

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE U.S.

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

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. ANY SECURITIES 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 U.S. OR OTHER JURISDICTION, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. 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 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 TO ANY 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.

Confirmation of the Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities, you must not be a U.S. Person (within the meaning of Regulation S under the Securities Act) and be outside the United States. This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to us that you are not a U.S. Person, that you are outside the United States, the electronic mail address that you have given to us and to which this e-mail has been delivered is not located in the U.S., its territories and possessions, and that you consent to delivery of such Prospectus by electronic transmission.

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

The materials relating to 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 potential offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

Under no circumstances shall this Prospectus constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this Prospectus who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the final prospectus. This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to any of CBOM Finance p.l.c. or Credit Bank of Moscow (open joint-stock company).

This 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 none of Merrill Lynch International, any person who controls Merrill Lynch International, any director, officer, employee or agent of Merrill Lynch International or any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Merrill Lynch International.



CREDIT BANK OF MOSCOW

U.S.\$100,000,000

9.5 per cent. Loan Participation Notes due 2009 with interest rate step-up to 10.25 per cent. in 2007 to be issued by, but with limited recourse to, CBOM Finance p.l.c. for the sole purpose of financing a Loan to Credit Bank of Moscow (open joint-stock company)

Issue Price: 100 per cent.

CBOM Finance p.l.c. established as a special purpose vehicle for the purpose of issuing the Notes is a public company with limited liability incorporated under the laws of Ireland, having its registered office at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and registered under number 425241 (the “**Issuer**”), is issuing an aggregate principal amount of U.S.\$100,000,000 9.50 per cent. Loan Participation Notes due 2009 with interest rate step-up to 10.25 per cent. in 2007 (the “**Notes**”) to be issued by, but with limited recourse to the Issuer for the sole purpose of financing a loan (the “**Loan**”) to Credit Bank of Moscow (open joint-stock company) (“**CBOM**” or the “**Bank**”) on the terms of a loan agreement dated 12 October 2006 (the “**Loan Agreement**”) between the Issuer and the Bank. The Notes are constituted by, are subject to, and have the benefit of, a trust deed to be dated 16 October 2006 (the “**Trust Deed**”) between the Issuer and J.P. Morgan Corporate Trustee Services Limited as trustee (the “**Trustee**”) for the benefit of the Noteholders (as defined in the Terms and Conditions of the Notes). In the Trust Deed, the Issuer has charged, in favour of the Trustee, by way of a first fixed charge as security for its payment obligations in respect of the Notes and under the Trust Deed, certain of its rights and interests under the Loan Agreement and the Account (as defined in the Trust Deed). In addition, the Issuer has assigned absolutely certain of its administrative rights under the Loan Agreement to the Trustee.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received and retained from the Bank by, or for the account of, the Issuer pursuant to the Loan Agreement excluding, however, any amounts paid in respect of Reserved Rights (as defined in the Trust Deed). The Issuer will have no other financial obligation under the Notes. Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the Bank's covenant to pay under the Loan Agreement and on the credit and financial standing of the Bank in respect of the payment obligations of the Issuer under the Notes.

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

On each Interest Payment Date (being 21 October and 21 April in each year, commencing on 21 April 2007 and ending on 21 October 2009), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan Agreement is equal to 9.5 per cent. per annum from, and including, the Issue Date to, but excluding, the Interest Payment Date falling in October 2007 and equal to 10.25 per cent. per annum from, and including, the Interest Payment Date falling in October 2007 to, but excluding, the Maturity Date. Pursuant to Condition 6(C) (*Redemption at Option of the Noteholder*), Noteholders will have the option to redeem their Notes at par on the Interest Payment Date falling in October 2007.

Applications have been made to the Financial Services Authority (the “**UK Listing Authority**”), in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the “**FSMA**”), for the Notes 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 the Notes to be admitted to trading on the Gilt Edged and Fixed Interest Market (the “**Regulated Market**”) of the London Stock Exchange. Admission to the Official List of the UK Listing Authority, together with admission to trading on the Regulated Market, constitutes official listing on a stock exchange. The Regulated Market is a regulated market for the purposes of the Investment Services Directive 93/22/EC.

