interest expense on other borrowed funds

Interest expense on other borrowed funds decreased by 0.4% to RUB705 million for the year ended 31 December 2011 from RUB708 million for the year ended 31 December 2010. The Group attributes this decrease from 2010 to 2011 primarily to redemption of syndicated loans, though the effect of the same was almost completely offset by growing interest rates. 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.

The average interest rate on other borrowed funds was 5.9%, 5.5% and 4.9% for the years ended 31 December 2011, 2010 and 2009, respectively. The increase in average interest rates over 2010 and 2011 was driven by the increase in the average maturity of other borrowed funds.

Total interest expense

Primarily for the reasons set forth above, total interest expense decreased by 13.9% to RUB22,130 million for the year ended 31 December 2011 as compared to RUB25,712 million for the year ended 31 December 2010, itself a decrease of 11.3% from RUB28,998 million for the year ended 31 December 2009. The average interest rate on interest bearing liabilities was 4.9%, 6.2% and 7.3% for the years ended 31 December 2011, 2010 and 2009, respectively. The decrease in average interest rates over 2010 and 2011 was driven by the overall market-wide tightening of margins.

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		
	2011	2010	2009
	(RUB thousands)		
Fee and commission income			
Commission on documentary operations	2,843,225	2,306,537	2,037,213
Money transfer fees.....	1,957,480	1,576,281	1,235,835
Commission for servicing plastic cards.....	1,803,011	1,344,236	1,182,891
Commission for operations with cash	855,065	819,649	756,987
Commission on foreign currency operations.....	620,326	775,188	1,019,587
Commission on undrawn loan commitments	327,324	212,635	104,115
Securities trading fees	164,298	99,883	137,212
Cash collection fees	86,816	90,213	97,541
Commission on banknote operations	79,969	103,311	220,729
Investment banking fees.....	68,048	121,584	100,848
Agent fees	29,813	11,583	48,415
Other	42,576	98,880	70,705
Total fee and commission income	<u>8,877,951</u>	<u>7,559,980</u>	<u>7,012,078</u>
Fee and commission expense			
Commission for servicing plastic cards.....	699,635	446,932	309,125
Money transfer fees.....	295,808	240,865	236,457
Commission on documentary operations	261,744	247,780	386,762
Cash collection fees	169,840	95,891	71,547
Agent fees	149,852	147,221	124,694
Commission on foreign currency operations.....	126,643	267,120	154,812
Commission on banknote operations	53,374	48,939	94,371
Securities trading fees	26,546	25,427	26,725
Other	14,526	2,525	2,353
Total fee and commission expense	<u>1,797,968</u>	<u>1,522,700</u>	<u>1,406,846</u>
Net fee and commission income	<u>7,079,983</u>	<u>6,037,280</u>	<u>5,605,232</u>

Primarily for the reasons set forth below, net fee and commission income increased by 17.3% to RUB7,080 million for the year ended 31 December 2011 as compared with RUB6,037 million for the year ended 31 December 2010, itself an increase of 7.7% from RUB5,605 million for the year ended 31 December 2009.

Fee and Commission Income

Commission on documentary operations

Commission on documentary operations, which are generated in the course of the Group's trade finance activities, increased by 23.2% to RUB2,843 million for the year ended 31 December 2011 as compared with RUB2,307 million for the year ended 31 December 2010. The Group attributes this increase primarily to growth in the volume of these 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. 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 24.2% to RUB1,957 million for the year ended 31 December 2011 as compared with RUB1,576 million for the year ended 31 December 2010. The Group attributes this increase 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 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.

Commission for servicing plastic cards

Commission for servicing plastic cards increased by 34.2% to RUB1,803 million for the year ended 31 December 2011 as compared with RUB1,344 million for the year ended 31 December 2010. The Group attributes this increase primarily to an increase in the number of cards issued, as well as to the growth in the number of customer transactions with such 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 operations with cash

Commission for operations with cash increased by 4.3% to RUB855 million for the year ended 31 December 2011 as compared with RUB820 million for the year ended 31 December 2010. The Group attributes this increase primarily to the growth in the volume of these operations. 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 on foreign currency operations

Commission on foreign currency operations decreased by 20.0% to RUB620 million for the year ended 31 December 2011 as compared with RUB775 million for the year ended 31 December 2010. 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 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 undrawn loan commitments

Commission on undrawn loan commitments increased by 53.5% to RUB327 million for the year ended 31 December 2011 from RUB213 million for the year ended 31 December 2010. The Group attributes this increase primarily to the growth in corporate and SME lending. 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.

Securities trading fees

Securities trading fees increased by 64.0% to RUB164 million for the year ended 31 December 2011 as compared with RUB100 million for the year ended 31 December 2010. The Group attributes this increase primarily to an increase in securities brokerage. 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.

Commission on banknote operations

Commission on banknote operations decreased by 22.3% to RUB80 million for the year ended 31 December 2011 from RUB103 million for the year ended 31 December 2010. The Group attributes this decrease primarily to a decrease in the volume of these 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.

Investment banking fees

Commission on investment banking fees decreased by 44.3% to RUB68 million for the year ended 31 December 2011 from RUB122 million for the year ended 31 December 2010. The Group attributes this decrease primarily to a decrease in the volume of these operations. 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.

Total fee and commission income

Primarily for the reasons set forth above, total fee and commission income increased by 17.4% to RUB8,878 million for the year ended 31 December 2011 as compared with RUB7,560 million for the year ended 31 December 2010, itself an increase of 7.8% from RUB7,012 million for the year ended 31 December 2009.

Fee and Commission Expense

Commission on documentary operations

Expenses related to documentary operations increased by 5.7% to RUB262 million for the year ended 31 December 2011 as compared with RUB248 million for the year ended 31 December 2010. The Group attributes this increase primarily to an increase of the volume of these operations. Expenses related to documentary operations expenses 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.

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, commission on foreign currency operations, money transfer and securities trading fees, and other fees and commissions increased by 20.5% to RUB1,536 million for the year ended 31 December 2011 as compared with RUB1,275 million for the year ended 31 December 2010, itself an increase of 25.0% from RUB1,020 million for the year ended 31 December 2009. The Group attributes the increase in 2010 and 2011 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 18.1% to RUB1,798 million for the year ended 31 December 2011 as compared with RUB1,523 million for the year ended 31 December 2010, itself an increase of 8.2% from RUB1,407 million for the year ended 31 December 2009.

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		
	2011	2010	2009
	(RUB thousands)		
Net gain/(loss) on financial assets at fair value through profit or loss and gain/(loss) on early redemption of senior loan participation notes	382,071	(350,153)	1,114,182
Net foreign exchange gain	1,209,909	614,460	375,892
Net gain on purchase of interest in subsidiaries ⁽¹⁾	—	—	149,023
Income on early redemption of other financial liabilities ⁽¹⁾	—	—	127,358
Other income and expense ⁽¹⁾	1,202,260	1,309,893	1,096,694
Total	2,794,240	1,574,200	2,863,149

(1) In connection with the preparation of the Group's 2010 and 2011 Annual Financial Statements, the Group changed the presentation of certain line items compared to the year ended 31 December 2009, thus the presentation of these line items for the year ended 31 December

2009 is different as compared with the presentation for the years ended 31 December 2010 and 2011. See “Presentation of Financial and Other Information — 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		
	2011	2010	2009
	(RUB thousands)		
Net gain/(loss) on early redemption of senior loan participation notes.....	187,189	(183,862)	755,417
Net gain/(loss) on debt securities – trading.....	136,783	(282,900)	368,436
Net gain on equity instruments – designated upon initial recognition as at fair value through profit or loss.....	51,904	(21)	19,787
Net gain/(loss) on equity securities – trading.....	3,013	119,091	113,140
Net gain/(loss) on interest rate swaps.....	3,182	(2,461)	(142,598)
Net gain/(loss) on financial instruments at fair value through profit or loss and gain/(loss) on early redemption of senior loan participation notes.....	382,071	(350,153)	1,114,182

Net gain on financial assets at fair value through profit or loss was RUB382 million for the year ended 31 December 2011 compared with a net loss of RUB350 million for the year ended 31 December 2010 and a net gain of RUB1,114 million for the year ended 31 December 2009. The Group attributes the gain in 2011 to an increase in volume of operations and growing market value of securities held by the Group and the loss in 2010 primarily to losses incurred in the second quarter of 2010 due to volatility in the global financial markets.

Net Foreign Exchange Gain

Net foreign exchange gain increased by 97.1% to RUB1,210 million for the year ended 31 December 2011 from RUB614 million for the year ended 31 December 2010. The Group attributes this increase primarily to a decline in the rouble to U.S. dollar and rouble to Euro exchange rates as a result of exchange rate fluctuations. 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.

Total Operating Income

Primarily for the reasons set forth above, total operating income increased by 18.8% to RUB33,513 million for the year ended 31 December 2011 as compared with RUB28,221 million for the year ended 31 December 2010, itself a decrease of 17.2% from RUB34,070 million for the year ended 31 December 2009.

Loan and Other Impairment Charges

Impairment charges decreased by 9.7% to RUB9,406 million for the year ended 31 December 2011 as compared with RUB10,418 million for the year ended 31 December 2010. The Group attributes these decreases to the significant improvement in the quality of the loan portfolio due to its sale of NPLs and write off of bad debts, combined with a general growth in the loan portfolio, including due to the relaunch of retail lending products. 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. 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		
	2011	2010	2009
	(RUB thousands)		
Loan impairment allowance on commercial loans	23,287,419	27,140,181	27,794,943
Loan impairment allowance on loans to individuals	5,929,605	10,532,352	11,050,860
Total loan impairment allowance	29,217,024	37,672,533	38,845,803
Gross overdue loans/gross loans to customers	6.8%	12.0%	15.6%
Impairment allowance for loans to customers/Gross overdue loans	101.1%	89.9%	81.8%
Impairment allowance for loans to customers/Gross loans to customers	6.9%	10.8%	12.7%
Impairment allowance for loans to customers/Average gross customer loans of opening and closing balances for the relevant period	7.5%	11.5%	12.4%

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					
	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
	(RUB thousands, except percentages)					
Loan impairment allowance on loans to corporate clients	19,906,871	5.7	22,865,151	7.9	23,715,869	9.8
Loan impairment allowance on loans to small and medium enterprises	3,380,548	8.8	4,275,030	16.0	4,079,074	18.1
Loan impairment allowance on loans to individuals.....	5,929,605	15.9	10,532,352	32.4	11,050,860	27.1
Total loan impairment allowance	29,717,024	6.9	37,672,533	10.8	38,845,803	12.7

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

	Amount	% of gross customer loans
	(RUB thousands)	
Loan impairment allowance as at 31 December 2009	38,845,803	12.7%
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	10.8%
Net charge for 2011	9,362,793	—
Sale of loans	(14,731,475)	—
Write-offs for 2011	(3,086,828)	—
Loan impairment allowance as at 31 December 2011	29,217,024	6.9%

The Group's impairment allowance for loans to customers decreased by 22.4% to RUB29,217 million for the year ended 31 December 2011 as compared with RUB37,673 million as at 31 December 2010. The effective provision rate for loans to customers decreased to 6.9% as at 31 December 2011 compared with 10.8% as at 31 December 2010. The decrease in the absolute amount of the provision was a result of significant improvement in the quality of the loan portfolio due to an increase in the sale of loans (particularly non-performing loans) and write off of bad debts, combined with a general growth in the loan portfolio, including due to the relaunch of retail lending products. 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 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					
	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
	(RUB thousands, except percentages)					
Non-performing loans to corporate clients	15,877,951	4.5	20,303,056	7.0	23,249,326	9.6
Non-performing loans to small and medium enterprises ..	2,931,720	7.7	3,704,520	13.9	3,028,160	13.4
Non-performing loans to individuals.....	5,439,120	14.6	8,076,613	24.8	11,278,485	27.7
Total non-performing loans.....	24,248,791	5.7	32,084,189	9.2	37,555,971	12.3

As at 31 December 2011, the level of NPLs decreased to RUB24,248 million or 5.7% of the total gross loan portfolio, as compared to RUB32,084 million or 9.2% of the total gross loan portfolio as at 31 December 2010 and RUB37,556 million or 12.3% of the total gross loan portfolio as at 31 December 2009 due to sale of certain NPLs.

The impairment allowance for commercial loans (which include corporate and SME loans) represented 6.0% of the total commercial loan portfolio as at 31 December 2011, compared to 8.6% as at 31 December 2010 and 10.5% as at 31 December 2009.

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 18 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 15.9% of the total individual loan portfolio as at 31 December 2011, compared to 32.4% as at 31 December 2010 and 27.15% as at 31 December 2009.

The Group estimates loan impairment allowance for retail loans based on its historic loss migration pattern for the past 12 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.

Movements in loan impairment allowances related to write-offs and sales of loans increased to RUB17,818 million in 2011 from RUB11,787 million in 2010 and RUB624 million in 2009. The increase in 2010 and 2011 was due to the Group's adoption of a debt management policy, whereby the collection of long-term bad loans is outsourced and potentially sold to external collectors. As at 31 December 2011, loss from sale of loans to customers was RUB68 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					
	2011		2010		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RUB thousands except for percentages)					
General and administrative expenses						
Employee compensation	10,221,702	60.3	8,771,795	59.0	7,577,385	57.0
Communications and information services	1,160,870	6.8	626,555	4.2	570,848	4.3
Depreciation	1,104,970	6.5	1,119,621	7.5	1,019,371	7.7
Occupancy	789,803	4.7	702,831	4.7	796,951	6.0
Office repairs, maintenance and supply ⁽¹⁾	720,461	4.2	656,758	4.4	461,270	3.5
Advertising and marketing	718,855	4.2	375,115	2.5	392,408	2.9
Insurance	489,843	2.9	491,454	3.3	503,975	3.8
Security	461,690	2.7	389,984	2.6	335,231	2.5
Taxes other than income tax	353,622	2.1	700,414	4.7	689,394	5.2
Transportation	239,294	1.4	193,355	1.3	179,147	1.3
Charity and sponsorship	146,509	0.9	132,429	0.9	134,657	1.0
Buildings repairs and maintenance ⁽¹⁾	—	—	—	—	132,029	1.0
Contributions under obligatory deposit insurance ⁽¹⁾	—	—	—	—	239,651	1.8
Other	551,774	3.3	694,551	4.7	270,013	2.0
Total general and administrative expenses	16,959,393	100.0	14,854,862	100.0	13,302,330	100.0

- (1) In connection with the preparation of the Group's 2010 and 2011 Annual Financial Statements, the Group changed the presentation of certain line items compared to the year ended 31 December 2009, thus the presentation of these line items for the year ended 31 December 2009 is different as compared with the presentation for the years ended 31 December 2010 and 2011. See "Presentation of Financial and Other Information — Impact of Changes in Presentation".

Employee Compensation

Employee compensation expense increased by 16.5% to RUB10,222 million for the year ended 31 December 2011 as compared with RUB8,772 million for the year ended 31 December 2010. The Group attributes this increase primarily to the growth in the number of its employees and increases in salaries of employees. 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. The average number of the Group's employees was 10,372, 9,460 and 9,190 for the years ended 31 December 2011, 2010 and 2009, respectively.

Communications and Information Services

Expenses related to communications and information services increased by 85.2% to RUB1,161 million for the year ended 31 December 2011 as compared with RUB627 million for the year ended 31 December 2010, itself an increase of 9.8% as compared with RUB571 million for the year ended 31 December 2009. The Group attributes the increase in 2010 and 2011 primarily to further investment in the development of its IT systems.

Depreciation

Depreciation expense decreased by 1.3% to RUB1,105 million for the year ended 31 December 2011 as compared with RUB1,120 million for the year ended 31 December 2010. The Group attributes this decrease primarily to the decrease of fixed assets. Depreciation expense increased by 9.8% 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.

Occupancy

Occupancy expense increased by 12.4% to RUB790 million for the year ended 31 December 2011 as compared with RUB703 million for the year ended 31 December 2010. The Group attributes this increase primarily to an increase in rent payable due to an increase in the number of employees and overall growth of the Group. 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.

Office repairs, maintenance and supply

Office repairs, maintenance and supply costs increased by 9.6% to RUB720 million for the year ended 31 December 2011 as compared with RUB657 million for the year ended 31 December 2010. The Group attributes this increase primarily 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 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.

Advertising and Marketing

Advertising and marketing expense increased by 91.7% to RUB719 million for the year ended 31 December 2011 as compared with RUB375 million for the year ended 31 December 2010. The Group attributes this increase primarily to marketing of retail lending programmes in 2011. 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.

Taxes Other than Income Tax

Taxes other than income tax decreased by 49.4% to RUB354 million for the year ended 31 December 2011 as compared with RUB700 million for the year ended 31 December 2010. The Group attributes these changes primarily to the decrease in value added tax payable as a result of decrease in certain administrative expenses driven by a strict monitoring of the Group's budget compliance. 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 value added tax payable by the Group.

Total General and Administrative Expenses

Primarily for the reasons set forth above, total general and administrative expenses increased by 14.2% to RUB16,959 million for the year ended 31 December 2011 as compared with RUB14,855 million for the year ended 31 December 2010, itself an increase of 11.7% from RUB13,302 million for the year ended 31 December 2009.

Income Tax Expense

Income tax expense increased to RUB1,845 million for the year ended 31 December 2011 as compared with RUB402 million for the year ended 31 December 2010. The Group attributes this increase primarily to the increase in profit before tax. 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 a profit before tax in 2010 as compared with a loss in 2009.

Analysis of Consolidated Financial Condition as at 31 December 2011, 2010 and 2009

Assets

The Group's assets consist primarily of loans to customers, cash and cash equivalents and financial assets at fair value through profit or loss. Primarily for the reasons set forth below, as at 31 December 2011, the Group's total assets increased by 18.4% to RUB562,554 million as compared with RUB475,127 million as at 31 December 2010, itself an increase of 0.8% from RUB471,211 million as at 31 December 2009. The following table sets forth the principal components of the Group's total assets as at the dates indicated.

	As at 31 December					
	2011		2010		2009	
	RUB thousands	% of total	RUB thousands	% of total	RUB thousands	% of total
Assets						
Cash and cash equivalents	55,830,766	9.9	45,182,249	9.5	108,322,648	23.0
Obligatory reserves with central banks.....	5,878,191	1.0	3,015,876	0.6	3,149,729	0.7
Placements with banks and other financial institutions.....	5,701,366	1.0	12,122,032	2.6	5,075,800	1.1
Financial assets at fair value through profit or loss.....	40,269,514	7.2	46,004,572	9.7	41,751,838	8.9
Amounts receivable under reverse repurchase agreements	23,524,806	4.2	15,949,846	3.4	10,080,301	2.1
Loans to customers	396,136,966	70.4	310,947,643	65.4	266,421,579	56.5
Investments available for sale.....	1,308,984	0.2	2,203,213	0.5	35,083	0.0
Investments held to maturity.....	2,729,316	0.5	3,966,911	0.8	7,204,938	1.5
Asset held for sale.....	—	—	5,944,765	1.3	2,600,001	0.6
Other assets.....	2,076,257	0.4	2,513,778	0.5	2,100,315	0.4
Current income tax prepayments	86,908	0.0	612,254	0.1	660,877	0.2
Deferred tax asset	127,732	0.1	1,065,008	0.2	600,326	0.1
Investment property	3,547,873	0.6	—	—	—	—
Property and equipment.....	25,335,199	4.5	25,598,772	5.4	23,207,942	4.9
Total assets	562,553,879	100.0	475,126,919	100.0	471,211,377	100.0

Loans to Customers

Loans to customers represents the largest component of the Group's assets, accounting for 70.4%, 65.4% and 56.5% of total assets as at 31 December 2011, 2010 and 2009, respectively. Loans to customers net of loan impairment allowance increased by 27.4% to RUB396,137 million as at 31 December 2011 as compared with RUB310,948 million as at 31 December 2010. The Group attributes the increase primarily 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 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.

Net Loans to Customers

The following table sets forth loans to customers net of loan impairment allowance as at 31 December 2011, 2010 and 2009, respectively.

	As at 31 December		
	2011	2010	2009
	(RUB thousands)		
Gross loans to customers	425,353,990	348,620,176	305,267,382
Impairment allowance	(29,217,024)	(37,672,533)	(38,845,803)
Net loans to customers	396,136,966	310,947,643	266,421,579

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 2011, 2010 and 2009 (gross of impairment allowance).

Industry	As at 31 December			
	2011		2010	
	(RUB thousands)	(%)	(RUB thousands)	(%)
Loans to individuals	37,226,900	8.8	32,535,333	9.3
Commercial loans				
Food production and food trade	52,120,959	12.25	41,839,408	12.00
Durables trade	33,629,845	7.91	29,828,249	8.56
Real estate management.....	32,595,311	7.66	25,268,664	7.25
Other non-food trade.....	29,229,552	6.87	24,625,054	7.06
Metallurgy.....	24,985,926	5.87	17,547,390	5.03

Wood processing.....	23,356,422	5.49	17,003,255	4.88
Finance, leasing and insurance.....	19,554,751	4.60	14,856,701	4.26
Residential real estate construction	17,478,798	4.11	14,393,654	4.13
Construction materials	14,149,623	3.33	13,636,347	3.91
Transport.....	13,707,987	3.22	11,102,278	3.18
Industrial real estate construction.....	11,696,411	2.75	10,271,321	2.95
Commercial real estate construction	11,685,173	2.75	9,848,081	2.82
Car trade.....	10,073,107	2.37	8,873,737	2.55
Services	9,771,139	2.30	8,656,766	2.48
Agriculture	9,573,704	2.25	7,399,895	2.12
Chemical production	7,824,760	1.84	7,209,486	2.07
Information technology.....	7,730,150	1.82	5,765,990	1.65
Pharmaceutical.....	7,197,024	1.69	5,155,879	1.48
Energy.....	6,441,707	1.51	4,810,261	1.38
Machinery	4,851,718	1.14	4,660,964	1.34
Luxury industry.....	4,681,986	1.10	3,895,770	1.12
Oil industry	4,481,474	1.05	3,494,014	1.00
Telecommunications	4,379,208	1.03	3,309,792	0.95
Defence industry	4,360,499	1.03	2,913,027	0.84
Media	3,464,310	0.81	2,534,753	0.73
State and Local Authorities.....	2,294,972	0.54	2,321,202	0.67
Other	16,810,574	3.96	14,862,905	4.26
	425,353,990	100.00	348,620,176	100.00

Industry	As at 31 December	
	2009	
	(RUB thousands)	(%)
Loans to individuals	40,703,314	13.3
Commercial loans		
Wholesale trade.....	37,050,255	12.14
Real estate investment and development.....	26,069,566	8.54
Food production	22,639,651	7.42
Finance and leasing.....	18,787,534	6.15
Retail trade.....	16,572,447	5.43
Wood processing.....	15,128,070	4.95
Agriculture	14,131,045	4.63
Construction	13,661,905	4.48
Services	11,545,671	3.78
Information technology	8,845,936	2.90
Construction materials.....	8,725,239	2.86
Transport	8,574,388	2.81
Automobile trading and production.....	8,531,897	2.79
Chemical production	7,267,218	2.38
Metallurgy	6,673,931	2.19
Machinery	6,531,133	2.14
Energy	6,388,759	2.09
Telecommunications	5,172,721	1.69
Pharmaceutical	4,328,171	1.42
Light industry	3,081,466	1.01
Media	2,779,999	0.91
State and local authorities	2,205,077	0.72
Mineral resources	1,467,835	0.48
Aircraft industry.....	387,012	0.13
Other	8,017,142	2.63
	305,267,382	100.0

In 2010 and 2009, the Group decreased the percentage of loans made to individuals. Loans to individuals decreased to 8.8% of the loan portfolio as at 31 December 2011 compared to 9.3% and 13.3% as at 31 December 2010 and 2009, primarily due to loan sales and write-offs. As at 31 December 2011, the five largest commercial sectors accounted for 40.6% of the loan portfolio, compared to 39.9% and 39.7% as at 31 December 2010 and 2009.

Distribution of Loans to Customers by Segment

The following table sets forth the segment-wise concentration of loans to customers as at 31 December 2011, 2010 and 2009 (gross of impairment allowance).

	As at 31 December					
	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
	(RUB thousands, except percentages)					
Loans to corporate clients	349,871,134	82.3	289,380,054	83.0	242,030,071	79.3
Loans to corporate clients not involved in international business ⁽¹⁾	278,064,864	65.4	223,967,823	64.2	183,239,909	60.0
Loans to corporate clients involved in international business ⁽¹⁾	35,568,461	8.4	36,309,270	10.4	31,944,501	10.5
Factoring loans.....	36,237,809	8.5	29,102,961	8.4	26,845,661	8.8
Loans to small and medium enterprises	38,255,956	9.0	26,704,789	7.7	22,533,997	7.4
Loans to individuals	37,226,900	8.7	32,535,333	9.3	40,703,314	13.3
Gross loans to customers	425,353,990	100.0	348,620,176	100.0	305,267,382	100.0

(1) Loans that are extended to finance business and operations that extend outside the Russian Federation.

(2) Loans that are not extended to finance business and operations that extend outside the Russian Federation.

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		
	2011	2010	2009
	(RUB thousands)		
Rouble	246,972,212	180,809,109	135,845,198
U.S. dollar.....	124,264,764	107,291,732	106,729,949
Euro	24,204,247	22,198,615	23,324,690
Other currencies.....	695,743	648,187	521,742
Total loans to customers	396,136,966	310,947,643	266,421,579

Rouble denominated loans are the largest component of loans to customers by currency representing 62.3% of the total loan portfolio as at 31 December 2011. Rouble denominated loans increased by 36.6% to RUB246,972 million as at 31 December 2011 as compared with RUB180,809 million as at 31 December 2010. The Group attributes this increase primarily to growth of the total loan portfolio. 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.

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 2011, 2010 and 2009, the majority of loans to customers mature in one to six months and in one to five years. As at 31 December 2011, 2010 and 2009, 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 35 to the 2011 Annual Financial Statements, Note 34 to the 2010 Annual Financial Statements and Note 33 to the 2009 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		
	2011	2010	2009
	(RUB thousands, except percentages)		
Current loans to customers	396,460,524	306,708,266	257,782,029
Overdue loans to customers ⁽¹⁾	28,893,466	41,911,910	47,485,353
Total loans to customers	425,353,990	348,620,176	305,267,382
Gross overdue loans to customers/Gross loans to customers	6.8%	12.0%	15.6%
Impairment allowance/Overdue loans to customers	101.1%	89.9%	81.8%

(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 93.2%, 88.0% and 84.4% of total gross loans to customers as at 31 December 2011, 2010 and 2009, respectively. The increase in current loans reflected the growth of the Group's loan portfolio in 2011 and 2010. The portion of the Group's gross overdue loans to customers, representing 6.8%, 12.0% and 15.6% of gross loans as at 31 December 2011, 2010 and 2009, respectively, decreased in 2010 and 2011 due to the improvement of the quality of the loan portfolio resulting from the overall recovery in the Russian economy and, as regards the decrease in 2011, additionally, due to sales of NPLs and write-offs of bad debts.

Cash and Cash Equivalents

Cash and cash equivalents increased by 23.6% to RUB55,831 million as at 31 December 2011 as compared with RUB45,182 million as at 31 December 2010. The Group attributes this increase primarily to the growth of PSB's deposit base in the fourth quarter of 2011 (a trend which was commonly seen in the Russian market). 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 investment in the growth of operations.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss decreased by 12.5% to RUB40,270 million as at 31 December 2011 as compared with RUB46,005 million as at 31 December 2010. The Group attributes these changes to the effect of the European sovereign debt crisis on banks during 2011 as also to operational management of its trading portfolio in response to changes in the market conditions. 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.

Obligatory Reserves with Central Banks

Obligatory reserves with central banks increased by 94.9% to RUB5,878 million as at 31 December 2011 as compared with RUB3,016 million as at 31 December 2010. The Group attributes this increase primarily to increases in the obligatory reserve rates. 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.

Placements with Banks and Other Financial Institutions

Placements with banks and other financial institutions decreased by 53.0% to RUB5,701 million as at 31 December 2011 as compared with RUB12,122 million as at 31 December 2010. The Group attributes this decrease primarily to the effect of the European sovereign debt crisis on banks during 2011 and also to its liquidity management policy (described in detail in Note 35 to the 2011 Annual Financial Statements). 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.

Property and Equipment

Property and equipment decreased by 1.0% to RUB25,335 million as at 31 December 2011 as compared with RUB25,599 million as at 31 December 2010, itself an increase of 10.3% as compared with RUB23,208 million as at 31 December 2009. The Group attributes the decrease in 2011 primarily to reorganization and optimisation of its branch

network and the increase in 2010 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 current accounts and deposits from customers, deposits and balances from banks and other financial institutions, own securities issued and other borrowed funds. As at 31 December 2011, the Group's total liabilities increased by 18.1% to RUB508,448 million as at 31 December 2011 as compared with RUB430,352 million as at 31 December 2010, itself a decrease of 0.6% from RUB433,006 million as at 31 December 2009. The following table sets forth the Group's liabilities as at the dates indicated.

	2011		2010		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
(RUB thousands, except percentages)						
Liabilities						
Financial liabilities at fair value through profit or loss	645,799	0.1	1,593,384	0.4	1,252,225	0.3
Deposits and balances from banks and other financial institutions	65,539,190	12.9	59,677,877	13.9	64,780,390	15.0
Amounts payable under repurchase agreements	1,607,662	0.3	2,790,016	0.6	60,697	0.0
Current accounts and deposits from customers	338,602,371	66.6	297,046,845	69.0	289,548,839	66.9
Own securities issued	56,724,741	11.2	32,127,497	7.5	43,654,712	10.1
Other borrowed funds	16,169,918	3.2	12,802,195	3.0	13,819,410	3.2
Other liabilities	2,513,675	0.5	2,439,590	0.6	1,800,988	0.4
Current income tax payable	16,573	0.0	948	0.0	27,341	0.0
Deferred tax liability	49,995	0.0	55,645	0.0	313,033	0.1
Subordinated borrowings	26,578,362	5.2	21,817,689	5.0	17,748,361	4.0
Total liabilities	508,448,286	100.0	430,351,686	100.0	433,005,996	100.0

Current Accounts and Deposits from Customers

Current accounts and deposits from customers increased by 14.0% to RUB338,602 million as at 31 December 2011 as compared with RUB297,047 million as at 31 December 2010, itself an increase of 2.6% from RUB289,549 million as at 31 December 2009. The Group attributes the increases in 2011 primarily to the growth in term deposits of retail and corporate customers due to the continued improvement in the deposits market. 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.

Total retail deposits and current accounts increased by 15.3% to RUB124,189 million as at 31 December 2011 as compared with RUB107,669 million as at 31 December 2010. This increase is attributed to the continued improvement in the retail deposits market. 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.

PSB's concentration of its top 10 depositors was RUB92.4 billion or 31.9% of total current accounts and deposits from customers as at 31 December 2009, RUB83.3 billion or 28% as at 31 December 2010 and RUB85.1 billion or 25% as at 31 December 2011.

Deposits and Balances from Banks and Other Financial Institutions

Deposits and balances from banks and other financial institutions increased by 9.8% to RUB65,539 million as at 31 December 2011 as compared with RUB59,678 million as at 31 December 2010. The Group attributes this increase primarily to the growth in term deposits of local banks. 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 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					
	2011		2010		2009	
	Amount	% of total	Amount	% of total	Amount	% of total
	(RUB thousands, except percentages)					
Corporate						
Current accounts and demands deposits	74,846,644	22.1	68,413,408	23.1	55,365,566	19.1
Term deposits (including state and local authorities and public organisations)	139,566,263	41.2	120,964,334	40.7	138,153,403	47.7
Total corporate	214,412,907	63.3	189,377,742	63.8	193,518,969	66.8
Retail						
Current accounts and demands deposits	21,648,415	6.4	20,854,482	7.0	11,029,832	3.8
Term deposits	102,541,049	30.3	86,814,621	29.2	85,000,038	29.4
Total retail	124,189,464	36.7	107,669,103	36.2	96,029,870	33.2
Total current accounts and deposits from customers ..	338,602,371	100.0	297,046,845	100.0	289,548,839	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 2011, 2010 and 2009, the majority of deposits fell in the “One to Six Months” category. See Note 35 to the 2011 Annual Financial Statements, Note 34 to the 2010 Annual Financial Statements and Note 33 to the 2009 Annual Financial Statements.

Own Securities Issued

Own securities issued increased by 76.6% to RUB56,725 million as at 31 December 2011 as compared with RUB32,127 million as at 31 December 2010. The Group attributes this increase primarily to the issuance of loan participation notes denominated in dollars and domestic rouble bonds. 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.

Other Borrowed Funds

Other borrowed funds increased by 26.3% to RUB16,170 million as at 31 December 2011 as compared with RUB12,802 million as at 31 December 2010. The Group attributes this increase primarily to an increase in syndicated loan borrowings (detailed below), which the Group considered a relatively low-cost source of funding. 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.

In June 2010, PSB entered into two syndicated loan agreements – a U.S.\$150 million syndicated loan facility due in June 2011 and a U.S.\$100 million syndicated loan facility due in June 2013. In October 2011, PSB entered into a U.S.\$350 million syndicated loan facility due in October 2012. The October 2011 syndicated loan facility includes a covenant that requires PSB to maintain 100% provisions over NPLs. While PSB currently maintains such provisions and expects to continue to do so in the future, any failure to do so would result in a breach of the terms of such syndicated loan facility agreement.

The Group has to comply with various other covenants, primarily related to loans from other banks and other borrowed funds. These covenants include general business covenants (including 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 the 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 (including 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, etc.); and reporting covenants (including those that oblige the Group to provide 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 increase in the cost of borrowings and

declarations of default. As at 31 December 2011, the Group's management believes that the Group fully complies with all covenants of agreements.

Subordinated Borrowings

Subordinated borrowings increased by 21.8% to RUB26,578 million as at 31 December 2011 as compared with RUB21,818 million as at 31 December 2010. The Group attributes this increase primarily to a RUB3.5 billion subordinated loan due December 2018 received from EBRD in December 2011. Subordinated borrowings increased by 22.9% to RUB21,818 million as at 31 December 2010 as compared with RUB17,748 million as at 31 December 2009. The Group attributes this increase primarily to a U.S.\$100 million subordinated eurobond issue due January 2018. See “—*Domestic and International Debt Capital Markets*” for details of other subordinated eurobond issues by the Group.

In August 2008, Promsvyaz Capital B.V. provided a U.S.\$70 million subordinated loan to PSB, which was converted into equity in December 2008. In September 2008, Promsvyaz Capital B.V. provided a U.S.\$40 million subordinated loan to PSB which was repaid in December 2009. Further, in August 2011, Promsvyaz Capital B.V. provided a EUR65 million subordinated loan to PSB, which was repaid in December 2011.

Current Income Tax Payable

Current income tax payable increased to RUB17 million as at 31 December 2011 as compared with RUB948 thousand as at 31 December 2010 itself a decrease of 96.5% from RUB27 million as at 31 December 2009. 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		
	2011	2010	2009
	(RUB thousands)		
Equity			
Share capital	12,201,899	11,511,052	10,062,544
Share premium	20,612,247	17,303,093	13,319,695
Additional paid-in-capital	81,919	81,919	1,056,102
Revaluation reserve for property	2,836,942	2,717,232	2,353,907
Revaluation reserve for investments available for sale	(231,863)	(80,230)	160
Retained earnings	18,648,805	13,242,167	11,147,632
Total equity attributable to owners of the parent	54,149,949	44,775,233	37,940,040
Non-controlling interest	(44,356)	—	265,341
Total equity	54,105,593	44,775,233	38,205,381

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.

Total equity attributable to owners of the parent increased by 20.9% to RUB54,150 million as at 31 December 2011 as compared with RUB44,775 million as at 31 December 2010. The Group attributes this increase primarily to an increase in retained earnings. 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.

For further details, see “Shareholding”.

Capital Adequacy

The following table sets forth the composition of the capital position of the Group as at 31 December 2011, 2010 and 2009 calculated in accordance with the requirements of Basel Accord I.

	As at 31 December		
	2011	2010	2009
	(RUB thousands, except percentages)		
Tier 1 capital			
Share capital.....	12,201,899	11,511,052	10,062,544
Share premium.....	20,612,247	17,303,093	13,319,695
Additional paid-in capital.....	81,919	81,919	1,056,102
Retained earnings.....	18,648,805	13,242,167	11,147,632
Non-controlling interest.....	(44,356)	—	265,341
Less goodwill.....	(3,854)	—	—
Total Tier 1 capital.....	51,496,660	42,138,231	35,851,314
Tier 2 capital			
Asset revaluation reserves.....	2,836,942	2,717,232	2,353,907
Revaluation reserve of investments available for sale.....	(231,863)	(80,230)	160
Subordinated debt excluding accrued interest.....	17,444,489	15,847,988	13,612,802
Total capital.....	71,546,228	60,623,221	51,818,183
Total risk-weighted assets	513,394,182	421,501,940	361,940,932
Tier 1 ratio.....	10.03%	10.00%	9.91%
Total capital adequacy ratio.....	13.94%	14.38%	14.32%

Total risk-weighted assets increased by 21.8% to RUB513,394 million as at 31 December 2011 as compared with RUB421,502 million as at 31 December 2010. The Group attributes these changes primarily to the growth in loans to customers. The decrease in the CBR capital adequacy ratio in 2011 was due to an increase in risk weighted assets. 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. 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's was also in compliance with the capital adequacy ratio of 8.0% recommended by the Basel Committee on Banking Regulations and Supervisory Practices 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.

Credit-Related Commitments

The following table sets out the breakdown of the Group's credit-related off-balance sheet commitments as at 31 December 2011, 2010 and 2009.

	As at 31 December		
	2011	2010	2009
	(RUB thousands)		
Guarantees.....	75,244,784	62,889,293	38,437,358
Undrawn overdraft facilities.....	67,863,916	48,438,691	25,159,134
Letters of credit	8,745,044	5,969,835	3,529,135
Undrawn loan facilities	19,132,881	6,911,850	4,447,846
Total credit-related off-balance sheet commitments	170,986,625	124,209,669	71,573,473

Total credit-related off-balance sheet commitments increased by 37.7% to RUB170,987 million as at 31 December 2011 as compared with RUB124,210 million as at 31 December 2010. The Group attributes this increase primarily to an increase in the business volume of customers. 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 38 to the 2011 Annual Financial Statements, Note 37 to the 2010 Annual Financial Statements and Note 36 to the 2009 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.

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 fair values of the Group's spot and derivative financial instruments for the periods indicated.

	As at 31 December		
	2011	2010	2009
	(RUB thousands)		
Positive (negative) fair value			
Short-term foreign currency forward and swap contracts	(185,058)	11,717	(670,936)
Precious metals forward contracts	45,907	19,172	21,274
Securities forward contracts	54,482	572	—
Other derivatives contracts (including interest rate swaps)	(9,693)	—	(168,814)
Total	(94,362)	31,461	(818,476)

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 debt securities, including domestic bonds and eurobonds. In addition, the Group obtains funds from retail accounts and deposits. As at 31 December 2011, the Group was a net creditor on the interbank lending market. As at 31 December 2011, the Group's ten largest current accounts and term deposits amounted to RUB85,127 million, or 16.7% of the Group's total liabilities as compared to RUB83,348 million, or 19.4% of the Group's total liabilities as at 31 December 2010.

As at 31 December 2011, the aggregate amount of the Group's indebtedness was RUB503,615 million, which consisted of RUB338,602 million in current accounts and deposits from customers, RUB56,725 million in own securities issued, RUB65,539 million in deposits and balances from banks and other financial institutions, RUB16,170 million in other borrowed funds and RUB26,578 million in subordinated borrowings. 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.

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	2011	% of total	2010	% of total	2009
	(RUB thousands, except percentages)					
Due to banks and other financial institutions						
Term deposits from local banks	4.3	21,786,426	4.1	17,570,624	0.3	1,402,234
Trade finance	3.6	18,086,365	4.0	16,767,032	3.1	13,114,615
Long-term finance	2.0	10,121,176	2.6	11,085,493	3.4	14,768,138
Vostro accounts	1.3	6,498,470	1.8	7,663,852	1.9	8,339,427
Term deposits from foreign banks	1.8	9,046,753	1.6	6,590,876	5.0	21,299,320
Term deposits from the Central Bank of the Russian Federation	—	—	—	—	1.4	5,856,656
Total	13.0	65,539,190	14.1	59,677,877	15.1	64,780,390
Own securities issued						
Promissory notes	4.8	23,925,235	4.9	20,632,071	4.9	20,986,966
Senior loan participation notes	3.6	18,044,239	2.0	8,650,527	3.8	16,423,635
Domestic bonds	2.9	14,724,814	0.7	2,781,695	1.5	6,229,540
Certificates of deposit	0.0	30,453	0.0	63,204	0.0	14,571
Total	11.3	56,724,741	7.6	32,127,497	10.2	43,654,712
Current accounts and deposits from customers						
Corporate term deposits	27.7	139,566,263	28.6	120,964,334	32.2	138,153,403
Corporate current accounts and demand deposits	14.9	74,846,644	16.2	68,413,408	12.9	55,365,566
Retail term deposits	20.4	102,541,049	20.5	86,814,621	19.8	85,000,038
Retail current accounts and demand deposits	4.3	21,648,415	4.9	20,854,482	2.6	11,029,832
Total	67.3	338,602,371	70.2	297,046,845	67.5	289,548,839
Other borrowed funds						
Syndicated loans	2.2	11,205,935	1.8	7,550,513	2.1	8,966,992
Other borrowings	1.0	4,963,983	1.2	5,251,682	1.1	4,852,418
Total	3.2	16,169,918	3.0	12,802,195	3.2	13,819,410
Subordinated borrowings	5.2	26,578,362	5.1	21,817,689	4.0	17,748,361
Total funding	100.0	503,614,582	100.0	423,472,103	100.0	429,551,412

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 2011, current accounts and deposits from customers comprised 66.6% of the Group's total liabilities, compared with 69.0% and 66.9% as at 31 December 2010 and 31 December 2009, respectively. Deposits and balances from banks and other financial institutions comprised 12.9% of the Group's total liabilities and other borrowed funds comprised 3.2% of the Group's total liabilities as at 31 December 2011, compared with 13.9% and 3.0% respectively as at 31 December 2010 and 15.0% and 3.2% respectively as at 31 December 2009.