The Notes will be issued in fully registered form in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof, in each case without interest coupons attached. The Notes will be represented by a global certificate (the “**Global Certificate**”), without interest coupons, which will be deposited with a common depositary for, and registered in the name of, a nominee of, Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”), on or about 16 October 2006 (the “**Issue Date**”). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by, Euroclear or Clearstream, Luxembourg and their respective participants. The Global Certificate will only be exchangeable for definitive certificates (“**Definitive Certificates**”) in the limited circumstances described under “Summary of the Provisions Relating to the Notes in Global Form”.

This Prospectus (including the financial statements) comprises a prospectus for the purposes of Directive 2003/71/EC (the “**Prospectus Directive**”) and for the purpose of giving information with respect to the Bank, the Issuer, the Loan and the Notes.

Any investment in the Notes does not have the status of a bank deposit and is not within the scope of the deposit protection scheme operated by the Irish Financial Services Regulatory Authority (the “**Financial Regulator**”). The Issuer is not and will not be regulated by the Financial Regulator as a result of issuing the Notes.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD CAREFULLY CONSIDER THE RISK FACTORS BEGINNING ON PAGE 5 OF THIS PROSPECTUS BEFORE INVESTING IN THE NOTES.

THE NOTES AND THE LOAN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (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”)).

Lead Manager

Merrill Lynch International

Co-Lead Managers

Alpha Bank

CIT Finance Investment Bank

The date of this Prospectus is 12 October 2006

The Bank, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to the Bank and its subsidiaries taken as a whole, the Loan and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts with respect to the Bank, the Loan or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements. the Bank accepts responsibility accordingly.

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

No representation or warranty, express or implied, is made by the Managers named under “Subscription and Sale” (the “**Managers**”), the Trustee or any of their respective affiliates or any person acting on their behalf as to the accuracy or completeness of the information contained in this Prospectus.

Certain information and data contained in this Prospectus relating to the Russian banking sector and the competitors of the Bank (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various regulatory and securities laws. The sources of such information and data are “Profile” magazine (page 53 of this Prospectus), Fitch Inc. (pages 3, 17 and 54 of this Prospectus), Moody’s Investors Service, Inc. (pages 3, 17, 54 and 63 of this Prospectus), www.autozvestia.ru (page 63 of this Prospectus), www.rating.rbc.ru (page 63 of this Prospectus) and www.cbr.ru (page 25 of this Prospectus). In addition, the Bank and the Issuer have derived some of the information contained in this Prospectus from official data published by Russian government agencies, such as the Central Bank of the Russian Federation (the “**CBR**”). The official data published by Russian federal, regional and local governments is substantially less complete or researched than data published by governmental agencies of Western countries. Official statistics may also be compiled on different bases than those used in Western countries. Any discussion of matters relating to the Russian Federation in this Prospectus may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian government may be questionable. See “Risk Factors – Risks Related to the Russian Federation – The official data upon which prospective investors may base their investment decision may not be as reliable as equivalent data from official sources in the West”. Each of the Bank and the Issuer accepts responsibility that such publicly available information and data has been accurately reproduced and, as far as the Bank and the Issuer are aware and are able to ascertain, no facts have been omitted which would render such information inaccurate or misleading. However, the Bank and the Issuer have relied on the accuracy of such publicly available information and data without carrying out an independent verification.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Bank or the Managers to subscribe for or purchase, any Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Bank and the Managers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, the Notes may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons. For a description of certain further restrictions on offers and sales of the Notes and distribution of this Prospectus, see “Subscription and Sale”.

None of the Issuer or the Bank intends to provide any post-issuance transaction information regarding the Notes or the performance of the Loan. No person is authorised to provide any information or to make any representation not contained in this Prospectus, and any information or

representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Bank, the Trustee or the Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date. Without limitation to the generality of the foregoing, the contents of the Bank's website as at the date hereof or as at any other date do not form any part of this Prospectus (and, in particular, are not incorporated by reference herein).