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 by currency.

	As at 31 December					
	%	2011	%	2010	%	2009
	(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	64.0	305,413,650	62.8	252,195,035	50.9	209,681,792
In foreign currency	36.0	171,622,570	37.2	149,459,379	49.1	202,121,559
Total	100.0	477,036,220	100.0	401,654,414	100.0	411,803,351

Trade Finance Funding

As at 31 December 2011, international banks had extended trade finance- related uncommitted credit lines to the Group in an aggregate amount of approximately U.S.\$1.8 billion, as compared with approximately U.S.\$1.5 billion as at 31 December 2010 and approximately U.S.\$1.0 billion as at 31 December 2009. 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 and Loans

Promissory Notes and Certificates of Deposit

The issuance of promissory notes and certificates of deposit are sources of funding for the Group. The aggregate amount of outstanding promissory notes and certificates of deposit increased to RUB23,956 million as at 31 December 2011 from RUB20,695 million as at 31 December 2010, and RUB21,002 million as at 31 December 2009. The aggregate amount of outstanding promissory notes and certificates of deposit constituted 4.7% of the Group's total liabilities as at 31 December 2011, as compared to 4.9% of the Group's total liabilities as at 31 December 2010, and 4.9% of the Group's total liabilities as at 31 December 2009. Of the Group's total promissory notes and certificates of deposit, 78% were denominated in roubles as at 31 December 2011 and 95.5% and 67.5% as at 31 December 2010 and 2009, respectively. On all reporting 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. In May 2007, the Group issued RUB4.5 billion bonds due May 2012; in June 2008, the Group issued RUB5.0 billion bonds due June 2013; and in February 2011, the Group issued RUB5.0 billion bonds due February 2014. As at 31 December 2011, the Group had RUB14,725 million of such bonds outstanding. These bonds are listed on the OJSC MICEX-RTS exchange ("**MICEX-RTS**"). In May 2010, the Group redeemed bonds having a nominal value of RUB4,087 million under a mandatory call offer, and in 2011 and 2010, RUB3,014 million and RUB1,073 million of these bonds were re-issued. In December 2010, the Group redeemed bonds having a nominal value of RUB3,853 million under a mandatory call offer, and in 2011 and 2010, RUB3,719 million and RUB3,484 million of these bonds were re-issued. In February 2012, PSB fully placed bonds of BO-2 and BO-4 series due February 2015 for a total amount of RUB10 billion.

Since 2006, PSB Finance S.A. has issued various series of loan participation notes, the proceeds of which have been generally been used to finance loans to PSB. Proceeds from the loan have been used for general corporate purposes.

In August 2006, PSB Finance S.A. issued U.S.\$45 million loan participation notes due May 2012 to finance a subordinated loan to PSB; in October 2006, PSB Finance S.A. issued U.S.\$155 million loan participation notes due May 2012 to finance a subordinated loan to PSB; in March 2007, PSB Finance S.A. issued U.S.\$100 million loan participation notes which were consolidated with and form a single series with the U.S.\$125 million loan participation notes due October 2011 issued in October 2006, in each case to finance a senior loan to PSB; in July 2007, PSB Finance S.A. issued U.S.\$100 million loan participation notes due January 2018, which were remarketed in January 2008, to finance a subordinated loan to PSB; in July 2008, PSB Finance S.A. issued U.S.\$150 million loan participation notes due July 2013 to finance a senior loan to PSB; in November 2009, PSB Finance S.A. issued U.S.\$200 million loan participation notes due May 2015 to finance a subordinated loan to PSB; in July 2010, PSB Finance S.A. issued U.S.\$200 million loan participation notes due July 2016 to finance a subordinated loan to PSB; and in April 2011, PSB Finance S.A. issued U.S.\$500 million loan participation notes due April 2014 to finance a senior loan to PSB. During the year ended 31 December 2011, the Group purchased senior loan participation notes from the market amounting to U.S.\$218,484 thousand and sold senior loan participation notes amounting to U.S.\$168,155 thousand.

Additions of Property and Equipment

Additions of property and equipment (net of transfers) decreased by 64.6% to RUB1,171 million for the year ended 31 December 2011 from RUB3,309 million for the year ended 31 December 2010. The Group attributes these changes to reorganization and optimisation of its branch network and significant additions in construction in progress in 2010. 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.

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 58.9% of revenues for the year ended 31 December 2011, 59.5% of total assets and 42.6% of total liabilities as at 31 December 2011. International business, investments and financial markets represented 9.4% of the Group's revenues for the year ended 31 December 2011, 10.9% of total assets and 36.1% of total liabilities as at

31 December 2011, retail banking represented 16.5%, 6.9% and 14.7%, respectively, and small and medium size enterprises banking represented 12.9%, 7.1% and 5.6%, respectively.

The following table set forth certain data for the Group's segments as at 31 December 2011, 2010 and 2009.

	As at 31 December		
	2011	2010	2009
	(RUB thousands)		
Segment assets			
Corporate banking.....	334,706,615	267,877,350	216,234,664
Retail banking.....	38,870,143	24,631,045	32,467,429
Small and medium size enterprises.....	40,134,570	22,433,163	18,454,923
International business, investments and financial markets.....	61,303,434	81,873,887	174,881,118
Reconciling items ⁽¹⁾	87,539,116	78,311,474	29,173,243
Total assets	562,553,879	475,126,919	471,211,377
Segment liabilities			
Corporate banking.....	216,848,429	156,438,827	191,080,442
Retail banking.....	74,711,665	65,264,674	60,382,664
Small and medium size enterprises.....	28,690,104	22,149,339	17,450,417
International business, investments and financial markets.....	183,467,676	178,690,445	162,512,392
Reconciling items ⁽¹⁾	4,730,412	7,808,401	1,580,081
Total liabilities	508,448,286	430,351,686	433,005,996

- (1) In the 2011 and 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 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		
	2011	2010	2009
	(RUB thousands)		
Segment revenue before income tax and expenses			
Corporate banking.....	33,141,756	34,510,082	28,998,349
Retail banking.....	9,282,490	8,641,462	8,888,696
Small and medium size enterprises.....	7,260,729	5,572,430	3,154,687
International business, investments and financial markets.....	5,312,947	6,066,237	18,882,219
Reconciling items.....	1,240,608	1,015,312	4,551,202
Total revenues	56,238,530	55,805,523	64,475,153

	For the year ended 31 December		
	2011	2010	2009
	(RUB thousands)		
Segment profit/(loss) for the year after tax			
Corporate banking.....	5,007,266	4,872,949	1,771,918
Retail banking.....	(3,148,212)	(4,050,693)	(5,173,379)
Small and medium size enterprises.....	631,650	267,632	(1,555,678)
International business, investments and financial markets.....	2,925,017	3,436,643	2,339,070
Reconciling items ⁽¹⁾	(197,135)	(2,049,382)	1,992,216
Profit after tax	5,218,586	2,477,149	(625,853)

BUSINESS

Overview

PSB is one of the leading universal banks in Russia. As at 1 January 2012, PSB was ranked the eleventh largest bank by assets and the second largest privately owned Russian bank, according to RBC, one of Russia's primary information providers. As at 31 December 2011, PSB's total assets accounted for 4.4% of the total assets of the Russian private banking system (i.e., excluding state owned and foreign owned banks) and 3.6% 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 in Moscow, the Moscow region and other Russian regions. According to Russian Factoring Companies Association, as at 31 December 2011, PSB was the leading market participant in the Russian factoring market, with a 21% 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 May 2011, PSB received the Financial Olympus National Award for the "2010 Market Leader in Factoring". Further, in August 2011, World Finance Magazine recognized PSB as "Russia's Best Bank", and in November 2011, PSB received the award for "The Most Client-oriented Bank" from RBC.

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, cash management and payments, 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 high net worth individuals ("VIP clients")), banking card products, settlement and cash services, foreign exchange services and Internet/personal banking; 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.

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 decreased to 128,000 customers as at 31 December 2011. In November 2009, PSB resumed lending to existing customers with an established positive credit history with PSB and in July 2010, PSB resumed general retail lending. Currently, the key products offered by PSB to its retail customers are general-purpose consumer loans for existing and new clients and credit card products. In the beginning of 2011 PSB resumed mortgage lending although this is not considered a key product for PSB. Currently, auto loans and express loans remain suspended.

Increased government spending aimed at supporting the economic growth of the Russian Federation and 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 has resulted in the stable growth of retail deposits in the Russian banking sector, from RUB5,907 billion as at 1 January 2009 to RUB9,818 billion as at 1 January 2010 and RUB11,871 billion as at 1 January 2012, or growth of approximately 20.9%, 66.2% and 20.9% respectively, according to the CBR. As a result of the stabilisation in the banking sector, PSB's business improved and in the first quarter of 2009 PSB was able to repay the anti-crisis support funds extended by the CBR. The Russian economy continued to recover in 2010 and 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 reduced its liquidity cushion from the inflated anti-crisis levels to a normal operating level of 20.2% by mid-2010. As at 31 December 2011 the share of liquid assets (defined as cash and cash equivalents, placements with banks and other financial institutions, investments available for sale 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 level of 18.0% as compared to 20.4% and 32.6% as at 31 December 2010 and 2009, respectively.

PSB's products and services are distributed in Moscow, the Moscow region and other Russian regions. As at 1 March 2012, PSB had a total of 282 branches, sub-branches, points of sale or other representations in Russia, of which 157 were universal full-service branches, which provide corporate, SME and retail services, or sub-branches. Of the 282 Russian outlets, 65 were located in Moscow or the Moscow region. In addition, PSB maintains a branch and full service retail office in Cyprus and representative offices in China, India, Ukraine and Kazakhstan.

PSB's operating income decreased from RUB34.1 billion for the year ended 31 December 2009 to RUB28.2 billion for the year ended 31 December 2010, and increased to RUB33.5 billion for the year ended 31 December 2011. PSB's total assets increased from RUB471.2 billion as at 31 December 2009 to RUB475.1 billion as at 31 December 2010, and to RUB562.6 billion as at 31 December 2011 and total equity increased respectively, from RUB38.2 billion to RUB44.8 billion, and to RUB54.1 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 trade 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 shareholder 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 "OJSC 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 28 September 2007.

Corporate Organisation

Holding Structure

For details of PSB's holding structure, see "Shareholding".

Consolidated Companies

The following table sets forth the details of PSB's consolidated companies as at 31 December 2011. With the exception of PSB Finance S.A. and OOO "Promsvyazfactoring", each of the entities listed below is directly held by PSB.

Name of Consolidated Company	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
OOO "Promsvyazfactoring" ⁽²⁾	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
OOO "Kassa 24"	36, Kutuzovskiy avenue, Moscow 121170, 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. However, for the purpose of financial reporting under IFRS, PSB Finance S.A. has been included in the consolidation of the Group.
- (2) The Group controls OOO "Promsvyazfactoring" pursuant to 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 acquire 100% of the share capital of OOO "Promsvyazfactoring" for a cash consideration of RUB5.5 million, within a period of five years starting from the date of the option agreement. 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 2012, 1,112 banks and non-bank credit organisations were operating in the Russian Federation. 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 2012 being nearly 53%, according to PSB's calculations. During the Financial Crisis and 2010 when the Russian economy experienced high interest rates on borrowings, state-controlled banks increased their role due to being principal recipients of 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 2012, PSB was the second largest privately owned Russian bank by total assets and the eleventh largest bank overall (including state-controlled and foreign owned banks) in the Russian market. PSB's primary competitors comprise the top-15 Russian banks, including private, foreign owned 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 2012, 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 2012, in the total Russian banking market, PSB had a 1.4% market share in corporate client loans, and a 1.8% market share in corporate deposits, as measured by value, compared with a 1.4% and 1.9% market share respectively, as at 1 January 2011. 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 PSB's estimations based on CBR data, as at 1 January 2012, PSB was among the "top-5" Russian banks for SME lending volumes with a market share of 1% of the entire SME Russian banking market, compared with 0.8% as at 1 January 2011. PSB's primary competitors in this segment are, among others, Sberbank, VTB-24, Alfa-Bank, Rosbank, Uralsib, MDM, Nomos and Bank Intesa.

In the retail banking segment, according to RBC Rating, as at 1 January 2012, PSB was the eighth largest of all Russian banks for retail deposits, and the tenth largest private Russian bank for retail lending (excluding state-controlled and foreign owned banks). As at 1 January 2012, PSB had a 1% market share for retail deposits, and a 0.7% market share for retail lending, compared with 1.0% and 0.9% respectively, as at 1 January 2011. 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. PSB's primary competitors in this segment are among others, Alfa-Bank, VTB-24, Sberbank and Citibank.

Competitive Strengths

The credit markets, both globally and in Russia, have faced significant volatility, dislocation and liquidity constraints since the onset of the Financial Crisis. See "Risk Factors — Risks Relating to PSB and the Group's Business and Industry — *The instability of the global and the Russian credit markets and banking sectors and the ongoing European sovereign debt crisis could have a material adverse effect on PSB's business, liquidity and financial condition*". 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 30 September 2011, PSB had the 6th largest distribution network among privately owned Russian banks, according to information published by CBR. PSB has a broad distribution network, with a total of 288 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, Ukraine and Kazakhstan. Of these, 158 were full-service branches or sub-branches, 65 of which were located within Moscow or the Moscow region. In addition, PSB benefits from the activities of its international 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. In February 2012, PSB completed the reorganisation of its distribution network such that back-office functions are concentrated in universal full-service branches and certain universal full-service sub-branches while other branches function as operating offices with only front-office functionality. See “— *Distribution Network*”.

- *Strong Client Relationships.* PSB considers itself to be a particularly client-focused bank with a loyal customer base. It seeks to conduct its activities through close co-operation with customers, both in periods of upturn, and more recently, in downturn. For example, 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. This approach has contributed to PSB’s growing client base and deposit inflow, and notwithstanding the Financial Crisis, the temporary outflows of deposits between September and November 2008 and the resulting fierce price competition for good borrowers, the number of corporate and SME clients continued to increase, from approximately 80,700 at year end 2009 to 96,900 at year end 2010, and to 102,000 at year end 2011, and for retail accounts from approximately 1,100,000 at year end 2009 to approximately 1,410,000 at year end 2010, and to 1,460,000 at year end 2011. During 2009, corporate funding (i.e., current accounts and demand and term deposits from corporate customers) grew by 10% in 2009, decreased by 2% in 2010 and grew by 13% in 2011. Retail demand and term deposits also grew by 89% for 2009, and 12% for 2010, which was in line with the Russian market average. In 2011 term deposits continued to grow and the growth rate was 15%.
- *Effective Risk Management.* PSB maintains 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 the retail segment and on 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.
- *Flexibility, Adaptability and Market Orientation.* PSB has swiftly changed its product mix in response to the changing economic environment, and identified new drivers for revenue generation, including the sale of foreign exchange and interest rate 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.
- *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, including import letters of credit, international guarantees, forfaiting and ECA-backed operations amounted to U.S.\$1 billion in 2009, U.S.\$1.6 billion in 2010 and U.S.\$1.8 billion in 2011.
- *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 21% of the entire Russian factoring market as at 31 December 2011.

Strategy

PSB strategic goal is to become the leading privately owned Russian bank in terms of market value by 2015. PSB intends to maximize its market value by further development as a universal financial institution with a focus on brand development; diversification through development of retail and SME businesses, which have strong potential for profitability and growth (though its corporate business will continue to be a core interest); improving profitability by shifting from a product-oriented model to a customer-centric focus, increasing the contribution of commission and fee based products which traditionally offer the strongest return on equity, and focusing on cross sales; and improving sales efficiency through "light office" formats for retail clients (see "*— Distribution Network*"), next-generation remote banking service channels and increasing the proportion of sales personnel and reducing the proportion of support personnel. See "Risk Factors — Risks Relating to PSB's Operations of Business — *PSB may not be able to achieve its strategic objectives in a timely manner or at all*".

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 banking as its main business line and improve profitability with the goal of achieving by end of 2015 a "top-10" position in corporate lending and funding in Russia and a "top-5" position in the Russian market by loan portfolio. PSB intends to offer its target client segments the best range of competitively-priced products in the market (including niche products and leasing) with a strong focus on fee and commission-based and transaction products and provide the highest quality of service (knowledge of client needs, customization, close integration with investment banking and retail services, 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. PSB also plans to retain its leading position in factoring. According to Russian Factoring Companies Association, as at 31 December 2011 PSB was the leading market participant in the Russian factoring market with 21% share of the market. PSB will also be focused on further diversification of its corporate client base and development of mid-size enterprise banking, which has a strong potential for profitability and positive market outlook.
- *Rapid Growth of SME Loan Portfolio.* One of PSB's key priorities is to improve profitability and grow its SME loan portfolio with the goal of maintaining a "top-5" position in the Russian SME market while retaining sound credit quality. Management targets the share of SME business in PSB's loan portfolio to reach up to 25% within the next three to four years. During 2011 PSB achieved 43.3% growth in its SME gross loan portfolio as compared to 18.5% growth in 2010, whereas the overall SME lending market only grew by 19% in 2011, as per CBR data. In line with PSB's strategy to shift from a product-centric to a customer-centric focus, PSB's product strategy for SME is focused on significantly increasing revenue from fee and commission based and non-banking products and developing bundled products (including non-banking services) that are customised for various customer segments. PSB's competitive edge is in the high quality of SME client service (which it intends to continuously improve, including in relation to the speed of decision making), its lending programme that is tailored to the requirements of borrowers, user-friendly SME products which are simple, convenient, customised and flexible, the efficiency of its sales and service processes and a widespread network of outlets which is constantly expanding. PSB also intends to increase network density through dedicated offices for the SME segment. See "Risk Factors — Risks Relating to PSB's Operations of Business — *PSB faces increased risk exposure associated with its strategy to expand its retail and SME lending business*".
- *Retail Banking to be a Key Priority.* Retail banking is a priority for PSB as an important element of its portfolio and revenue diversification strategy. By the end of 2015, PSB plans to improve profitability and achieve a "top-10" position among Russian financial institutions in retail lending and funding. Management targets the share of retail business in PSB's loan portfolio to reach up to 25% within the next three to four years. The Russian retail banking market is growing and in order to achieve profitability in retail banking, PSB needs to increase the volume of its retail banking activities. To achieve such growth, PSB plans to provide bundled product offers for specific client groups in line with their banking and non-banking service needs (including credit, bank card and investment products). Further, PSB's target client segment is the affluent segment and PSB intends to provide dedicated sales and service teams for this segment. PSB's competitive strategy relies on expanding its sales network and providing quality service, introducing new

“light office” formats (see “— *Distribution Network*”), developing remote-banking channels, adopting custom-tailored client approaches and improving brand recognition. In addition to general-purpose consumer loans and various types of cards (credit, debit, internet, co-brand, affinity), PSB resumed mortgage lending in 2011. See “Risk Factors — Risks Relating to PSB’s Operations of Business — *PSB faces increased risk exposure associated with its strategy to expand its retail and SME lending business*”.

- *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 players in the Russian debt capital market and performs trading, underwriter and arranger roles. In the long-term PSB aims to improve profitability and strengthen its “top-10” position in the Russian private bank market (excluding state-controlled and foreign owned banks). In line with this strategy, PSB intends to adopt a customer-centric focus in its role as arranger, adopt efficient decision-making processes and offer bespoke solutions to clients. PSB is also focused on securities trading, namely market-making (including through an increase in volumes and expansion of its customer base) and offering high quality secondary market support services for debt instruments. PSB intends to develop new business segments – for the corporate sector, PSB will focus on arranging and/or advising on global and domestic equity and debt issues, mergers and acquisitions and private equity transactions, and providing trust management services, and for the retail sector, becoming a leading retail brokerage player, providing a full range of services in the foreign exchange and banknote market, as well as individual trust management services.
- *Leading Position in Private Banking.* PSB’s objective is to increase its asset management business and customer deposits, thereby creating an additional stable source of fee and commission income and funding. PSB’s strategy is based on significantly expanding its customer base through aggressive regional penetration, focusing on the upper affluent customer segment and providing a wide range of services that combine capabilities of international instruments and technologies with a deep knowledge of the Russian market and the needs of Russian clients. PSB intends to shift its focus from deposits to asset management, provide a segment-oriented sales model and products and develop its VIP office network. In 2011 PSB opened one new VIP office to support sales to VIP clients and plans to expand this network in the future and open five new offices.
- *Develop Best Practices in Risk Management.* PSB’s objective is to develop risk management systems that are in line with best banking practices. The key areas for focus are development of a comprehensive early warning system based on macroeconomic triggers which will enable it to identify problem sectors in a timely fashion, improvements in risk assessment and stress test methodologies and models, introduction of a capital allocation system that covers all risk types, formalisation of the risk management process and automation of credit processes. See “Risk Management”.
- *Efficient Human Resources Management.* PSB considers efficient human resources management to be a key driver of its development strategy. To increase efficiency PSB has been and intends to continue to implement human resources management measures that are in line with leading standards in the Russian market. PSB’s primary focus is on developing an organisation and functional structure that has a strong front office element, introducing key performance indicators based motivation system that cascades down and applies to individual employees and adopting a systematic approach to competence management, career planning and targeted training.
- *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 and its aggressive development strategy and ensure functional efficiency and seamless business processes. 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 new IT systems and further automation of key banking processes, thus improving product development, the quality of services, distribution channels, risk management, decision-making and reducing associated costs. It intends to focus on consolidating back office and front office systems, implementing “client relationship management” (“CRM”) technology in all business segments, providing for master data management and corporate data storage and automating the credit process. Its priorities also include optimizing its functional structure and business processes. The main focus for optimization is defining and monitoring efficiency indicators for core business processes, outsourcing non-core processes and applying a systematic approach to change management based on the Lean methodology, which focuses on the elimination of wasteful expenditure that does not aid in the creation of value. PSB also intends to adopt a new approach to IT system upgrades and adopt a service- and

resource-based IT service model. PSB's goal is that its IT systems should be on par with those of leading banks in Russia and Central and Eastern Europe.

Principal Business Activities

Overview

PSB's business activities extend to corporate, SME, retail, private and investment banking and financial markets services. 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 trade finance and factoring, further develop its SME services, 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 2011, 2010 and 2009 according to PSB's banking segment type:

	Total Assets and Liabilities as at 31 December					
	2011		2010		2009	
	(RUB thousands)	(%)	(RUB thousands)	(%)	(RUB thousands)	(%)
Assets:						
Corporate banking	334,706,615	59%	267, 877,350	56%	216,234,664	46%
SME banking	40,134,570	7%	22,433,163	5%	18,454,923	4%
Retail banking	38,870,143	7%	24,631,045	5%	32,467,429	7%
International business, investment and financial markets .	61,303,434	11%	81,873,887	17%	174,881,118	37%
Reconciling items ⁽¹⁾	87,539,117	16%	78,311,474	17%	29,173,243	6%
Total assets	562,553,879	100%	475,126,919	100%	471,211,377	100%
Liabilities:						
Corporate banking	216,848,429	42%	156,438,827	36%	191,080,442	44%
SME banking	28,690,104	6%	22,149,339	5%	17,450,417	4%
Retail banking	74,711,665	15%	65,264,674	15%	60,382,664	14%
International business, investment and financial markets .	183,467,676	36%	178,690,445	42%	162,512,392	38%
Reconciling items ⁽¹⁾	4,730,412	1%	7,808,401	2%	1,580,081	0%
Total liabilities	508,448,286	100%	430,351,686	100%	433,005,996	100%

(1) In the 2011 and 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 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 include 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 and 28,200 clients as at 31 December 2011. Historically, the majority of PSB's business has been concentrated in Moscow and the Moscow region.

Corporate Lending

As at 1 January 2012, PSB was the eighth largest Russian bank by commercial loan portfolio, according to RBC. Corporate lending (net of impairment allowance) is the principal component of PSB's business representing 59% of PSB's total assets as at 31 December 2011, compared with 56% of PSB's total assets as at 31 December 2010 and 46% of PSB's total assets as at 31 December 2009. The relative increase in proportion of corporate lending in 2011 was mainly due to a significant increase in the loans granted, particularly due to new loans issued in the last quarter of 2011. The lower proportion of corporate lending in 2009 was due to higher level of retained liquid assets. PSB's gross portfolio of loans to corporate customers increased from RUB242 billion as at 31 December 2009 to RUB289.4 billion as at 31 December 2010, and increased to RUB349.9 billion as at 31 December 2011.

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.

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. 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, forest products, services, etc).

PSB's main corporate lending clients are based in Moscow and the Moscow region, reflecting the demographic profile of Russia. As at 31 December 2011, 70.6% of gross PSB's corporate loan portfolio was extended to this region, compared with 64.2% as at 31 December 2010, and compared with 64.8% as at 31 December 2009. 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 2011, 55.1% of PSB's net corporate lending portfolio was made in roubles, 37.4% in U.S. dollars, 7.3% in Euros, and 0.2% in other currencies, compared with 53.3%, 38.2%, 8.3% and 0.2% respectively as at 31 December 2010, and compared with 41.8%, 47.4%, 10.6% and 0.2% respectively as at 31 December 2009. As at 31 December 2011, overdue corporate loans accounted for 4.9% of PSB's gross corporate loans portfolio, compared with 7.8% as at 31 December 2010 and, compared with 11.2% as at 31 December 2009.

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 Trade & Forfeiting Review magazine, PSB was named "Best Local Trade Bank in Russia in 2010". PSB's aggregate volume of international operations including import letters of credit, international guarantees, forfeiting and ECA-backed operations, amounted to U.S.\$1 billion in 2009, U.S.\$1.6 billion in 2010, and U.S.\$1.8 billion in 2011. The aggregate amount of credit facilities obtained from international financial institutions with respect to international trade finance operations with PSB increased from U.S.\$1 billion as at 31 December 2009 to U.S.\$1.5 billion as at 31 December 2010, and to U.S.\$1.6 billion as at 31 December 2011.

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 and guarantees. In November 2004, PSB was 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.\$155 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, increased from U.S.\$27 million in 2009 to U.S.\$62 million in 2010 and further increased to U.S.\$161 million in 2011. PSB has established relations with major ECAs including, among others, Euler Hermes (Germany), Export Development Canada, Kexim (South Korea), KUKE (Poland), OeKB (Austria), SACE (Italy), Atradius (the Netherlands), ONDD (Belgium), EGAP (Czech Republic), SEC (Slovenia) and Finnvera (Finland).

Factoring

According to Russian Factoring Companies Association, PSB's interest in the Russian factoring market was 27% as at 31 December 2010 and decreased to 21% as at 31 December 2011 due to strong growth in the Russian factoring market. PSB's aggregate turnover in international factoring in 2011 was in excess of EUR100 million, as per Factors Chain International ("FCI"). During this period PSB's main competitor, Eurocommerz, went bankrupt as a result of the liquidity squeeze during the Financial Crisis. According to Expert RA, the factoring market in Russia grew in size by 80% during the first six months of 2011 as compared to the similar period during the previous year, and amounted to RUB360 billion. As per Russian Factoring Companies Association, in 2011 the Russian factoring market witnessed the transfer of RUB882 billion of accounts receivables, an 82% increase from RUB484 billion in 2010.

PSB's factoring services include 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 2011, approximately 88% 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 2010 and 31 December 2009. For the year ended 31 December 2011, clients turned to PSB for factoring services on approximately 1,080,000 deals with 2,700 debtors, compared with 680,000 deals with 2,500 debtors, for the year ended 31 December 2010, and compared with approximately 674,000 deals with 2,900 debtors for the year ended 31 December 2009. 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 2011, PSB entered into approximately 495 new factoring agreements.

PSB actively cooperates with established factoring companies and banks Brazil, China, Germany, Italy, Japan, Turkey, Taiwan, Ukraine, Bulgaria, Norway, Poland, Slovenia, Canada, Czech Republic, France, Belarus and Kazakhstan, 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 2012, PSB was the 9th largest Russian bank by corporate deposits, according to RBC. PSB's total corporate current accounts and term deposits slightly decreased in value from RUB193.5 billion as at 31 December 2009 to RUB189.4 billion as at 31 December 2010, and increased to RUB214.4 billion as at 31 December 2011 and accounted for 66.8% as at 31 December 2009, 63.8% as at 31 December 2010, and 63.3% of PSB's total current accounts and deposits from customers as at 31 December 2011. The total number of corporate (including SME) clients increased from approximately 71,000 as at 31 December 2009 to approximately 95,000 as at 31 December 2010, and to approximately 102,000 as at 31 December 2011. 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 2011, PSB's corporate current accounts amounted to RUB74.8 billion, compared with RUB68.4 billion as at 31 December 2010 and RUB55.4 billion as at 31 December 2009.

PSB's concentration of its top 10 corporate depositors was 31.9% of total current accounts and deposits from customers as at 31 December 2009, 28.0% as at 31 December 2010 and 25% as at 31 December 2011. PSB's main corporate deposit clients were 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 57% being based within Moscow and the Moscow region for the year 2011. 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 2009, to 69%, 20% and 10% respectively, as at 31 December 2010, and to 71%, 21% and 7%, respectively, as at 31 December 2011.

SME Lending

PSB offers SMEs a broad range of "off-the-shelf" products lines, differing according to size and purpose of loan, fees, interest and collateral requirements, with current client focus on medium-sized SMEs. PSB has constantly expanded and intends to continue to expand the range of products based on the customer's needs and its product line includes loans, deposits, bank guarantees, cash management and payment services, online banking services and retail banking services (such as payment of salaries to customers' employees' bank accounts, consumer lending to customers'

employees, cash collection services, etc.). PSB also implements measures targeted at SME clients, including television and other advertisements, and organisation of business exhibitions and forums, which provide visibility to the PSB brand.

As of 1 July 2011, PSB was the fourth largest Russian bank by total amount of loans issued to SME and sixth largest by size of the SME loan portfolio (excluding Sberbank), according to RBC. The number of SME clients increased from 8,644 clients in 2009 to 9,944 clients in 2010, and to 10,968 clients in 2011. The number of SME loans issued increased from 10,477 loans in 2009 to 12,630 loans in 2010, and to 16,600 loans in 2011. The SME gross loan portfolio increased from RUB22.5 billion as at 31 December 2009, then representing 4.8% of total assets to RUB26.7 billion as at 31 December 2010, then representing 5.6% of total assets and to RUB38.3 billion as at 31 December 2011, then representing 6.8% of total assets. In 2011, PSB purchased RUB5.8 billion in SME loans from Trust Bank, which purchase contributed significantly to the growth in PSB's SME loans in 2011 compared to 2010. Additionally, PSB experienced some organic growth in the regions outside of Moscow. SME lending is one of the key priorities for PSB and PSB has over 213 outlets which offer services to SME customers in all federal districts of Russia and in more than 50 regions of Russia. In 2011, PSB opened new outlets for selling its SME products in six cities (Arkhangelsk, Kaluga, Kursk, Maikop, Pyatigorsk and Ioshkar-Ola) and also opened four outlets in the Moscow Region. PSB's goal is to achieve "top-3" position in Russia by selling its credit products to new and existing SME customers and opening new sales outlets, including in newly-developed regions (such as Astrakhan and Kostroma). As at 31 December 2011 PSB considered 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. In September 2011, PSB launched a government guarantee programme for lending funds to SMEs, which is currently being implemented in all Russian regions where PSB has a presence. In early 2012, PSB integrated its division responsible for the development of SME lending with the sales network, which oversees and manages PSB's SME operations.

As at 31 December 2011, 36.0% of PSB's gross SME lending portfolio was extended to the non-food trade industry, 15.8% to the food production and food trade industry, 12.3% to the service industries, and 35.9% to the other industries, compared with 32.9%, 20.5%, 12.0% and 34.6% respectively as at 31 December 2010, and compared with 27.3%, 20.9%, 15.2% and 36.6% respectively as at 31 December 2009. PSB's main SME lending clients are based within the Russian regions, and as at 31 December 2011, 80.3% of PSB's SME gross lending portfolio was extended to these regions (where demand is high and competition relatively low), and 19.7% of PSB's SME lending portfolio was extended to Moscow and the Moscow region, compared with 79.1% and 20.9% respectively as at 31 December 2010, and compared with 81.2% and 18.8% respectively as at 31 December 2009. As at 31 December 2011, 17.6% of PSB's SME lending portfolio was extended to the Central Chernozem and Central region, 17.5% to the Volgo-Viatskiy and Volga region, 14.4% to the Siberian region, 10.4% to each of the Southern region and the North-western and Northern region, 6.1% to the Urals region and 3.9% to the Far Eastern region.

The Central Federal District, the Volga Federal District and Siberian Federal District accounted for 77% of all SME loans granted, with the remaining 23% distributed more or less evenly among the other districts.

SME loans are available in roubles, U.S. dollars and in Euros, and as at 31 December 2011, 99.8% of PSB's net SME lending portfolio was made in roubles and 0.2% in U.S. dollars, and there was no lending in Euros, compared with 98.7%, 1.2% and 0.1% respectively as at 31 December 2010, and 98.9%, 0.8% and 0.3% respectively as at 31 December 2009.

Retail Banking

PSB's retail banking activities include retail lending, retail deposits (including current accounts and term deposits), debit card services, internet banking services, and a network of ATMs. As at 31 December 2011, PSB had approximately 1,460,000 retail accounts, compared with approximately 1,410,000 as at 31 December 2010, and approximately 1,100,000 as at 31 December 2009. 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 2012, PSB was the tenth largest private Russian bank by retail loan portfolio (excluding state-controlled and foreign owned banks), according to RBC. PSB's retail borrower base decreased to 129,000 customers as at 30 June 2010 due to the suspension of active lending in 2009 and in the first half of 2010 as a consequence of the Financial Crisis. In July 2010, PSB resumed general retail lending and as at 31 December 2011 the number of retail borrowers increased to approximately 180,000.

As at 31 December 2011, new retail loans issued post 1 July 2010 amounted to RUB23.6 billion, whereas as at 31 December 2010, new retail loans issued post 1 July 2010 amounted to RUB4.0 billion. As at 31 December 2011,

79.0% of such new retail loans were consumer loans, 14.3% were mortgage loans, 5.7% were loans to VIP clients and 1.0% were credit cards.

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.

- *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 and due to the co-branding programme with Transaero which was introduced in 2009. 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 96% of the cards portfolio. PSB also offers its clients credit cards with a revolving credit limit and grace period of up to 50 days. During 2011, approximately 613,000 new cards were issued. As at 31 December 2011, PSB had issued over 1,000,000 cards (both debit and credit) including co-branded cards with Transaero.
- *Mortgage Loans.* In February 2011 PSB resumed its mortgage-lending programme, both for its existing clients and for general public. In 2011, PSB issued RUB3.6 billion of mortgages to individuals.

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 automation 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. In 2010, PSB wrote off RUB3.1 billion bad loans (all of which were corporate (including SME) loans) and sold RUB 13.8 billion bad loans (of which RUB8.5 billion were corporate (including SME) loans and RUB5.3 billion were retail loans). In 2011, PSB wrote off RUB 3.1 billion bad loans (all of which were corporate (including SME) loans) and sold RUB18.7 billion bad loans (of which RUB8.4 billion were corporate (including SME) loans and RUB10.3 billion were retail loans). In each case PSB had made full provision for such loans. Currently, PSB has a fully automated, highly productive and optimal cost-efficient process for collection of retail loans (which was highly appraised by external consultants), which includes various stages of collection – soft, hard, field, legal collection, execution, outsourcing and debt sale. PSB has also implemented certain improvements to its 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 2011, 2010, and 2009:

Retail loan product	As at 31 December					
	2011		2010		2009	
	(RUB thousands)	(%)	(RUB thousands)	(%)	(RUB thousands)	(%)
Consumer Loans	25,122,523	67.5%	18,658,332	57.3%	23,192,571	56.9%
Auto loans ⁽¹⁾	4,055,562	10.9%	8,318,508	25.6%	11,320,973	27.8%
Credit cards	1,500,493	4.0%	2,254,720	6.9%	3,124,578	7.7%
Mortgage loans ⁽²⁾	4,873,318	13.1%	1,963,008	6.0%	1,982,384	4.9%
Express loans ⁽¹⁾	28,004	0.1%	135,393	0.4%	693,504	1.7%
Loans to VIP clients	1,647,000	4.4%	1,205,372	3.7%	398,304	1.0%
Total loans to individuals	37,226,900	100%	32,535,333	100%	40,703,314	100%

(1) Car loans and express loans were 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 and approximately two years for express loans.

(2) Mortgage loans were discontinued as of October 2008 and resumed in February 2011 but had a continued presence within the loan portfolio during the period of suspension due to average tenors of approximately 20 years.

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 2011, 70.2% of PSB's gross retail loan portfolio was extended in the Russian regions and 29.8% of PSB's retail loan portfolio was extended in Moscow and the Moscow region, compared with 83.4% and 16.6% respectively as at 31 December 2010, and compared with 89.1% and 10.9% respectively as at 31 December 2009. As at 31 December 2011, 17.2% of PSB's retail loan portfolio was extended to the Siberian region, 16.2% to the Central Chernozem and Central region, 13.4% to the Volgo-Viatskiy and Volga region, 9.1% to the North-western and Northern region, 8.2% to the Southern region, 3.7% to the Urals region and 2.4% to the Far Eastern region.

Retail loans are available in roubles, U.S. dollars and euros. As at 31 December 2011, 97.0% of PSB's net retail portfolio was made in roubles, 2.8% in U.S. dollars and 0.2% in euros, compared with 88.7%, 9.1% and 2.2% as at 31 December 2010, and 88.5%, 10.8% and 0.7% respectively as at 31 December 2009.

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 the applicable financial year). Certain loans may also be recognised as showing signs of impairment. The proportion of total retail NPLs to PSB's gross retail loans portfolio decreased from 27.7% as at 31 December 2009 to 24.8% as at 31 December 2010, and decreased to 14.6% as at 31 December 2011. The main reason for reduction of the NPL level in the retail loan portfolio was the rigorous application of more effective risk criteria to new loan origination and sales and write-offs of NPLs. The proportion of total overdue loans to PSB's gross retail loans portfolio grew from 38.9% as at 31 December 2009 to 42.7% as at 31 December 2010, and decreased to 19.6% as at 31 December 2011.

As a result of the Financial Crisis, PSB had to renegotiate and reschedule a larger proportion of its loans to borrowers in 2011 than in prior years, which resulted in a negative impact on PSB's revenues.

Historically, PSB, much like other major Russian banks, has charged a range of fees and commissions in connection with its lending services to retail customers, in addition to the interest rate payable on its retail loans ("**lending fees**"). In November 2009 and March 2010, the Supreme Arbitration Court of the Russian Federation issued two judgments that declare charging an account fee to retail borrowers is a violation of Russian consumer protection laws. Lending fees that have been refunded in response to claims by retail customers are not considered by PSB to be material and are unlikely to have significant implications for PSB's business. The aggregate amount of lending fees refunded by PSB in connection with loans to retail customers since 1 January 2010 is less than EUR500,000. PSB conducts its business in compliance with Russian laws and regulations and takes into account current developments in the practice of Russian courts. As stated in the Information Letter No. 147 issued on 13 September 2011 by the Supreme Arbitration Court of the Russian Federation, a credit institution can lawfully receive fees for providing a separate service to its client. Accordingly, PSB currently only charges fees for separate services in respect of mortgage loans, and other lending fees have been abolished.

Retail Funding

As at 1 January 2012, PSB was the second largest privately owned Russian bank by retail deposits and the eighth largest Russian bank overall by retail deposits, according to RBC. As at 31 December 2011, the total value of PSB's retail current accounts and term deposits totalled RUB124.2 billion, accounting for 37% of PSB's total current accounts and deposits from customers, compared to RUB107.7 billion and 36% as at 31 December 2010, and RUB96.0 billion and 33% as at 31 December 2009. 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. The number of individual debit cards that PSB issued has increased steadily, from approximately 659,491 as at 31 December 2009 to 922,708 as at 31 December 2010, and to over 1,000,000 as at 31 December 2011. 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.

PSB's retail customers can 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 plans to introduce cost efficient “light offices” for its retail clients (see “— *Distribution Network*”).

The percentage of PSB’s retail current accounts and term deposits denominated in roubles, U.S. dollars and euros changed from 49%, 18% and 33%, respectively, as at 31 December 2009 to 64%, 13% and 20%, respectively, as at 31 December 2010, and 68%, 19% and 13%, respectively, as at 31 December 2011. 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 January 2012, PSB’s market share of the MICEX-RTS monthly “top-50” bond market participants’ turnover was 2.1% in the main market and 4.95% in the negotiated bond deals operations market.

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 2011, PSB continued the development of debt origination and placement activity despite the deterioration in the securities markets as a result of the European debt crisis. In 2011, PSB placed rouble bonds on behalf of First United Bank (Pervobank), the Ministry of Finance of the Republic of Sakha (Yakutia), Novikombank, Credit Bank of Moscow, National Standard Bank, Utair, Polyplast, Ural Bank of Reconstruction and Development, Orient Express Bank, Komos Group and Tatfondbank and was also a dealer in respect of its own loan participation notes programme. In 2011, PSB placed 12 domestic bond issuances with a nominal value of RUB27.8 billion, as compared with 11 bond issuances in 2010 with a nominal value of RUB24.1 billion. According to Investment Banks League Tables published by Cbonds, a leading Russian information agency devoted to fixed income markets, PSB was ranked eleventh among arrangers of all domestic market issuances. In 2011, PSB was a joint lead manager for the Regulation S/Rule 144A U.S.\$500 million eurobond issuance by PSB Finance S.A. In 2011, PSB also updated its Global Debt Issuance Programme to place different types of limited recourse notes on behalf of its corporate clients. Besides vanilla loan participation notes, the Programme now includes rouble-denominated credit linked notes, exchangeable notes, equity linked notes, fund linked notes and other types of structured notes.

In 2011, PSB participated in the arranging and/or underwriting of 86 bond issuances with an aggregate value of RUB26.9 billion, a 17.8% increase in number from 2010 and a 20.3% decrease in value as compared to 2010. According to the rouble-denominated bonds league table of Cbonds, PSB was among the top-three underwriters by number of issuances (all industries), and ranked sixth by volume in the municipal sector in 2011.

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.

In December 2011, PSB was ranked fourth by volume of operations in the over the counter bond section of MICEX-RTS as compared to a rank of three in December 2010. 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 among leading repo operators at MICEX-RTS. In 2011, PSB received the “Best Trading in the Bond Market” award from Cbonds.