All references herein to "**Russia**" are to the Russian Federation, all references to "**Ireland**" are to Ireland (exclusive of Northern Ireland) and all references to a "**Member State**" are to a Member State of the European Economic Area.

IN CONNECTION WITH THE ISSUE OF THE NOTES, MERRILL LYNCH INTERNATIONAL (THE "STABILISING MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT NOTES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF NOTES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF THE NOTES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN AT ANY TIME AFTER ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE NOTES AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

CONTENTS

OVERVIEW OF THE OFFERING	1
RISK FACTORS	5
FORWARD-LOOKING STATEMENTS	21
ENFORCEABILITY OF JUDGMENTS	23
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	24
DESCRIPTION OF THE TRANSACTION	26
USE OF PROCEEDS	28
CAPITALISATION AND INDEBTEDNESS OF THE BANK	29
SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE BANK	30
SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN US GAAP AND IFRS	32
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	33
BUSINESS OF THE GROUP	53
FUNDING	67
MANAGEMENT	69
LENDING POLICIES AND PROCEDURE	73
SELECTED STATISTICAL AND OTHER INFORMATION	76
RISK MANAGEMENT	82
RELATED PARTY TRANSACTIONS	88
THE ISSUER	89
OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION	91
THE LOAN AGREEMENT	102
TERMS AND CONDITIONS OF THE NOTES	132
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM	144
TAXATION	145
SUBSCRIPTION AND SALE	150
GENERAL INFORMATION	153
AUDITED AND REVIEWED FINANCIAL STATEMENTS AND AUDITORS' REPORTS.	F-1

OVERVIEW OF THE OFFERING

The Notes:	Issue of U.S.\$100,000,000 9.5 per cent. Loan Participation Notes due 2009 with interest rate step-up to 10.25 per cent. in 2007 in reliance on Regulation S under the Securities Act
Issuer:	CBOM Finance p.l.c.
Borrower:	Credit Bank of Moscow (open joint-stock company)
Lead Manager:	Merrill Lynch International
Trustee:	J.P. Morgan Corporate Trustee Services Limited
Principal Paying Agent:	JPMorgan Chase Bank N.A.
Registrar:	J.P. Morgan Bank Luxembourg S.A.. A register of the Notes shall be kept at the registered office of the Issuer.
Transfer Agent:	JPMorgan Chase Bank N.A.
Issue Price:	100 per cent. of the principal amount of the Notes
Interest:	On each Interest Payment Date (being 21 October and 21 April in each year commencing on 21 April 2007 and ending on 21 October 2009), the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received and retained by or for the account of the Issuer pursuant to the Loan Agreement, which interest under the Loan Agreement is equal to 9.5 per cent. per annum from, and including, the Issue Date to, but excluding, the Interest Payment Date falling in October 2007 and equal to 10.25 per cent. per annum from, and including, the Interest Payment Date falling in October 2007 to, but excluding, the Maturity Date. Pursuant to Condition 6(C) (<i>Redemption at Option of the Noteholder</i>), Noteholders will have the option to redeem their Notes at par on the Interest Payment Date falling in October 2007. There will be a long first Interest Period.
Status of the Notes:	The Notes constitute secured, limited recourse obligations of the Issuer. Recourse in respect of the Notes is limited to the assets securing the Notes. The Notes are secured in the manner described in the Trust Deed and shall at all times rank <i>pari passu</i> and without preference amongst themselves.
Limited Recourse:	<p>The Notes will constitute the obligation of the Issuer to apply the gross proceeds from the issue of the Notes solely for the purpose of financing the Loan to the Bank pursuant to the terms of the Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received and retained from the Bank under the Loan Agreement or held on deposit in the Account (as defined in the Trust Deed) less amounts in respect of the Reserved Rights (as defined in the Trust Deed), all as more fully described under “Terms and Conditions of the Notes.</p> <p>All moneys received by the Trustee under the Trust Deed shall be applied in accordance with the priority of payments (as more fully set out in the Trust Deed).</p>
Security:	The Issuer’s payment obligations under and in respect of the Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders of (i) certain of the Issuer’s

rights and interests as lender under the Loan Agreement, and (ii) the Issuer's rights, title and interest in, and all sums held on deposit in, the Account (as defined in the Trust Deed) (in each case, other than the Reserved Rights), all as more fully described under "Terms and Conditions of the Notes". In addition, the Issuer with full title guarantee will assign absolutely certain administrative rights under the Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the benefit of itself and the Noteholders, as more fully described under "Terms and Conditions of the Notes".