PSB substantially increased the sales of hedging services for clients engaged in international trade, and of futures and options on the MICEX-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 increased from approximately U.S.\$1.72 billion as at 31 December 2009, to approximately U.S.\$2.27 billion as at 31 December 2010, and further increased to approximately U.S.\$2.5 billion as at 31 December 2011 due to the recovery in global and local economies.

In 2010, PSB began to re-structure its brokerage division and in 2011, PSB continued to develop its brokerage services through improvements in IT infrastructure, hiring stronger sales team, introducing wider range of products and optimizing prices, tariffs and discounts for the bona fide customers and enhancing research support. In August 2011, PSB launched a margin trading service for its retail customers and provided them with access through the internet-trading system QUIK, servicing clients' transactions with bonds, shares, derivatives in main market and Classica sector of MICEX-RTS, FORTS, government securities market and over the counter market. In 2011, PSB also developed a new web site devoted to brokerage services, which resulted in an increase in the number of brokerage clients. As at 31 December 2011, PSB had approximately 1,340 brokerage clients, compared with 1,027 as at 31 December 2010, and 1,250 as at 31 December 2009. (The total number of brokerage clients decreased in 2010 due to closure of dormant accounts and the number of client's active accounts was approximately stable at 184 as at 31 December 2010, as compared to 178 as at 31 December 2009). Traditionally, PSB has paid special attention to VIP-brokerage services and for the first time it was included in MICEX-RTS's list of 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 and in December 2011, PSB was included in MICEX-RTS's top-4 list of leading operators of the market for stocks in the repo market.

In 2011 PSB's securities portfolio strategy remained conservative in response to volatile market conditions. Traditionally, PSB's portfolio mainly comprised state securities, regional and municipal bonds and blue-chip stocks. As at 31 December 2011, 54% of PSB's securities portfolio comprised corporate bonds, 28% were Russian government bonds (including municipal bonds and bonds issued by the CBR), 14% were promissory notes issued by financial institutions and 4% comprised equity and fund investments. 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 balance 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 2011 amounted to RUB44.3 billion (which was a decrease of 15.1% compared to the balance in 2010), with the share of the securities portfolio in PSB's assets decreasing from 11.0% to 7.9%.

The table below sets forth details of the Group's securities portfolio for the periods and as at the dates indicated.

	Year ended 31 December		
	2011	2010	2009
	(RUB millions)		
Net gain/(loss) on financial instruments at fair value through profit or loss ⁽¹⁾	192	(164)	501
Fee and commission income on international business, investments, financial markets ...	390	350	648
Interest income on financial assets at fair value through profit or loss and investments held to maturity	3,205	3,572	3,138

(1) Calculated as sum of net gain/(loss) on financial instruments at fair value through profit or loss and gain/(loss) early redemption of senior loan participation notes less net gain/(loss) on early redemption of senior loan participation notes and net gain/(loss) on interest rate swaps.

	As at 31 December		
	2011	2010	2009
	(RUB billions)		
Trading portfolio ⁽¹⁾	39.7	45.9	41.6
Investments held to maturity	2.7	4.0	7.2

(1) Calculated as financial assets at fair value through profit and loss less spot and derivative financial instruments.

Precious Metals

PSB focuses its precious metals operations on financing production cycle investments for gold mining companies and the purchase and sale of gold. In 2009, PSB had a total of U.S.\$44.1 million in credit lines to Russian gold producers. In 2010, the volume of credit lines decreased to U.S.\$27.3 million and in 2011, it increased to

U.S.\$36.5 million. As at 31 December 2011, the volume of credit lines was U.S.\$29 million and as at 21 March 2012, the volume of credit lines was U.S.\$75 million. PSB signed agreements with Russian mining companies for the purchase of 108,223 ounces of gold during 2012, with an approximate value of U.S.\$188 million. In October 2011, PSB signed a six-month facility agreement with Commerzbank AG in the amount of 7,000 ounces of gold for the purposes of financing equipment purchases for Russian gold mining companies and general purposes related to its precious metals business.

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 and credit linked notes issuers and also monitors financial markets and conducts market and industry research. PSB also offers its clients products specially designed to respond to the continuing credit crisis, including amortising bond issues, new promissory note issues, bonds and credit loans restructuring.

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-RTS, the Depository Clearing Company, which services the MICEX-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 2011, PSB had 1,512 custody customers, compared with 1,350 as at 31 December 2010 and 1,493 as at 31 December 2009. On 1 July 2011, the Professional Association of Registrars, Transfer-Agents, and Depositories ("PARTAD") gave PSB's custody services a rating of AAA. Custody services are insured by Oranta National Joint Stock Insurance Company.

Asset Management

PSB offers asset management services through its subsidiary LLC "Management Company Promsvyaz" ("MC Promsvyaz"), an asset management company. MC Promsvyaz holds licenses from the FSFM to offer asset management services to individuals, as well as to manage mutual funds and pension funds. MC 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, MC Promsvyaz manages certain assets of the Pension Fund of the Russian Federation. MC Promsvyaz conducts regular portfolio reviews and manages assets according to client risk and return profiles. As at 31 December 2011, MC Promsvyaz had assets under management of approximately RUB10.72 billion, compared with approximately RUB6.65 billion as at 31 December 2010 and approximately RUB2.74 billion as at 31 December 2009. The company'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, booking VIP lounges in airports and business centres, and leasing private jets. 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 in 2011 offices were opened in Volgograd, Yaroslavl, Kemerovo, and Tyumen.

In 2011, PSB introduced several universal life insurance products, including some which integrate a guaranteed earning capacity with an investment component. PSB intends to further expand and develop the product line, and to this end, may develop investment and non-banking products, portfolio management, customized strategies for trust management and offshore funds, structured products, broking operations at foreign stock exchanges; products to protect

capital and alternative investments such as insurance and transactions involving immovable properties via partner programs, various concierge services, etc.

By 2010 PSB was able to develop its private banking unit into a self-sufficient division. In 2011, the size of the VIP customer funds portfolio grew by 22% as compared with 2010 while the customer base expanded by 54% in 2011 as compared with 2010. To further develop this unit and the quality of services provided, PSB has adopted a system for assessment by customers, engaged independent companies to compare PSB's contact centres with those of competitor banks and introduced a system of non-financial motivation of employees.

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 2011, 387 banks maintained 854 accounts with PSB, in Russian roubles or foreign currencies, compared with 398 banks and 894 accounts as at 31 December 2010, and 386 banks and 916 accounts as at 31 December 2009. 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 2012, following the implementation of a branch network optimization strategy, PSB had a broad distribution network, with 288 branches, sub-branches, points of sale or other representations, as compared to 253 branches, sub-branches, points of sale or other representations as at 31 December 2010 and 239 branches, sub-branches, points of sale or other representations as at 31 December 2009. PSB opened 34 new offices in 2011 and its strategy for 2012 includes extending its regional presence by opening 34 new points of sales, including 15 new full-service sub-branches. PSB's current aim is to expand its distribution network through the addition of "light offices" operating as front office sales outlets to provide services to retail clients, which offices will be located in smaller areas (up to 80 square metres), employ less staff (not more than three), and be more cost-efficient. PSB also aims to maintain high operational efficiency and profitability in those offices that are already established.

In early 2012, the branch network programme was completed to transform full-service branches into operating offices that focus on front-office activities only, leaving back office functions to universal full-service branches. PSB currently has only 8 universal full-service branches in Russia in Yaroslavl, Nizhny Novgorod, St-Petersburg, Novosibirsk, Rostov on Don, Ekaterinburg, Khabarovsk and Stavropol. 38 other branches were transformed into operating offices which offer a full range of front office banking services to corporate, SME and retail clients.

PSB operates five different types of domestic representation offices in Russia:

- *Universal full-service branches.* Universal full-service branches (*filialy*) 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 back-office, accounting, risk management and reporting functions for universal full-service sub-branches whereas many other branches/offices only include front office functions. Each branch employs approximately 40 to 50 staff and as at 1 March 2012, PSB had 8 universal full-service branches in Russia, and 1 in Cyprus.
- *Universal full-service sub-branches.* Universal full-service sub-branches (*dopolnitelnye ofisy*) replicate front office 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. 41 universal full-service sub-branches include both front and back offices (but do not include accounting departments) whereas the remaining 108 universal full-service sub-branches only include front office functions. Each sub-branch employs approximately 20 to 25 staff and as at 1 March 2012, PSB had 149 universal full-service sub-branches.
- *Full-service retail and SME offices.* Full service retail and SME offices (*universalnye roznichnye dopolnitelnye ofisy*) offer front office 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 2012, PSB had 55 full service retail and SME offices.

- *Full-service retail offices.* Full-service retail offices (*universalnye roznichnye dopolnitelnye ofisy*) offer retail banking services. They are subordinated to universal full-service branches and offer a full range of front office banking services to retail clients. Each full-service retail office employs approximately 12 staff and as at 1 March 2012, PSB had 47 full-service retail offices.
- *Payment offices.* Payment offices (*operkassy vnekassovgo uzla*) offer front office payment services to retail clients. They are subordinated to retail points of sale and are located in department stores, airports and car dealers. Each payment office employs approximately two staff and as at 1 March 2012, PSB had 23 payment offices.

The following table sets forth the distribution of representations as at 1 March 2012.

Branch numbers as at 1 March 2012							
	Universal full- service branch	Universal full- service Sub- branch	Full- service retail office	Retail and SME office	Payment office	Other ⁽¹⁾	Total
Moscow and the Moscow Region	0	0	28	23	14	0	65
Central Russia	1	32	0	9	1	0	43
North West	1	22	4	1	6	1	35
South	2	20	9	4	0	0	35
Ural, Siberia and Far East	3	44	5	5	1	0	58
Volga	1	31	0	13	1	0	46
Cyprus	1	0	1	0	0	0	2
India, Ukraine, Kazakhstan and China	0	0	0	0	0	4	4
Total	9	149	47	55	23	5	288

- (1) This category includes the international representative offices and one sub-division of retail and SME offices (*kreditno-kassoviy office*, as per CBR terminology), which has the same functions as retail and SME offices, subject to certain restrictions.

Following the Financial Crisis, PSB's aim was to consolidate, streamline and optimise its distribution network and back office/risk management functions, while maintaining high operational efficiency and profitability. Since September 2008, PSB closed 63 points of representation (including 25 closures in 2011 and 9 between January to March 2012) 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 some profitable ones to premises with lower rentals and more intensive client flow.

In addition to certain conventional banking products and services, PSB's branches/offices 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. As at 31 December 2011, PSB operated a network of 1,406 ATMs. Approximately 1,033 ATMs were located outside Moscow as at 31 December 2011, compared with 1,234 as at 31 December 2010 and 997 as at 31 December 2009.

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'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. PSB in Cyprus conducts business with companies from various countries and economic sectors.

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. In addition, PSB also maintains international representative offices in Ukraine and Kazakhstan. 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 or anywhere else.

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). PSB's goal is develop its contact centre so that it may function as an additional channel for distance selling. There are several services available for PSB's clients such as client support services, filing applications for PSB's products 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. In 2011, PSB commenced the processing of customer applications submitted online via the Lidogeneratsia channel and launched a sales programme as regards incoming calls. PSB plans to expand the channels through which customers may apply for services, including through an online chat forum on its website site, which is eventually expected to be transformed into a video chat forum.

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. PSB intends to extend the IVR functions to provide information as to account balance, client cash movements and functionality to conduct certain transactions. In order to increase the efficiency of the contact centre, PSB plans to implement measures aimed at re-directing questions typically asked by customers to self-service channels and further introduce SMS-banking as an additional customer self-service channel.

Currently, PSB's contact centre handles approximately 4,800 calls a day. As at 31 December 2011, the contact centre employed approximately 154 people. Due to PSB's active promotion campaign, the number of calls is often in excess of the normal volumes and, as a result, the contact centre function is supported by an alternative facility on a permanent basis, which has helped reduce the waiting time on calls. This alternative facility does not have access to customer information and only advises potential clients on general questions on the basis of information available on PSB's website

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 31 employees, including 24 operators. In 2011, telemarketing personnel made calls to over 230,000 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, as at 31 December 2010, PSB Retail was ranked second amongst all Internet-based banking systems in Russia in terms of range of products offered. In 2011 the number of users of PSB Retail increased by 72% from 306,300 as at 31 December 2010 to 527,300 as at 31 December 2011, with the number of transactions conducted online increasing by approximately 35% from 3,425,383 to 4,618,059 for the same period. The number of corporate customers using PSB Online exceeded 63,000 in 2011, growing by 14.5% as compared to 2010.

In 2011, the user interface of the Internet Bank PSB-Retail system was redesigned making the system simpler and more user-friendly. In 2011 there was also a significant expansion of the functionality of the PSB-Retail system, which enables clients to open deposit accounts via the Internet, apply for loans, conduct transactions with metal accounts, pay taxes, use brokerage services, buy airplane tickets, access online shopping stores, etc. and also facilitates correspondence with the client. The launch of an application for smart phones based on iOS and Android to allow clients to conduct banking transactions is scheduled for 2012.

Business Operations

Employees

As at 31 December 2011, PSB employed 11,450 personnel, of whom 4,545 or 40%, were based in the head office and in sub-branches of Moscow and the Moscow region, and 6,904 or 60%, were based in branches and sub-branches in other Russian regions and abroad. For the year ended 31 December 2011, employee compensation expense

was RUB10.2 billion or 60% of PSB's general and administrative expense, compared with RUB8.8 billion or 59% for the year ended 31 December 2010 and RUB7.6 billion or 57% respectively for the year ended 31 December 2009.

The following table describes the number of employees as at 31 December 2011 by categories:

Category	Number of employees
Board Directors	9
Senior management	121
Managers	1,667
Specialists	7,593
Cashiers and operators	2,060
Total	11,450

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. In 2011, PSB hired 4,033 new employees and the net inflow amounted to 908 new people. As a result of optimization of the sales network through the transformation of branches to operational offices and the transfer of certain back office staff to the front office, 247 employees were made redundant in 2011 though redundancies were made after the employees declined alternate positions. Another 14 employees were dismissed because of administrative actions. In 2012, 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.

PSB regularly monitors salary trends in the Russian banking sector to determine the salary levels necessary to make the Group a competitive employer in 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's began reviewing salary levels of its employees twice a year (though employees receive pay increases only once a year).

In 2010, PSB adopted a new incentive system based on key performance indicators for senior management of retail banking and in 2011, this system was extended to personnel in the corporate banking, IT and retail credit requests control divisions and subsidiary offices. A bonus system is utilised for SME, past-due retail indebtedness and asset management staff. Further, in 2011, PSB introduced a social benefits programme for employees of subdivisions located in Moscow and the Moscow region and in 2012, PSB launched a social assistance program.

IT Infrastructure

Information technology is an integral part of PSB's operations and PSB's IT strategy aims to deploy and maintain adaptable, flexible IT systems that can address PSB's expanding business and geographical scope. PSB has developed a centralised core information and data processing system, which allows it to synchronise the management of its operational, lending and risk management processes. PSB is also committed to developing its IT infrastructure in line with the expansion of its operations and is constantly improving its IT systems and utilising new technologies and software to optimise and automate business processes, improve risk management, and support its present and future business. For example, in response to certain Internet attacks in 2009 and 2011, PSB has adopted various measures, including, utilizing the services of an internet operator which provides adequate protection from such attacks; transferring PSB's external servers to independent addresses; developing and implementing solutions in cooperation with companies that provide specialised support; implementing additional protection measures for servers and applications; and testing protection mechanisms in order to identify weaknesses. See "Risk Factors — Risks Relating to PSB and the Group's Business and Industry — *PSB's IT systems may malfunction, be insufficient to support future operations, or be subject to Internet attacks*". As at 31 December 2011, the IT Department employed approximately 339 people.

PSB has introduced Internet banking systems ("PSB Online" for legal entities and "PSB Retail" for private individuals) in all its sales outlets and has further introduced an Internet-based trading system that permits PSB's customers to participate in on-line securities trading on MICEX-RTS. 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's operations are supported by an integrated software system based on the banking system "New Athena." PSB's financial and security market operations are supported by Softwell RM, Egar Focus and Diasoft Custody 5 NT, which have interfaces allowing them to exchange data with the external systems Reuters, MICEX-RTS, Bloomberg and SPBEX.

PSB uses the Way4 system, provided by Open Way, to support debit and credit card operations, Documentum (with a 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.

Since 2008 PSB has implemented various systems in order to support its business. In 2008 PSB completed the introduction of the ERP-system (SAP BW and SAP HR) which supports effective corporate governance. In 2008 PSB also began the implementation of a unified front-office system for financial markets – Misys Summit, which automates financial markets transactions and handles user requirements on securities trading. This was put into commercial operation in 2010. Further, in 2008, PSB began the implementation of a sophisticated risk management programme (the Kamakura Risk Manager (“**KRM**”)) which integrates loan portfolio management, market risk management, risk management guidelines as per 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 technology (CRM Siebel) to aid in managing its relationship with 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 systems (the BPM system on the SAP platform) to cover various aspects 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 middle-office functions of the retail and SME banking segments based on Documentum, which was integrated with SAS RTDM, the decision engine system. This system is now utilised to process loan applications and credit card applications. Approximately 10% of the loan products decisions were switched over to the SAS system decision-making in March 2011 and all retail products (with the exception of mortgage loans) were switched over in November 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 continues to work towards the introduction of a system for planning administration and personnel costs. PSB also intends to further expand the deployment of SAP subsystems, including through the introduction of financial accounting, reporting persons, property management, collateral management and CRM for retail customers. PSB is looking to move toward a fully integrated risk management system (reflecting Basel II and KRM), 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 2012, 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, depository 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 FCI and the Association of Banks of the North Western Region, International Capital Markets Association (ICMA) and Loan Market Association (LMA).

Property

As at 31 December 2011, PSB owns 90% 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 54 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 and OOO "Promstrakhreserv" (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 VSK, Rosgosstrakh, Reso-Guarantee, Rosno and Oranta, including insurance covering its offices, cash and cash equivalents, property, personnel and fraudulent transactions executed with plastic cards issued by PSB. While the Group has insurance coverage in line with market standard, it 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 complete 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 (including country and counterparty risk), market risk (including price, interest rate, foreign currency and securities portfolio risks), 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 on a continuous basis.

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 the power to approve or alter lending limits to the Operative 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 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;
 - *Risk Management Methodology Department.* The Risk Management Methodology Department develops procedures for analysing, measuring and controlling credit risks; and
 - *Collateral Department.* The Collateral Department assesses and monitors the value of collateral received and the risks associated with collateral foreclosure.

- *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.
- *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 amounts in full 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, 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 borrowers, 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 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. PSB has established the following portfolio limits: the industry exposure limit (which limits PSB's exposure to customers in an industry whose financial position and business may be adversely affected by negative developments in that industry) is set at 100% of PSB's equity under its IFRS financial statements; credit risk exposure limit for related parties is 25% of PSB's equity under its IFRS financial statements; and the credit risk exposure limit for PSB's top 20 borrowers is 170% of PSB's equity under its IFRS financial statements.

Going forward, for corporate and SME clients, PSB expects to adopt a monitoring approach that differs in terms of frequency of monitoring, control indicators and criteria depending on the client's credit rating. PSB also intends to develop a grading system that clearly defines a client's transition between "normal", "remedial" and "recovery" sectors. As regards retail clients, PSB intends to introduce a procedure for amending credit card limits at its own initiative when certain trigger events occur, and further, it intends to implement behavioural scoring systems.

See "Risk Factors — Risks Relating to PSB's Operations of Business — *PSB faces increased risk exposure associated with its strategy to expand its retail and SME lending business*".

Credit Policies and Procedures for Legal Entities

Lending Principles for Corporate Clients

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

In general, PSB extends credit to clients that are loyal, satisfy high standards of corporate governance, exhibit an absence of conflict between the beneficial owners and the managers and disclose sufficient information to enable analysis of their credit requirements. PSB also analyses whether the credit requested is clearly related to the client's current business, if the client's financial and economic position (current and forecasted) and defined sources would allow it to duly repay its debts on time without compelling PSB to resort to the sale of the security and if any other credit-related risks of the client (legal, reputational, environmental, regulatory, etc.) are acceptable to PSB. The ability of the client to provide guarantees and security are also considered pertinent.

When making the decision to lend, PSB gives preference to clients who use or are ready to use PSB's commission-based products, who receive targeted state support or to whose accounts with PSB 50% of the client's revenues are credited, including proceeds from encashment. PSB also prefers clients who have a positive credit history or proprietary fixed assets in the form of property, plant and equipment or clients that have substantial operating experience or a well-known brand in the market, possess a notable share of their regional market or exhibit positive and above average industrial dynamics of development.

PSB gives priority to the certain industries of the national economy within concentration limits when making a decision to extend credit to a client, including IT and telecommunications; wholesale and retail sales; military industrial sector; power engineering; pharmaceuticals; food production; infrastructure construction; industries related to government orders; wood processing; transport; and extraction and production of precious metals.

PSB does not establish new credit limits for clients whose activities are prohibited by Russian laws (including those related to the legitimisation (money laundering) of the proceeds of crime and the financing of terrorism), linked with high environmental risk or related to production/import of tobacco products, gambling industry or sale of adult entertainment products. In addition, PSB does not establish new credit limits for clients who use aggressive tax planning methods with respect to a majority of their revenues/assets or who have links to the criminal community, regardless of the size and potential of their business. Further, if the client is a state or municipal-owned enterprise whose accounts are a matter of state secret and not disclosed, then new credit limits are not established for it because it is 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.

PSB's Requirements for Security

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

Collateral Quality Group*	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 including hotels and restaurants as well as the modern residential real property, provided that its owner is not an individual
	Pledge of rights to receive revenues/security assignment of cash claims 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, including hotels and restaurants as well as the residential real property, provided that its owner is not an individual

Collateral Quality Group*	Type of Collateral (Description)
	Mortgage of land plots free of any development and located within the city which have the designation of settlement land
	New vehicles as a floating charge if the vehicles' registration documents are kept with PSB
	Mortgage of modern aircrafts, river and sea vessels
	Pledge of a group of liquid equipment units comprising a complete technological process
	Pledge of business
5	Mortgage of production and other real property including the mortgage of other land plots
	Pledge of other liquid assets
	Pledge of rights (claims) to receive revenues/security assignment of cash claims under a contract (except for the ones referred to group 3) for the receipt of title to real property, etc.
6	Other security including the one pledged as a lever of influence on a client

* 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 the principal amount of the loan. 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 as well as the consent of their spouses (if any) to the providing of such guarantee; (Non-fulfilment of this condition is only allowed when the client is a public company.) 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.
	Credit facilities are conditional guarantees satisfying the following requirements: 1) Any tender guarantees; 2) Other conditional guarantees – if (simultaneously): <ul style="list-style-type: none"> A beneficiary is a state-owned company that takes a monopoly position on the market (Transneft, Gazprom, etc.); <i>and</i> <ul style="list-style-type: none"> A principal has experience in the relevant works (at least, two contracts with the beneficiary performed).
At least, 10% by means of highly liquid security or At least, 20% by means of liquid security	
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.

Collateral Level	Allowable if:
At least 100%	Other clients.

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 substantial deterioration 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 of or participatory interests in 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:

- Risk of loss of or damage to property provided as a collateral (except for land plots, 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 or enter into a new 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 Operating Credit Committee, including the authority to make certain amendments to existing credit limits set by the Credit Committee and

to set new/alter existing credit limits for trade finance transactions (guarantees, letters of credit, etc.) that are 100% cash collateralised or secured by PSB's promissory notes.

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 several levels (the four eyes principle);
- The decision is made by authorised 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 top most level, the decision may be taken by the Credit Committee.

In addition, decisions on credit transactions may be made by officials of the Head Bank within their personal limits approved by the Management Board and by officers at PSB's branches within the limits of their independent decision-making limits 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, all its 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, pending which the previously established credit limit continues to apply. 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.

Where decisions relate to loans that exceed the individual authorised credit limits, an independent expert examination of the credit risks is a mandatory pre-condition for approval, alteration or revision of the credit limit. This process requires validation of the customer's internal credit rating assigned by the credit analyst. The internal credit rating is a formal assessment of a client's creditworthiness and his ability and willingness to fulfil his financial obligations. Credit ratings are assigned on the basis of a quantitative and qualitative analysis – quantitative analysis includes an analysis of the debt burden, capital structure, liquidity and efficiency of business of the client whereas for the qualitative analysis, the key factors considered are business stability (on the basis of industry experience, size, diversity and influence of competitors), management quality, level of industry risk, tax, legal and reputational risks, and transparency of the business. While the principles that guide assessment are prescribed so as to ensure that the process is transparent and the approach to risk assessment consistent, it is also crucial for the risk analyst to exercise his judgment in a balanced fashion about the risk level in each individual case.

In addition to internal credit ratings, PSB may assign support ratings that reflect the possibility of obtaining external support from the government or the beneficial owners to satisfy the debt obligations of the client if it encounters financial difficulties. The probability of government support is evaluated on the basis of the client's significance to the economy and the stability and duration of its relationship with the state. The probability of support of the beneficial owners is evaluated with reference to the financial resources of the owners, and their potential interest in supporting the client's business. This basic rating model is implemented for all corporate clients with standard loans. In the future, PSB

plans to develop special models for clients with project financing needs or those clients who require low-risk loan products.

Decision-making on lending to corporate customers has for the most part been centralised and decisions are approved by authorised collective bodies or officers at PSB's head office. However, the St. Petersburg branch is authorised to lend up to RUB150 million per customer on the basis of pre-defined risk management criteria, and the total lending limit for the branch is RUB2 billion. Further, branch managers/regional directors of PSB are authorised to issue bank guarantees up to RUB 30 million per customer against cash deposits provided as security or PSB's promissory notes as collateral.

In 2010 PSB commenced the process of automating the decision-making process and signing process for approval by PSB's of customer-specific credit limits. As a consequence, PSB has achieved an organised system for storing and processing credit-limit related information and optimised the procedures for maintenance of lending databases.

Monitoring of Corporate Loans

Credit limits for clients 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 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 sub-divisions that participate in the lending process. The results of the credit risks monitoring are supposed to be consolidated by the Credit Risk Monitoring Department that submits them to the sub-divisions concerned.

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

- inform the client's sub-division, the Lending subdivision, the Collateral Department (if there is collateral for the loan) and the Credit Risk Monitoring Department of the violation in accordance with PSB's internal regulations; 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 Credit Risk Analysis Department regularly:

- monitors the portfolio limits;
- analyses the level of the overdue indebtedness in the credit portfolio; and
- analyses the structure and dynamics 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 as a whole.

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).

In 2011, two scoring models were developed – one for amounts up to RUB3 million, and the other for amounts in excess of RUB3 million. The first model has been in use since the summer of 2011 and helps calculate a borrower's exposure limit for certain products. The second model was launched in the summer of 2011 on a reference basis, i.e., customer risk calculated by application of this model is utilised by underwriters for reference.

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 several phases include pre-trial debt collection and compulsory debt collection as a consequence of court order.

In August 2011, PSB implemented an automated system through the Documentum software for processing loan applications that covers the entire lending process from the time a request is made for credit approval until the execution of a loan agreement.

Provisioning Levels and Write-offs

The following table provides information on the ratio of impairment allowances to gross loans for PSB's loan portfolio as at 31 December 2011 and 2010.

	As at 31 December					
	2011			2010		
	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	278,064,864	(15,500,788)	5.57%	223,967,823	(17,462,241)	7.80%
Loans to corporate clients involved in international business	35,568,461	(1,465,346)	4.12%	36,309,270	(1,358,451)	3.74%
Factoring loans.....	36,237,809	(2,940,737)	8.12%	29,102,961	(4,044,459)	13.90%
Loans to small and medium enterprises	38,255,956	(3,380,548)	8.84%	26,704,789	(4,275,030)	16.01%
Loans to individuals.....	37,226,900	(5,929,605)	15.93%	32,535,333	(10,532,352)	32.37%
Total loans to customers	425,353,990	(29,217,024)	6.87%	348,620,176	(37,672,533)	10.81%

See also Note 9 to each of the 2011, 2010 and 2009 Annual Financial Statements and "Management Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations for the Years Ended 31 December 2011, 2010 and 2009 — *Loan Impairment*" 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 may not be assessed as "good" if one or more of the following is detected:

- evidence of unpaid payment orders in the borrower's banking accounts in the past;
- borrower has concealed losses in the amount equal to or exceeding 25% of net assets; or
- presence of unforeseen losses 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 may not be deemed to be "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 on risky assets. 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 industry 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 consolidated balance sheet.

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.

In March 2011, the consumer credit analysis process was fully automated. The new system allows for transparent and flexible decision making. In addition, in 2011, the credit process was optimised with the implementation of new application scorecards for consumer loans and credit cards products. PSB uses a self-designed scoring system on Documentum to support retail loans. This 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. In November 2011 a new risk-based pricing strategy was introduced for consumer loans that allows for optimal assignment of APR based on the customer’s risk profile. As part of further centralisation of the credit process, in November 2011 the manual credit verification process was transferred to central offices in Moscow and Tomsk. This has helped improve efficiency and transparency of manual verification of applications that are in the “grey area”.

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 2011 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 2011, 2010 and 2009".

As at 31 December 2011			
	Exposure	Provisions	Total
	(RUB thousands)		
Economic sector			
Loans to individuals	37,226,900	(5,929,605)	31,297,295
Loans to corporate entities, including SME, of which	388,127,090	(23,287,419)	364,839,671
Food production and food trade	52,120,959	(3,603,328)	48,517,631
Durables trade.....	33,629,845	(4,052,254)	29,577,591
Real estate management.....	32,595,311	(502,784)	32,092,527
Other non-food trade.....	29,229,552	(2,516,668)	26,712,884
Metallurgy	24,985,926	(668,505)	24,317,421
Wood processing	23,356,422	(1,304,546)	22,051,876
Finance, leasing and insurance.....	19,554,751	(513,552)	19,041,199
Residential real estate construction.....	17,478,798	(807,382)	16,671,416
Construction materials	14,149,623	(1,023,585)	13,126,038
Transport.....	13,707,987	(1,039,933)	12,668,054
Industrial real estate construction	11,696,411	(253,142)	11,443,269
Commercial real estate construction	11,685,173	(343,980)	11,341,193
Car trade	10,073,107	(1,048,675)	9,024,432
Services.....	9,771,139	(2,200,210)	7,570,929
Agriculture.....	9,573,704	(257,463)	9,316,241
Chemical production.....	7,824,760	(362,405)	7,462,355
Information technology.....	7,730,150	(8,936)	7,721,214
Pharmaceutical.....	7,197,024	(1,012,965)	6,184,059
Energy.....	6,441,707	(19,989)	6,421,718
Machinery.....	4,851,718	(139,149)	4,712,569
Luxury industry	4,681,986	(9,517)	4,672,469
Oil industry	4,481,474	(687,650)	3,793,824
Telecommunications.....	4,379,208	(54,357)	4,324,851
Defence industry	4,360,499	(26,275)	4,334,224
Media.....	3,464,310	(170,274)	3,294,036
State and Local Authorities.....	2,294,972	(75,155)	2,219,817
Other	16,810,574	(584,740)	16,225,834
Total loans to customers	425,353,990	(29,217,024)	396,136,966

As at 31 December 2011, gross overdue loans to customers accounted for 6.7% 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		
	2011	2010	2009
	(RUB thousands)		
Loans to customers			
Current.....	396,864,996	306,708,266	257,782,029
Overdue	28,488,994	41,911,910	47,485,353
Total loans to customers	425,353,990	348,620,176	305,267,382
Overdue as % of total.....	6.7%	12.0%	15.6%

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 2011 (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 2011				
	RUB	USD	EUR	Other	Total
	(RUB thousands)				
Assets					
Cash and cash equivalents	28,659,340	13,278,039	11,302,623	2,590,764	55,830,766
Obligatory reserves with central banks	5,455,526	—	422,665	—	5,878,191
Placements with banks and other financial institutions	371,850	4,691,267	636,830	1,419	5,701,366
Financial assets at fair value through profit or loss	32,017,691	5,943,211	1,963,829	344,783	40,269,514
Amounts receivable under reverse repurchase agreements	23,524,806	—	—	—	23,524,806
Loans to customers	246,972,212	124,264,764	24,204,247	695,743	396,136,966
Investments available for sale	1,303,302	—	5,682	—	1,308,984
Investments held to maturity	2,676,335	52,981	—	—	2,729,316
Other financial assets	389,579	20,836	25,792	9	436,216
Total assets	341,370,641	148,251,098	38,561,668	3,632,718	531,816,125
Liabilities					
Financial liabilities at fair value through profit or loss	15,378	589,127	24,402	16,892	645,799
Deposits and balances from banks and other financial institutions	29,223,643	22,035,548	13,642,812	637,187	65,539,190
Amounts payable under repurchase agreements	1,607,662	—	—	—	1,607,662
Current accounts and deposits from customers	238,996,407	72,002,204	25,210,325	2,393,435	338,602,371
Own securities issued	33,357,194	21,526,772	1,840,775	—	56,724,741
Other borrowed funds	3,836,406	12,333,512	—	—	16,169,918
Other financial liabilities	1,033,624	144,681	34,071	—	1,212,376
Subordinated borrowings	3,486,523	23,091,839	—	—	26,578,362
Total liabilities	311,556,837	151,723,683	40,752,385	3,047,514	507,080,419
Net on balance sheet position as at 31 December 2011	29,813,804	(3,472,585)	(2,190,717)	585,204	24,735,706

As at 31 December 2011, the Group was also exposed to foreign currency risk in respect of its net off balance sheet assets and liabilities. As at 31 December 2011, the Group had issued guarantees and had other credit related commitments in several foreign currencies, including roubles, U.S. dollars and euros. See Note 35 to the 2011 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 2011, the Group experienced a positive interest rate sensitivity gap in respect of assets and liabilities in the maturity categories "From One to Six Months", "From One to Five Years" and "More than Five Years", and also experienced an overall positive interest rate sensitivity gap. As at 31 December 2011, 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" and "From Six Months to One Year". For details of the exposure of the Group to interest rate risk as at 31 December 2011 see Note 35 to the 2011 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 2011, 2010 and 2009, see Note 43 to the 2011 Annual Financial Statements, Note 42 to the 2010 Annual Financial Statements and Note 41 to the 2009 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 2011, the value of PSB's financial instruments at fair value through profit or loss totalled RUB40.3 billion. The value of equity investments included in PSB's financial instruments at fair value through profit or loss as at that date was RUB314.8 million. 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.

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 light of macroeconomic scenarios (including PSB's expectations as to potential negative changes in the future) 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. Stress-testing results are notified to the Board of Directors and the Management Board, and on the basis of such results, PSB makes risk management decisions.

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 2011 (except where otherwise indicated) and shows financial assets and liabilities by their remaining contractual maturity as at 31 December 2011, with the exception of securities included in financial assets at fair value through profit or loss as at 31 December 2011. 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 2011.

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 RUB65,511,707, 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 RUB28,969,970 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.....	55,830,766	—	—	—	—	—	55,830,766
Obligatory reserves with central banks .	1,288,915	2,538,777	1,280,005	786,259	(15,765)	—	5,878,191
Placements with banks and other financial institutions.....	1,501,738	3,137,406	335,027	727,195	—	—	5,701,366
Financial assets at fair value through profit or loss.....	19,176,227	3,136,052	3,764,788	11,047,546	2,830,065	314,836	40,269,514
Amounts receivable under reverse repurchase agreements.....	23,524,806	—	—	—	—	—	23,524,806
Loans to customers.....	37,113,077	137,306,854	69,193,564	136,964,007	15,559,464	—	396,136,966
Investments available for sale	1,201,517	—	—	—	—	107,467	1,308,984
Investments held to maturity	73,083	17,879	2,104,585	497,688	36,081	—	2,729,316
Other financial assets	436,216	—	—	—	—	—	436,216
Total financial assets	140,146,345	146,136,968	76,677,969	150,022,695	18,409,845	422,303	531,816,125
Financial liabilities							
Financial liabilities at fair value through profit or loss	263,860	361,734	11,153	9,052	—	—	645,799
Deposits and balances from banks and other financial institutions	22,310,597	26,043,288	8,052,847	8,385,246	747,212	—	65,539,190
Amounts payable under repurchase agreements	1,607,662	—	—	—	—	—	1,607,662
Current accounts and deposits from customers.....	83,462,914	153,712,760	73,845,854	27,580,843	—	—	338,602,371
Own securities issued.....	3,842,010	20,907,812	3,288,772	28,686,147	—	—	56,724,741
Other borrowed funds	44,952	279,574	11,562,338	4,283,054	—	—	16,169,918
Other financial liabilities.....	542,745	140,497	223,267	287,143	—	18,724	1,212,376
Subordinated borrowings	556,163	6,591,777	—	12,791,232	6,639,190	—	26,578,362
Total financial liabilities	112,630,903	208,037,474	96,984,231	82,022,717	7,386,402	18,724	507,080,419
Net liquidity position as at 31 December 2011	27,515,442	(61,900,474)	(20,306,262)	67,999,978	11,023,443	403,579	24,735,706
Cumulative liquidity position as at 31 December 2011	27,515,442	(34,385,032)	(54,691,294)	13,308,684	24,332,127	24,735,706	
	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 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	
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	

For further breakdown, see Note 34 to the 2010 Annual Financial Statements and Note 33 to the 2009 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. A CBR audit conducted in 2011 did not disclose any deficiencies in PSB's anti-money laundering measures.

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 8 extra reports related to AML issues in 2011 (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. PSB is constantly looking for ways to improve its internal management processes and business processes 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 17 June 2011. 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.
- *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 served as member of the Advisory Council of Technoserv Management from 2006 to 2009. Since 2010 he has been the member of the board of directors Techhoserv Consulting. 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.
- *Dmitry Ermolov* (1971) has been a member of the Board of Directors since June 2011. Mr. Ermolov served as President of CJSC Promsvyaznedvizhmost (PSRealty) from 2008 to 2011. Mr. Ermolov graduated from Moscow Institute of Electronics in 1994 and received an M.B.A. from the Tuck School of Business at Dartmouth in 2004.
- *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.
- *Pierre Casse* (1942) has been a member of the Board of Directors as an independent director since June 2011. Mr. Casse is the Full Professor of Leadership at the Moscow School of Management and Visiting Professor at the Kellogg School of Management. Mr. Casse is a doctoral candidate in public administration at the University of Southern California (USA). He completed the Masters in Social Sciences from University of Liège (Belgium) and received a Ph.D. degree in Business Administration from University of Lille (France).
- *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.
- *Dr. Andre Carls* (1963) has been a nominee of Commerzbank Auslandsbanken Holding AG on the Board of Directors since June 2011. Dr. Carls is the Chief Executive Officer and member of the Board of Managing Directors of Commerzbank Auslandsbanken Holding AG. He received a Ph.D. degree from the Cologne University in Germany in 1996.

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 for a term of one year 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 2 September 2011. 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/S. 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 Vice-President and Chief Operations Officer since 2011. She was PSB's Chief Accountant from 2000 to 2011. 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 Retail Banking since February 2012. From 2009 to 2012, she was Head of SME and Retail Banking. 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. The composition of the committees below may change pursuant to the transfer by Commerzbank Auslandsbanken Holding AG of its shares in PSB.

- *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 Pierre Casse.
- *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 two members elected by the Board of Directors: Pierre Casse 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, Ilkka Salonen (non-voting member), Dr. Andre Carls (non-voting member) and Pierre Casse, who is the Chairman of the Committee. The Nomination and Remuneration Committee assists the Board of Directors with developing PSB's appraisal, remuneration and other human resources 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, Artem Konstandyan, Vladislav Zabelin, Yury Baev, Ilkka Salonen, Dr. Andre Carls 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 2011, PSB had outstanding gross loans to members of the Management Board and the Board of Directors in the amount of RUB50 million. Short-term compensation of the members of the Board of Directors and the Management Board for the year ended 31 December 2011 was RUB625 million.

Share Ownership

As at the date of this Base Prospectus, Mr. Alexey Ananiev and Mr. Dmitry Ananiev held a combined 73.88% beneficial interest in PSB's total share capital. PSB has two additional minority shareholders, the EBRD with a holding of 11.75% and Commerzbank Auslandsbanken Holding AG with a holding of 14.37% although Commerzbank Auslandsbanken Holding AG has recently taken steps to sell its shareholding in PSB. As at the date of this Base Prospectus, PSB is unable to give any indication as to the timing of this share sale.

Members of the Management Board have no beneficial interest in PSB's total share capital.

For further details, see "Shareholding".

SHAREHOLDING

General

As at the date of this Base Prospectus, PSB's charter capital amounted to RUB11,133,854,746.71 and comprised of 1,113,385,474,671 ordinary shares each with a nominal value of RUB0.01. In addition, PSB has 2,786,064,525,329 authorised but unissued ordinary shares in an aggregate amount of RUB27,860,645,253.29. 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.	822,624,710,972	73.88
Commerzbank Auslandsbanken Holding AG.....	159,985,846,000	14.37
European Bank for Reconstruction and Development (EBRD).....	130,774,917,699	11.75
Total	1,113,385,474,671	100

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 B.V., a private limited company established under the laws of the Netherlands, with its registered address at Prins Bernhardplein 200, 1097 JB Amsterdam, the Netherlands. Promsvyaz Capital B.V. is wholly owned by Curacao incorporated company, Peters International Investment N.V., which is directly and beneficially owned 50% by each of Alexey and Dmitry Ananiev.

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. Commerzbank Auslandsbanken Holding AG is a subsidiary of Commerzbank AG. The EBRD is an international financial institution, with its headquarters at One Exchange Square, London EC2A 2JN, United Kingdom. The EBRD is owned by 63 countries and two intergovernmental institutions. Pursuant to the Shareholders' Agreement, both Commerzbank Auslandsbanken Holding AG and the EBRD nominated one member each to the Board of Directors, who were elected members of the Board of Directors at the annual general shareholders' meeting held on 17 June 2011.

In November 2006, Commerzbank Auslandsbanken Holding 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 B.V. becoming the direct holder of the remaining 84.7% of the charter capital of PSB. In 2008, pursuant to two further share issuances which were subscribed to by both Promsvyaz Capital B.V. and Commerzbank Auslandsbanken Holding AG, PSB's nominal amount of charter capital increased to RUB8,994,500,000 and the shareholding of Promsvyaz Capital B.V. and Commerzbank Auslandsbanken Holding AG remained unchanged at 84.7% and 15.3% respectively.