Status of the Loan:	The Loan and all payment obligations expressed to be assumed by the Bank thereunder constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Bank which will at all times rank at least <i>pari passu</i> with all its other unsecured and unsubordinated indebtedness, save for such indebtedness as may be preferred by provisions of law that are both mandatory and of general application.
Form:	The Notes will be issued in registered form. The Notes will be in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will be represented by interests in the Global Certificate, without interest coupons registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg on or about 16 October 2006. The Global Certificate will be exchangeable for Definitive Certificates only in the limited circumstances described under "Summary of Provisions Relating to the Notes in Global Form".
Redemption:	Subject to Condition 6(c) (<i>Redemption at Option of the Noteholder</i>), the Notes will be redeemed on 21 October 2009. The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time upon giving notice to the Noteholders, at their outstanding principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts in respect thereof in the event that the Bank elects to prepay the Loan for tax reasons or in the event that it becomes unlawful for the Issuer to fund the Loan or to allow the Loan or the Notes to remain outstanding under the Loan Agreement. See Condition 6 (<i>Redemption</i>)
Amendments/Waiver:	As long as any of the Notes remain outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement.
Negative pledge and other Covenants:	Clause 10 (<i>Covenants</i>) of the Loan Agreement contains, <i>inter alia</i> , a negative pledge in relation to the creation of Liens (as defined in the Loan Agreement) by the Bank and its Subsidiaries (as defined in the Loan Agreement) and covenants limiting, <i>inter alia</i> , mergers and disposals by the Bank, transactions between the Bank and its Affiliates (as defined in the Loan Agreement) and financial covenants by the Bank. See "The Loan Agreement".
Event of Default/Relevant Event:	If an Event of Default (as defined in the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, subject as provided in the

Trust Deed, (i) in the case of an Event of Default, require the Issuer to declare all amounts payable under the Loan Agreement by the Bank to be due and payable and do all such other acts in connection therewith that the Trustee may direct or (ii) in the case of a Relevant Event, enforce any rights under the security created in the Trust Deed in favour of the Noteholders.

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

Rating: The Notes have been rated “B–” by Fitch Inc. (“**Fitch**”) and “B1” by Moody’s Investors Service, Inc. (“**Moody’s**”).

Credit ratings assigned to the Notes do not necessarily mean that the Notes are a suitable investment. **A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.** Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Bank 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.

Withholding Tax: All payments in respect of interest and principal on the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of Ireland or the Russian Federation, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, the Issuer shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been required. The sole obligation of the Issuer in this respect will be to account to the Noteholders for the sums equivalent to the sums received from the Bank. See “Terms and Conditions of the Notes”. In such circumstances, the Bank will be required to increase the sum payable under the Loan Agreement to the extent necessary to ensure that the Issuer receives a net sum sufficient to pay to the Noteholders such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received had no such deduction or withholding been made or required to be made.

All payments in respect of interest and principal to be made by the Bank under the Loan Agreement will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of Ireland or the Russian Federation, save as required by law. If any such taxes, duties, assessments or governmental charges are payable, the Bank shall (subject to certain exceptions) pay such additional amounts as will result in the receipt by the Issuer of such amounts as would have been received had no such deduction or withholding been required.

<i>Use of proceeds</i>	The net proceeds of the Notes will be used by the Issuer for the sole purpose of financing the Loan to the Bank. In connection with the receipt of the Loan, the Bank will pay a facility fee. See “Use of Proceeds”.
<i>Admission to Trading</i>	Applications have been made to the UK Listing Authority for the Notes to be admitted to listing on the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the Regulated Market.
<i>Selling Restrictions</i>	<p>The Notes have not been, and will not be, registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning ascribed to them by Regulation S under the Securities Act.</p> <p>The Notes may be sold in other jurisdictions (including the United Kingdom, the Russian Federation, Ireland, Switzerland, Hong Kong, Singapore and Italy) only in compliance with applicable laws and regulations. See “Subscription and Sale”.</p>
<i>Governing Law</i>	The Notes, the Loan Agreement and the Trust Deed will be governed by English law.
<i>Risk Factors</i>	An investment in the Notes involves a high degree of risk. See “Risk Factors”.
<i>Security Codes</i>	<p>ISIN: XS0269121728</p> <p>Common code: 026912172</p>

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Prospectus and in particular should consider, among other things, all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on the Bank's business, financial condition, prospects, operations and/or financial condition which, in turn, could have a material adverse effect on its ability to service its payment obligations under the Loan Agreement and, as a result, the ability of the Issuer to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment.

RISKS RELATED TO THE BANK'S BUSINESS AND THE BANKING SECTOR

Relationship with Mr Avdeev, the controlling shareholder

The Bank is beneficially owned by Mr Roman Avdeev. Mr Avdeev is also the Chairman of the Bank's Supervisory Board.

Although Mr Avdeev has not done so in the past, he could cause the Bank to substantially change its business or management direction or operations generally, or otherwise act to his benefit, to pursue acquisitions or other transactions or to pay large dividends or make other distributions or payments to himself, even though any such transactions may involve increased risk for the Noteholders. Furthermore, the interests of Mr Avdeev as shareholder and Chairman of the Supervisory Board of the Bank may, in some circumstances, conflict with the interests of the Noteholders, and any such conflict could have a material adverse effect on the value of Noteholders' investment in the Notes. In circumstances where additional capital contributions from the shareholders may be necessary to ensure compliance with regulatory or contractual financial ratios, Mr Avdeev may be unwilling or unable to make such contributions.

Although no specific discussion by Mr Avdeev has been initiated to date, a sale of the Bank (in whole or in part) by Mr Avdeev to an international financial institution during the tenor of the Notes cannot be ruled out.

Dependence on Russian Economic Growth

Sustainable development of the consumer finance market and the growth in the number of small and medium-sized enterprises ("SME") in the Russian Federation is highly dependent on economic growth, the level of business confidence, increases in consumers' average disposable income and level of consumer spending. A deterioration in the performance of the Russian economy or a stagnation or reduction in levels of personal income, individual purchasing power or consumer confidence, either generally or specifically in respect of the banking sector, may have a material adverse effect on the business, financial condition, results of operations or prospects of the Bank.

Banking Sector Competition

The Russian market for financial and banking services is highly competitive. According to the CBR, as at 1 August 2006 there were 1,217 banks and non-banking credit organisations operating in the Russian Federation.

The Bank is a full-service bank which focuses on the corporate lending, SME and retail banking sectors. In the retail banking sector, it specialises in the provision of car finance and mortgages. Its principal operations are in Moscow and the Moscow region. The Bank faces increasing competition from a number of Russian banks and Russian subsidiaries of major international financial institutions. Management considers the Bank's main competitors in the area of corporate lending to be CJSC Promsvyazbank, OJSC Alfa-Bank, JSCB Bank of Moscow (OJSC), JSC MDM Bank, JSCB Rosbank (OJSC), OJSC Petrocommerce and JSCB Probusinessbank (OJSC). In the SME sector, management believes the Bank's main competitors to be KMB-Bank (CJSC), OJSC Sberbank (Savings Bank of the Russian Federation), OJSC Vneshtorgbank, ZAO Raiffeisenbank Austria and JSCB Bank Soyuz. In the sphere of consumer lending, the Bank considers its main competitors to be Impexbank and Bank Avangard JSB and generally banks with operations in Moscow with large