In February 2010, the EBRD became a new shareholder of PSB following a further increase in charter capital, with the EBRD acquiring an 11.75% 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 Auslandsbanken Holding AG exercised its pre-emptive rights in the additional share issue, acquiring additional shares for RUB832 million, and thereby retained its shareholding at 15.3%, with Promsvyaz Capital B.V.'s interest reducing to 72.9%.

In December 2011, PSB increased its capital by approximately 6.6% to RUB11.134 billion. Promsvyaz Capital B.V. and EBRD participated in this share offering by investing approximately RUB3,530 million and RUB470 million, respectively, pursuant to which Promsvyaz Capital B.V.'s shareholding increased to 73.88%, EBRD's shareholding remained unchanged at 11.75% and Commerzbank Auslandsbanken Holding AG's shareholding reduced to 14.37%.

On 19 January 2012, Commerzbank AG announced that its board of managing directors had approved a set of measures to strengthen its Core Tier 1 ratio. These measures include the sale of non-strategic assets, including Commerzbank Auslandsbanken Holding AG's 14.37% shareholding in PSB. On 31 January 2012, Commerzbank Auslandsbanken Holding AG entered into an agreement with Promsvyaz Capital B.V. whereby Promsvyaz Capital B.V. will, subject to regulatory approvals, purchase 159,985,846,000 shares held by Commerzbank Auslandsbanken Holding AG in PSB, equal to 14.37% of the issued share capital of PSB. As at the date of this Base Prospectus, PSB is unable to give any indication as to the timing of this transfer.

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; 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, 2009 and 2010. A decision on the 2011 dividends will be taken at the annual shareholders' meeting which will take place in June 2012.

RELATED PARTY TRANSACTIONS

Under the IFRS, 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'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 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 2011, the gross amount of loans to customers made to related parties was 2.7% of PSB's aggregate gross loans to customers, compared with 2.4% and 3.2%, as at 31 December 2010 and 31 December 2009, respectively. As at 31 December 2011, liabilities to related parties were 0.7% of PSB's total liabilities, compared with 1.6% as at 31 December 2010 and 0.9% as at 31 December 2009. For more information on PSB's related party transactions for the year ended 31 December 2011, see Note 44 to the 2011 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*".

PSB has also received certain subordinated loans from its majority shareholder, Promsvyaz Capital B.V. For details, see "Management Discussion and Analysis of Financial Condition and Results of Operation — Analysis of Consolidated Financial Condition as at 31 December 2011, 2010 and 2009 — *Liabilities — Subordinated Borrowings*".

The following table set forth certain data for the Group's related party exposure as at 31 December 2011, 2010 and 2009.

	As at 31 December		
	2011	2010	2009
	(RUB thousands, except percentages)		
Total capital	71,546,228	60,623,221	51,818,183
Assets			
Related party exposure, including	14,953,220	11,242,966	11,505,188
Financial assets at fair value through profit or loss	—	629,713	318,076
Loans to customers (gross amount)	11,440,632	8,308,765	9,844,839
Impairment allowance	(19,520)	(4,704)	(49,687)
Other assets	176,923	187,993	34,401
Guarantees issued	3,163,540	1,667,322	989,901
Letters of credit issued	191,645	453,877	367,658
Liabilities			
Related party exposure, including	10,541,343	9,832,689	10,105,357
Current accounts and deposits from customers and other borrowed funds	3,390,876	6,695,099	4,055,907
Own securities issued	261	244	291
Other liabilities	64,757	176,521	30,500
Suretyships received	7,085,449	2,960,825	6,018,659
Related party exposure/Total capital (as per Basel norms)	20.9%	18.5%	22.2%

THE BANKING SECTOR AND BANKING REGULATION IN RUSSIA

Overview

According to Rosstat, the Russian economy has experienced strong growth, as demonstrated by real annual GDP growth of 14.5% between 2007 and 2011. This growth was accompanied by more stable inflationary and interest rates. Russia's credit ratings attained an investment grade rating in 2003 and since then were stable. According to Rosstat, the Russian economy remains relatively diversified, with retail, manufacturing and national resource extraction contributing to GDP by 19%, 16% and 10.7% respectively in 2011. The financial services sector is another important contributor to the economy and this sector accounted for 4% of GDP in 2011 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 growth between 2007 and 2011, notwithstanding the turmoil affecting the global markets.

The following table sets forth certain information regarding the banking sector of the Russian Federation, for the periods indicated.

	1 January				
	2012	2011	2010	2009	2008
Total assets (liabilities) (RUB trillion).....	41.6	33.8	29.4	28.0	20.1
Loans to customers over total assets (%).....	69.0	65.6	67.5	71.2	71.0
including loans to credit organisations (%).....	9.5	8.6	9.3	8.9	7.0
Customer funds over liabilities (%).....	62.7	62.4	58.2	52.6	60.9
Number of operating credit organisations.....	978	1,012	1,058	1,108	1,136
Assets of the five largest credit organisations over total assets (%).....	50.0	47.7	47.9	46.2	42.3
Credit organisations located in Moscow and the Moscow region (%).....	52.4	51.9	50.6	50.2	50.0
Credit organisations with foreign investments over total assets (%).....	16.9	18.0	18.3	18.7	17.2
Number of banks admitted to the retail deposit insurance system.....	896	909	923	937	934
Number of profitable credit organisations.....	928	931	938	1,050	1,123

Source: CBR.

Russian Banking Sector

History and Development

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, a few specialised state-controlled banks were established to service specific industries. From 1988 to 1989, many regional commercial banks emerged. In 1991, three of the specialised state-controlled banks were 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. In December 1991, the CBR assumed all of Gosbank's functions in Russia, and the Government liquidated Gosbank. 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 went bankrupt, or were placed under state control and subsequently restored or liquidated. 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, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their own client base and faced large withdrawals of deposits by retail and corporate customers. Several of these privately-owned Russian banks collapsed or were forced to reduce their operations significantly. The CBR and the Government took several steps to help the sector overcome the crisis, including reducing the rate of mandatory reserves and passing new anti-crisis legislation, and in August 2004, in response to these steps, the Russian banking sector began to recover.

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 led to 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. The volatility and market disruption in the global banking sector continued throughout 2010 and 2011, although the Russian banking sector generally demonstrated signs of recovery.

According to the Strategy for the Development of the Russian Banking Sector until 2015 adopted by the Government and the CBR on April 5, 2011 (the “**Banking Sector Development Strategy**”), the main goals of the new period of development of the Russian banking sector include: improvement of the quality of the banking business by expanding the range of banking products and services, improving methods of their provision, using modern technologies and ensuring the long-term effectiveness and stability of the banking business. The Banking Sector Development Strategy contemplates that the Government and the CBR will take measures in order to: improve the legal environment, build banking infrastructure, increase quality of corporate governance and risk management in credit organisations, develop banking regulation and banking supervision, and ensure financial stability.

Anti-Crisis Legislation

In 2008, 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. According to Federal Law No. 173-FZ of 13 October 2008 “On Additional Measures for Support of Financial System of the Russian Federation”, 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. Another key initiative was introduced by Federal Law No. 175-FZ of 27 October 2008 “On Additional Measures to Strengthen Stability of the Banking System through 31 December 2011”, as amended, which authorised the CBR and the DIA to undertake measures to support the financial standing of defaulting banks through mandatory capital decreases, acquisitions by the DIA of controlling interests in defaulting banks and sales of assets or controlling interests in such banks to attract investors and provision of funding for financial rehabilitation of defaulting banks. In December 2011, the period was extended to 31 December 2014, and the text and title of the law were amended to substitute “31 December 2011” with “31 December 2014”.

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. The CBR registers, and issues licences to, banks and non-bank credit organisations (“**NCOs**”) incorporated within Russia in accordance with the procedures set forth in CBR Regulation No. 135-I of 2 April 2010, as amended.

To date, the CBR has not established any procedures to register a representative office of a foreign credit organisation in Russia and accordingly, no branches of foreign credit organisations are currently in operation in Russia. From the date of ratification by Russia of its terms of accession to the WTO which may take place about 22 July 2012, Russia would be expected to apply all WTO provisions. However, in relation to the banking sector, Russia made a reservation that it would review market access requirements for the establishment of direct branches of foreign banks and securities firms in the context of future negotiations on the accession of Russia to the OECD or within the framework of the next round of WTO multilateral trade negotiations.

There are the following types of operations permitted pursuant to CBR licences: (1) operations in roubles; (2) operations in roubles and foreign currencies; (3) taking deposits in precious metals; (4) taking retail deposits in both roubles and foreign currencies or only in roubles; (5) cash collection and cash services, and/or (6) all banking operations, except for taking deposits in precious metals (i.e. “general license”).

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. Furthermore, pursuant to Federal Law No. 161-FZ of 27 June 2011 “On the National Payment System” only credit organisations may make transfers in electronic monetary funds, and the CBR is empowered to monitor and supervise the national payment system.

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) clearing organisation, (6) registrar and (7) arranger of trade in the securities market. The licensing procedures are established in FSFM Regulation No. 10-49/PZ-N of 20 July 2010, as amended. In addition, the FSFM has the right to conduct audits of credit organisations from time to time to check their compliance with the requirements of applicable laws and regulations. The FSFM is responsible for setting up certain additional reporting requirements for licensed credit organisations and has a right to monitor their operations.

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 and total acquisition price stipulated in the approval.

The Federal Antimonopoly Service

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, as amended, prior consent of the Federal Antimonopoly Service is required for the following actions: (1) 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); (2) contribution of shares (participation interests) and/or assets of a credit organisation into charter capital of a commercial organisation; (3) acquisition of more than 10% of assets of a credit organisation, as per the most recent RAS balance sheet; (4) acquisition of rights to determine activity of a credit organisation or to exercise the powers of its executive body, (5) incorporation of a commercial organisation, if its share capital is paid by the shares (participation interests) and/or assets of a credit organisation, in each case from (1) to (5), provided that the value of such credit organisation’s assets, as per the most recent RAS balance sheet exceeds RUB33 billion; and (6) 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 Capital

Overview

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**” or “**regulatory capital**”) 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 either 50% or 100% of the core capital (depending on the terms of such subordinated debt) and that long-term subordinated debt for the term not less than 30 years (which forms part of the core capital) does not exceed 15% of the core capital. If a bank’s own funds (regulatory capital) fall below its charter capital, it is required to adjust its regulatory capital (or, if impossible, its charter capital, within applicable limits) in accordance with procedures set by CBR Regulation No. 1260-U of 24 March 2003, as amended.

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 RUB300 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 a credit organisation that applies to the CBR for obtaining a status of a bank is RUB300 million. If a credit organisation applies to the CBR for a licence for conducting banking operations in roubles and foreign currencies and taking deposits from individuals in roubles and foreign currencies, its regulatory capital requirement may not be lower than RUB900 million.

Subordinated Debt

Subordinated debt (in the form of loans, deposits or notes) is included in supplemental capital if the following criteria are satisfied: (1) its term should be not less than five years; (2) 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; (3) 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; (4) the agreement should specifically provide for the lowest creditor priority ranking of the creditor in the event of the borrower’s bankruptcy; (5) the debt should be unsecured; and (6) 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 upon utilisation of funds.

Regulation No. 215-P provides that generally subordinated debt may not exceed 50% of a credit organisation’s core capital. However, if a credit organisation has subordinated debt with the term equal to or exceeding ten years, such subordinated debt, together with any other subordinated debt outstanding less the subordinated debt counted as core (Tier 1) capital, may comprise up to 100% of the credit organisation’s core capital, provided that its underlying agreement includes a provision allowing the CBR to suspend the repayment of the principal and/or interest if such payment may necessitate bankruptcy prevention measures in relation to such credit organisation.

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.

Basel Implementation in Russia

Current Russian regulation of capital is based on the Basel Accord. It is, however, less sophisticated in certain respects. Over the recent years, the CBR in cooperation with Russian banks, has started preparing the implementation of international approaches of capital adequacy of credit organisations under Basel II as issued by the Basel Committee. According to the Banking Development Strategy, through its regulations, the CBR applies the standardised approach for credit risks of Basel II as set forth in Pillar 1 "Minimum Capital Requirements", which is the simplest method for assessment of credit risk. CBR Letter No. 96-T of 29 June 2011 issued as part of introducing Pillar 2 "Supervisory Review Process" (the "**Methodical Recommendations**") recommends credit organisations to elaborate and use the respective internal procedures for capital adequacy assessment comprise the process of assessment by a credit organisation of adequacy of its own capital, *i.e.* its internal capital to cover accepted and potential risks, as well as constitute a part of such credit organisation's corporate culture. It is expected that Basel II Pillar 2 will be gradually implemented not earlier than within the next five years.

Under the Banking Sector Development Strategy, the implementation of Basel II in Russia may begin approximately in 2014. The Banking Sector Development Strategy also contemplates an introduction in Russia of Basel III that will be applied as follows: (1) requirements for capital between 2013 and 2015, (2) capital conservation buffer within 2016-2018, (3) leverage ratio starting from 1 January 2018, (4) liquidity coverage ratio commencing from 1 January 2015, and (5) net stable funding ratio starting from 1 January 2018.

Regulation of Mandatory Economic Ratios

The CBR mandatory economic ratios calculated on the basis of RAS are applicable to banks under CBR Regulation No. 110-I of 16 January 2004, as amended. The mandatory economic ratios must be observed by the banks on a daily basis and regularly reported on to the CBR.

Mandatory Economic Ratios	Description	CBR Mandatory Economic Ratio Requirements
Capital adequacy ratio (N1)	<p>This ratio is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's 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.</p> <p>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.</p>	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	Maximum 25%

	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 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, as amended "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, CBR may provide loans without any security based on Regulation No. 323-P of 16 October 2008, as amended and Letter No. 154-T of 1 November 2011, in order to provide additional liquidity. Such credits may be extended for a maximum term of one year to the banks with credit ratings not lower than "B-" from Fitch or Standard & Poor's, "B3" from Moody's Investors Service or other ratings from Russian rating agencies as approved by the Board of Directors of the CBR from time to time and comply with certain requirements. The interest rates on the secured loans offered by the CBR range from 0% for intra-day loans to 8% for overnight loans pursuant to CBR Regulation No. 312-P of 12 November 2007, CBR Regulation No. 236-P of 4 August 2003, CBR Directives No. 2677-U of 26 August 2011, No. 2761-U of 23 December 2011, and No. 2759-U of 23 December 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. 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, as amended, 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 and no need for provisioning; quality II category (non-standard loans) – moderate credit risk and 1% to 20% of provisioning; quality III category (doubtful loans) – considerable credit risk and 21% to 50% of provisioning; quality IV category (problem loans) – high credit risk and 51% to 100% of provisioning; and quality V category (bad loans) – absence of probability that the loan will be repaid and 100% of provisioning. 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. 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. 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 2004, credit organisations are 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. According to Federal Law No. 208-FZ of 27 July 2010 “On Consolidated Financial Statements,” a credit organisation shall prepare and publish its IFRS consolidated financial statements in the manner approved by the CBR and its annual statements must be audited by an independent auditor prior to publication. The CBR issued recommendations as to how to prepare IFRS financial statements in its Letter No. 169-T of 24 November 2011 which contains pro-forma IFRS financial statements and examples of typical adjustments to RAS accounts.

Regulation of Retail Banking

According to the Deposit Insurance Law, all Russian banks must participate in the deposit insurance scheme, or lose their ability to take retail deposits and open and maintain bank accounts for individuals. The deposit insurance scheme is subject to certain 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; (iii) the CBR confirms sufficient financial stability of the bank; and (iv) the CBR is not conducting or expecting any enforcement actions with respect to the bank.

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. However, pursuant to Federal Law No. 96-FZ of July 29, 2004, as amended, reimbursement of CBR to the retail clients of a bank that did not participate in the retail deposit insurance shall not be more than RUB700,000.

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: (1) credit organisation; (2) its creditors; and (3) authorised governmental bodies (including the Federal Tax Service).

Under the Banking Law, the CBR must revoke the licence of a credit organisation if: (1) the credit organisation's capital adequacy ratio falls below 2%, in accordance with Russian standards; (2) 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; (3) the credit organisation fails to adjust its capital base and nominal charter capital on the CBR's request; (4) 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 (5) in certain other cases.

Under the Banking Law, the CBR may revoke the licence of a credit organisation if: (1) the information upon which the licence was issued is false; (2) the credit organisation fails to begin operations within one year of the date of issuance of the licence; (3) the credit organisation discloses reporting information that is materially false; (4) the credit organisation fails to submit its monthly report to the CBR within 15 days of when it is due; (5) the credit organisation repeatedly fails to submit information that must appear in the state register of legal entities; (6) 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); (7) 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; (8) 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; (9) 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 (10) 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**"): (1) the credit organisation; (2) its creditors; (3) the Federal Tax Service; and (4) 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.

Appointment of a Receiver

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.

After the arbitrazh court declares a credit organisation insolvent: (1) if the credit organisation did not hold a retail banking licence, the court appoints a CBR-accredited receiver; or (2) 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 of the credit organisation mainly analyses its financial standing, values its assets, identifies its creditors and notifies them of insolvency, identifies its debtors and requires performance of their obligations to the credit organisation. The receiver reports to a committee of creditors and to the CBR, subject to the supervision of an arbitrazh court. 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.

Under the Bank Insolvency Law, the receiver may invalidate transactions: (1) 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 (2) 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 (3) 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: (1) claims related to the administration of insolvency proceedings, including salaries of personnel involved in insolvency proceedings, utilities bills, legal expenses and other payments; (2) 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; (3) claims under employment contracts and other social benefits and copyright claims; (4) 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; (5) claims of all other creditors except for claims of subordinated creditors; and (6) claims of subordinated creditors. Claims of each category of creditors must be satisfied in full before claims of the following category may be considered.

Regulation of Credit Histories

Federal Law No. 218-FZ of 30 December 2004 "On Credit Histories" provides for the establishment of "credit bureaus" that maintain a database of borrowers' credit histories which consists of both public and confidential files, including 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 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 of 10 January 2012, the FSFM has registered 31 credit bureaus.

Regulation of Currency Control

Foreign currency operations between Russian residents are generally prohibited under the Currency Law, except for certain specified operations, including foreign currency transactions between Russian authorised banks listed in CBR Regulation No. 1425-U of 28 April 2004. Certain limitations not applicable to credit organisations apply to the credit organisations' clients and credit organisations are required to supervise compliance by residents and non-residents with such limitations, 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

Russia is a member of the Financial Action Task Force (“**FATF**”). In accordance with Federal Law No. 115-FZ dated August 7, 2001, as amended, banks must identify their clients and ultimate beneficiaries and gather and record information with respect to client operations subject to mandatory control, such as, among others, any operation with money or other property if the sum of such operations is equal to or exceeds RUB600,000 (or its equivalent in foreign currencies) or with real estate if the sum of such operations is equal to or exceeds RUB3 million (or its equivalent in foreign currencies), 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. 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 in the electronic form, without informing their clients, to the CBR's territorial institution, which immediately transfer this information to the CBR's Information Technologies Centre and without any delay to the Federal Service for Financial Monitoring, the anti-money laundering authority in Russia. Banks must develop internal control regulations on anti-money laundering procedures that after 21 November 2011 are no longer formally approved by the CBR or the FSFM.

Regulation of Insider Dealing

Federal Law No. 224-FZ of 27 July 2010, as amended (the “**Insider Dealing Law**”) generally enumerates categories of persons that can be considered insiders, including, among others, issuers, professional market participants (including brokers and dealers) and other persons who transact on behalf of their clients with financial instruments, foreign currency and/or goods, and have received insider information from their clients. Under the Insider Dealing Law, any person who illegally uses the insider information and publishes misleading information may be held liable for misuse of information and/or market manipulation. Furthermore, insiders must comply with certain new disclosure requirements, including keeping the insiders list and sending notices of transactions by the insiders to the FSFM and the CBR. In implementation of the Insider Dealing Law and pursuant to the CBR Regulation No. 2723-U of 31 October 2011, CBR started disclosing certain facts relating to banks on its website, including (1) status and results of inspections, (2) revocation of a licence, (3) administrative liability of a credit organisation or its sole executive body, (4) invalidation of the CBR's approval for taking retail deposits and opening and maintaining bank accounts for individuals, and (5) phases of issuance of securities. Given that the Insider Dealing Law is relatively new and vaguely drafted, its application is not yet settled.

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. The entity is not owned by the Group. However, for the purpose of financial reporting under IFRS, PSB Finance S.A. has been included in the consolidation of the Group. See "Business — Corporate Organisation — *Consolidated Companies*".

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. The Issuer Financial Statements are incorporated by reference into this Base Prospectus. See "Documents Incorporated by Reference".

- 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.\$155,000,000 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% subordinated loan participation notes due 2016 under the Programme described herein. The Issuer used the proceeds of these notes to finance a loan to PSB.
- In April 2011, the Issuer issued U.S.\$500,000,000 6.20% senior loan participation notes due 2014 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

FPS Audit S.à.r.l. (RCS registration number B 159674) are the *réviseurs d'entreprises agréé* of the Issuer. The address of FPS Audit S.à.r.l. is 46, boulevard Grand-Duchesse Charlotte L-1330 Luxembourg. FPS Audit 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 11 April 2012

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 the Grand Duchy 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 agreed, at the request of PSB, *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 as further amended and restated on 14 April 2011 (the “**Second Amended and Restated Facility Agreement**”) and any subordinated loan agreements to be entered into from time to time by the Lender and PSB (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, the First Amended and Restated Facility Agreement or the Second Amended and Restated Facility Agreement, as applicable, in each case 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**”) the parties hereto have agreed to amend and restate the Second 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 the Arrangers named in the Dealer Agreement or any additional or replacement arranger appointed, and excluding any Arranger whose appointment has terminated pursuant to the Dealer Agreement.

“**Auditors**” means ZAO Pricewaterhouse Coopers Audit 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 (*Interest*)) 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.

“Covered Bond” means bonds, notes or other securities (however defined) designated by the Borrower as covered bonds and secured on a segregated pool of assets (whether held by the Borrower or any third party guarantor)

“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 11 April 2012 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 (*Events of Default*) 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 (*Prepayment for Tax Reasons or Change in Circumstances*), 5.3 (*Illegality*) and 5.4 (*Reduction of a Loan Upon Redemption and Cancellation of Notes*), 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) any Lien arising in the establishment or issuance of a Securitisation or Covered Bond provided that the total principal amount of all such Securitisations or Covered Bonds outstanding at any time shall not exceed 10 per cent. of the consolidated total assets of the Borrower calculated by reference to the most recent IFRS Financial Statements; (b) any Lien securing Relevant 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 or (c) any Lien securing Relevant Indebtedness 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).

“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 profit before tax represent at least 7.5 per cent., of the total consolidated assets, or, as the case may be, total consolidated profit before tax, of the Group and, for these purposes (i) the total assets and total profit before tax 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 profit before tax 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 11 April 2012 relating to the issue of the Notes, as may be supplemented from time to time.

“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 Indebtedness” means any Financial Indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other debt instrument (including for the avoidance of doubt as part of a loan participation note or similar transaction) which for the time being are, or are

capable of being quoted, listed or ordinarily dealt with on any stock exchange or on any securities market (including, without limitation, any over the counter securities market).

“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.

“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.

“Securitisation” means any securitisation by the Borrower or any member of the Group (created in accordance with normal market practice) involving the disposal or pledge by the Borrower or any member of the Group of existing and/or future receivables and/or export receivables and/or diversified payment rights or other payment rights and/or other assets including auto loans or real estate mortgage-backed loans to a special purpose vehicle funded primarily by way of debt raised in the capital markets, loans (including securitisations where recourse extends to the Borrower).

“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; or (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.

“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 (*Prepayment for Tax Reasons or Change in Circumstances*).

“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 and 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” are references to this Amended and Restated Facility Agreement dated 11 April 2012, as may be further amended, supplemented and/or restated from time to time.

1.4 Amendment and Restatement

This Agreement amends and restates the Second Amended and Restated Facility Agreement. Any Loans made on or after the date hereof shall have the benefit of this Agreement as amended by the applicable Loan Supplement. The amendments set out herein do not affect any Loans made prior to the date of this Agreement which shall be subject to the Original Facility Agreement, the First Amended and Restated Facility Agreement or the Second Amended and Restated Facility Agreement, as applicable, as amended by the applicable Loan Supplement.

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 Agreement and the applicable 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 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. (Relevant Time) 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. (Relevant Time) 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 (*Interest for Floating Rate Loans*) 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) (*Business Day Convention*), 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 (*Events of Default*), 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 (*Interest*), 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 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Tax Indemnity*) (other than, in each case, where the increase in payment is in respect of any amounts due or paid pursuant to Clauses 3.2 (*Arrangement Fee*) and 13 (*Fees and Expenses*)), or if (for whatever reason) PSB would have to or has been required to pay additional amounts pursuant to Clause 8 (*Change in law or increase in cost*), 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 (*Prepayment for Tax Reasons or Change in Circumstances*), 5.3 (*Illegality*) 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 (*Repayment and Prepayment*).

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

- (a) 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 therefore 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(a) is without prejudice to the obligations of the Lender pursuant to Clauses 6.5 (*Mitigation*) and 6.6 (*Tax Treaty Relief*). The provisions of this Clause 6.2(a) shall not apply to any tax imposed on and calculated by reference to the overall net income of the Lender.

- (b) If PSB shall be required by applicable law or pursuant to any agreement entered into with the United States, to make any deduction or withholding from any payment under a Loan Agreement pursuant to Sections 1471(a) or (b) of the U.S. Internal Revenue Code of 1986, as amended, 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 deduction or withholding.

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 (*Payments*) 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 (*Payments*) 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 (*Payments*) 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 (*Prepayment for Tax Reasons or Change in Circumstances*), 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Tax Indemnity*), 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 (*Lender's Process Agent*) and 14.14 (*PSB's Process Agent*) 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 (*Arrangement Fee*), 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 (*Covenants by the Issuer*) 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 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Tax Indemnity*); 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 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Tax Indemnity*),

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 (*Compensation*), 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 (*Compensation*)), 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 (*Compensation*), 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 permitted under this Agreement, the Original Facility Agreement, the First Amended and Restated Facility Agreement or the Second Amended and Restated Facility Agreement, 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 Principal Subsidiaries 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 Principal 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 (*Jurisdiction*) 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 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 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

PSB shall not, and shall procure that none of its Subsidiaries will, create or permit to subsist any Lien (other than a Permitted Lien) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness unless, at the same time or prior thereto, PSB's obligations hereunder are (i) secured equally and rateably therewith or (ii) have the benefit of such other security or other arrangements as are approved by an Extraordinary Resolution (as defined in the Trust Deed).

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/or 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 be set forth in writing and such Affiliate Transaction shall (if necessary in accordance with the Company Law and/or the constituent documents of PSB) 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.\$15,000,000 (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 (*Reports*) 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 (*Financial Information*) 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 (*Maintenance of Capital Adequacy*).

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 (*Default Remedies*):

(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 (*Maintenance of Legal Validity*)) 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**

Any regulation, decree, consent, approval, licence or other authorisation necessary to enable PSB to enter into or (save as provided in Clause 10.1 (*Maintenance of Legal Validity*)) 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.

(f) **Bankruptcy or Insolvency**

- (i) 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 dismissed, discharged, stayed or restrained within 45 days of the presentation thereof; (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 otdorovleniye*), 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.
- (ii) 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.

(g) **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 (*Notification of Default*).

(h) **Business**

PSB ceases to carry on the principal business it carried on at the date hereof.

(i) **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.

(j) **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) (*Failure to Pay*) to 11.1(i) (*Misrepresentation*).

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) (*Validity and Illegality*) or 11.1(e) (*Authorisations*) 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 (*Notices*)) 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 (*Indemnification*) 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 (*Indemnification*) 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 (*Loan Arrangement Fee for the Extension of the Loan by the Lender*) and 13.2 (*Payment of Ongoing Commissions and Costs*), 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 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 6.3 (*Tax Indemnity*), 12.1 (*Indemnification*) 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 (*Arrangement Fee*) 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 (*Ongoing Fees and Expenses*). Subsequently, PSB and the Lender shall enter and sign a delivery and acceptance act (an “**Act of Acceptance**”) as provided in Clause 13.3 (*Acts of Acceptance*).

13.3 Acts of Acceptance

In connection with all payments to be made under Clause 12 (*Indemnity*), Clause 13 (*Fees and Expenses*) and Clause 14.2 (*Stamp Duties*), 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 (*Reimbursement*) or Clause 8 (*Change in Law or Increase in Cost*).
- (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.

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

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 and amended and restated facility agreement dated 11 April 2012 (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 U.S. Dollar;

“**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]
		<i>(If not applicable, delete the remaining subparagraphs of this paragraph)</i>
(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:	[●] <i>(Not applicable unless different from Interest Payment Date)</i>
(vi)	Broken Amount:	<i>[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]</i>
(vii)	Day Count Fraction (Clause 4.9 (Definitions) of the Facility Agreement):	[●] <i>(Day Count Fraction should be Actual/Actual- ICMA for all fixed rate loans other than those denominated in U. S. dollars, unless specified)</i>
(viii)	Determination Date(s) (Clause 4.9 (Definitions) of the Facility Agreement):	[●] 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 interest period]</i> ¹

¹ Only to be completed for a Loan where Day Count Fraction is Actual/Actual-ICMA.

(ix)	Other terms relating to the method of calculating interest for Fixed Rate Loans:	[Not Applicable/give <i>details</i>]
(b)	Floating Rate Loan Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs 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 (<i>Definitions</i>) of the Facility Agreement):	[●]
(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 (<i>Definitions</i>) of the Facility Agreement):	
	• 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 *(Interest for Floating Rate Loans)* of the Facility Agreement):
- 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 *(Definitions)* of the Facility Agreement): [●]
- (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 (*Arrangement Fee*) of the Facility Agreement and in consideration of the Lender making the Loan to PSB, PSB hereby agrees that it shall, one Business Day 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:

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated 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: Director

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 11 April 2012 (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.

Record Date

Notwithstanding Condition 7 (Payments and Agents), so long as the Notes are held by or on behalf of a common depositary for Euroclear, Clearstream, Luxembourg or any other clearing system, “Record Date” shall mean the Clearing System Business Day before the relevant due date for payment, where “Clearing System Business Day” means a day when Euroclear and Clearstream, Luxembourg is open for business.

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 depositary 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 11 April 2012 (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 Dealer 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 Dealer 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.

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, AS AMENDED (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 DEPOSITARIES AND (7) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.
- THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS NOTE IT IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS NOTE TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE 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 general 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 the Russian Federation 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 changes (possibly with retroactive effect) and inconsistent application than in jurisdictions with more developed capital markets and tax systems. In practice, interpretation and application of tax laws and regulations by different tax inspectorates in Russia may be inconsistent or contradictory, and may result in the 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 taken by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a “**Non-Resident Noteholder**” means:

- 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 for Russian personal income tax purposes is not considered interrupted if an individual departs from Russia for short periods of time (less than six months) for medical treatment or education purposes. Currently, the Russian Tax Code is usually interpreted by both the Russian tax authorities and taxpayers such that both the days of arrival and the days of departure should be taken into account when calculating the total number of days of presence of an individual in Russia.

However, we are aware of a court case taking a position that the days of arrival should not be considered as the days of presence in Russia;

- 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 of “Resident Noteholder” and “Non-Resident Noteholder” in respect of individuals are taken at face value based on the wording of Russian tax law as currently written. In practice, however, the application of the above formal residency definition may differ based on the position of the Russian tax authorities. The law is currently worded in a way that implies the potential for a split year residency for individuals. However, both the Russian Ministry of Finance and 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 Russian 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. 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

Resident Noteholders 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, the acquisition of the Notes should not trigger any Russian tax implications for the Non-Resident Noteholders – Legal Entities.

Interest on the Notes

Non-Resident Noteholders – Legal Entities generally should not be subject to any Russian taxes in respect of payment of interest on the Notes of any Series received from the Issuer. Taxation of interest on the Notes of any Series may however be affected by the taxation treatment of interest on any Loan. (See “— *Taxation of Interest on the Loan*” below.)

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% (or such other tax rate as may be effective at the time of payment), 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 Notes are initially issued at par, these provisions are likely to be relevant for the acquisitions of the Notes in the secondary market only). 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% (or such other tax rate as may be effective at the time of the acquisition), 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 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.

Interest on the Notes

Non-Resident Noteholders – Individuals generally should not be subject to any Russian taxes in respect of payment of interest on the Notes of any Series received from the Issuer. Taxation of interest on the Notes of any Series may however be affected by the taxation treatment of interest on any Loan. (See “— *Taxation of Interest on the Loan*” below.)

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% (or such other tax rate as may be effective at the time of payment) 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 or 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% (or such other tax rate as may be effective at the time of payment) 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 the 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 the 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% (or such other tax rate as may be effective at the time of payment), 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 which is regarded a tax agent with a certificate of tax residence issued by the competent tax authority of the relevant treaty country in advance of payment of income. However, the payer of income in practice may request additional documents confirming the entitlement and eligibility of the Non-Resident Noteholder - Legal Entity to the benefits of the relevant double tax treaty in relation to income concerned.

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 will have to be provided to the person which is regarded a tax agent. There can be no assurance however that the advance treaty relief will be available to the Non-Resident Noteholders – Legal Entities in practice.

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.

Although the Russian Tax Code contains an exhaustive list of documents and information which have to be provided by the foreign person to the Russian tax authorities for the tax refund purposes, 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 Russian Tax Code and may to a large extent depend on the position of local representatives of the tax inspectorates.

In practice a Non-Resident Noteholder when seeking for a refund of Russian taxes excessively withheld at source may face similar difficulties as when trying to obtain advance tax relief under the applicable double tax treaties, as discussed above.

Obtaining a refund of Russian tax withheld at source is likely to be a time consuming process and no assurance can be given that such refund will be granted to the Non-Resident Noteholders in practice.

The Non-Resident Noteholders should consult their own tax advisors regarding procedures required to be fulfilled in order to obtain refund of Russian income tax, which was excessively withheld at source.

Taxation of Interest on the Loans

In general, payments of interest on borrowed funds made by a Russian legal 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 provided treaty clearance procedure are fulfilled in a timely fashion.

In particular, 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**") establishes that Russian withholding tax could be eliminated provided certain criteria specified in the Convention are satisfied by the recipient of income.

The application of the tax benefits under the Convention could be affected by the change in the practice of the Russian tax authorities with respect to the concept of factual/beneficial owner of income. Specifically, on 30 December 2011 the Russian Ministry of Finance issued letter No. 03-08-13/1 (the "**Letter**") addressed to the Federal Tax Service ("**FTS**"), in which the Ministry of Finance asserted that in context of a very specific eurobond structure which is different from the transaction described in this Prospectus a foreign issuer of eurobonds cannot benefit from the provisions of the Russia-Ireland double tax treaty in respect of interest paid by the Russian borrower as they cannot be considered as the beneficial owners of interest income. Conversely the Letter says that holders of the notes could apply provisions of the respective tax treaty concluded between Russia and the country of residency of each holder of the notes. We cannot preclude the possibility that the tax authorities might apply the same approach to the payments made under the structure of the Programme as described in this Base Prospectus.

On 20 February 2012 the Ministry of Finance published its proposed amendments to the Tax Code which should release Russian borrowers from the obligation to withhold the tax, i.e. from the obligation to act as tax agents, from interest and some other payments to foreign entities provided (1) these entities have issued bonds or other debt obligations admitted to trading on one of the recognised foreign exchanges and the proceeds from the issue were used to fund the loan or rights to such bonds or other debt obligations have been registered in recognized depository/clearing organizations (e.g. Euroclear, Clearstream, DTC), (2) there is a double tax treaty between Russia and the jurisdiction of tax residence of the issuer which can be confirmed by tax residency certificate. The respective provisions are supposed to apply retrospectively to incomes paid since 2007. The lists of recognised foreign exchanges or depository/clearing organisations have not been drafted yet.

In its information letter published on its website, the Russian Ministry of Finance acknowledged that withholding tax should not arise in connection with eurobonds, since there is neither a mechanism nor obligation for a

non-resident to independently calculate and pay such tax. The above mentioned draft law is to be submitted to the State Duma for consideration in the upcoming spring session. It is currently uncertain whether the current version of the draft law will be enacted, when it will be introduced, how it would be interpreted and applied by the tax authorities and/or courts in practice. Until this draft is adopted, this remains merely a declaration of intent by the Ministry.

Furthermore, in August 2011 the Russian Government also proposed in its Main Directions of Russian Tax Policy for 2012 and planned for 2013-2014 legislative changes concerning an anti-avoidance mechanism with respect to double tax treaty benefits in cases where ultimate beneficiaries of income do not reside in the relevant double tax treaty country. The introduction of such concept may result in the inability of foreign entities to claim benefits under double tax treaties through structures which historically were subject to double tax treaty protection in Russia, including the structure of the Programme as described in the Base Prospectus.

The new protocol to the Convention was signed in 2011. The protocol introduces certain changes to the provisions of the Convention. Such changes include, inter alia, a limitation on the benefits of a resident of one contracting state if the main purpose or one of the main purposes of the establishment and existence of such resident was the receipt of treaty benefits; as well as the extension of exchange of information procedures. The protocol also provides that income falling under the "other income" category may be subject to Russian withholding tax. Once the protocol is ratified and becomes effective, it may have an impact on future payments under any Loan Agreement including, inter alia, on payments other than interest income and principal.

In context of the above there can be no assurance that the relief will be available in practice or will continue to be available throughout the term of each Loan.

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 due 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 Russian withholding tax exemption or reduction under any applicable double tax treaty with Russia under such circumstances. In such cases, the Noteholders which are foreign persons not residing for tax purposes in Russia may seek the reduction of the applicable withholding tax rate or elimination or a refund of withholding tax under the applicable double tax treaties entered into between their countries of tax residence and the Russian Federation, where such treaties exist and to the extent they are applicable. However, there is no assurance that in the respective treaty relief will be available to the Noteholders in practice under these circumstances.

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 is currently unclear whether the provisions of the relevant Loan agreement obliging PSB to gross-up interest payments under the Loan will be enforceable under Russian law as currently in effect. 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 35% with effect as 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 35% as from 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 as amended by the law of July 17, 2008, 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) 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 whilst a bond will be subject to a fixed registration duty ("droit fixe") of EUR 12.

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 realised 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 realised 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 11 April 2012 [and the supplemental Base Prospectus dated [•]]² 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].]³

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 11 April 2012. 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 11 April 2012 [and the supplemental Base Prospectus dated [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. 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 11 April 2012 [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:	OPEN JOINT-STOCK COMPANY PROMSVYAZBANK

² 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.

³ 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.

3	Series Number:	[●]
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 <i>[insert date]</i> (if applicable)]
7	(i) Specified Denominations:	[●] ⁴
	(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 (<i>in the case of a Subordinated Series</i>)] [<i>specify reference rate</i>] +/- [●] per cent. Floating Rate] [subject to margin step-up as specified below (<i>in the case of a Subordinated Series</i>)] [(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:	[Applicable/Not Applicable](<i>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 (<i>in the case of a Senior Series</i>)] [DETAILS OF INITIAL INTEREST RATE AND INTEREST RATE STEP-UP] (<i>in the case of a Subordinated Series</i>)
	(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] [●]

⁴ 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).

- (v) Day Count Fraction (Condition 5): [●] [30/360/ Actual/Actual(ICMA/ISDA)/other]
- (vi) Determination Date(s) (Condition 5): [●] 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 coupon*]⁵
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]

17 Floating Rate Note Provisions:

[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)

- (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 (*in the case of a Senior Series*)] [DETAILS OF INITIAL MARGIN TO BE SPECIFIED] (*in the case of a Subordinated Series*)
- (xi) Minimum Rate of Interest: [●] per cent. per annum
- (xii) Maximum Rate of Interest: [●] per cent. per annum
- (xiii) Day Count Fraction (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] [*if not applicable, delete the remaining sub-paragraph of this paragraph*]

⁵ Only to be completed for an issue where Day Count Fraction is Actual/Actual-ICMA.

	(i) Put Settlement Dates	[●]
21	Form of the Notes:	Registered Notes
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.\$3,000,000,000 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, as amended (the “CRA Regulation”). As such, [insert credit rating agency] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009, as amended (the “CRA Regulation”). [Insert credit rating agency] is therefore not included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.]

[[Insert credit rating agency] is not established in the European Union and has not applied for registration under Regulation (EU) No 1060/2009, as amended (the “CRA Regulation”) but the rating issued by it [have been]/[are expected to be] endorsed by [insert endorsing credit rating agency] which is established in the European Union and is registered under the CRA Regulation. As such, [insert endorsing credit rating agency] is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with 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, as amended (the “CRA Regulation”) but it is certified in accordance with the CRA Regulation and it is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website 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.”⁶

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)]*

⁶ 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.

[[●]

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: [●]

[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 17 April 2012. 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 2011, there has been no significant change in the financial or trading position of PSB or of the Group.
- (5) Since 31 December 2011, 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; in July 2010, of U.S.\$200,000,000 senior loan participation notes under the Programme described herein; and in April 2011, of U.S.\$500,000,000 senior loan participation notes under the Programme described herein, each as described under “The Issuer — Financial Statements and Operations” on page 134 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.

BORROWER

Open Joint-Stock Company Promsvyazbank
Smirnovskaya Street 10,
Building 22, Moscow 109052,
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ISSUER

PSB Finance S.A.
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Luxembourg

ARRANGERS AND PERMANENT DEALERS

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5, The North Colonnade,
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**Open Joint-Stock Company
Promsvyazbank**
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Building 22, Moscow 109052,
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**Citigroup Global Markets
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(Europe) Limited**
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As to Russian law
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For the year ended 31 December 2009

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For the years ended 31 December 2011 and 2010

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Moscow 125047,
Russian Federation

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United Kingdom

PRINCIPAL PAYING AGENT

Deutsche Bank AG, London Branch
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1 Great Winchester Street,
London EC2N 2DB,
United Kingdom

U.S. REGISTRAR, U.S. PAYING AGENT AND TRANSFER AGENT

Deutsche Bank Trust Company Americas
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LUXEMBOURG REGISTRAR

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