networks. The Bank's main competitors in the car finance market are ZAO Raiffeisenbank Austria, ZAO International Moscow Bank, JSCB Rosbank (OJSC), JSC Sobinbank, JSCB Bank Soyuz, JSC MDM Bank and ZAO International Industrial Bank, whereas in the mortgage sector, management believes the Bank's main competitors to be ZAO Raiffeisenbank Austria, DeltaCredit, AKB National Reserve Bank, OOO Gorodskoy Ipotekny Bank (City Mortgage Bank), OJSC Vneshtorgbank, OJSC Sberbank, JSCB Moskovskoye Ipoteknoye Agentstvo (Moscow Mortgage Agency) and JSCB Fora Bank (CJSC). In the sphere of factoring, the Bank's main competitors are Nomos, Uralsib JSCB, Probusinessbank (OJSC) and CJSC Promsvyazbank and in the sphere of plastic cards the Bank views certain branches of the large Russian state banks, such as OJSC Sberbank (Savings Bank of the Russian Federation) to be its strongest competitors.

Increased competition in the Russian banking market has led to lower commissions and margins being paid to the Bank. The Bank expects competition in the Russian banking market to intensify in the coming years both in respect of deposit-taking and lending activities, which could narrow the margins between deposit and loan rates further, which may adversely affect the Bank's profitability.

In addition, the moderate size of the Bank's balance sheet compared to those of larger Russian banks and subsidiaries of international financial institutions may impede the Bank's ability to compete successfully with its larger Russian and international rivals on pricing and this may adversely affect its business, financial condition, results of operations or prospects.

Competition and Credit Risk

Increasing competition in the Russian banking sector may increase the overall credit risk to which the Bank is exposed. Competitors may introduce products or services, which may have a higher risk profile or pricing designed to attract business. The Bank may need to match such terms and pricing in order to remain competitive. The Bank's profitability may be adversely affected if the Bank is not in a position to adequately provide for credit risks in the context of its lending activities. The Bank's possible increased exposure to credit risk could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

Client Credit Risk

Assessment of creditworthiness

There can be no assurance that the Bank will correctly assess the creditworthiness of credit applications submitted to it. The establishment of centralised credit databases in the Russian Federation is in its infancy. Although the Bank applies its own credit analyses and lending policies and procedures when assessing the creditworthiness of prospective and existing clients, such analyses, policies and procedures may not always present a complete and accurate assessment of such clients' current financial condition. Therefore, despite the credit risk evaluation procedures that the Bank has put in place, it may be unable to correctly evaluate the current financial condition of each applicant and to accurately determine the ability of its applicants to repay their loans. Failure to correctly assess the creditworthiness of prospective and existing clients may adversely affect the Bank's business, financial condition, results of operations and/or prospects.

Repayment and recovery

While the Bank has detailed policies to deal with overdue loans, there can be no assurance that these policies will result in full or partial recovery of its overdue loans. As at 31 December 2005, overdue loans made up 2.3 per cent. of the total loan portfolio compared to 1.1 per cent. as at 30 June 2006. This amounts to a 43 per cent. decrease and reflects the fact that the Bank has written off a number of overdue loans. There can be no assurance that the Bank's current level of loan and credit repayment and recovery will be maintained in the future.

Instability of the Russian Banking System

In the period from May 2004 until July 2004 the Russian banking sector experienced its first significant disruption since the financial crisis of August 1998, as a result of the revocation by the CBR of the banking licences of several Russian banks. These actions resulted in a constriction in the Russian interbank market, which had a negative impact on the liquidity of certain banks. The

revocation of certain banks' licences combined with market rumours led to sudden withdrawals of deposits by both retail and corporate customers from certain banks, which in turn further reduced liquidity. The Bank remained largely unaffected by the turmoil, which the Bank believes did not and will not have any material adverse effect on its business. However, no assurances can be given that the Bank will not, in the event of any future disruptions, face losses as a result of the bankruptcy of other Russian banks or their inability to perform their obligations. In addition, the Bank may be affected by consequential defaults of corporate customers that suffer from the problems faced by other Russian banks or if similar disruption in the banking sector occurs in the future and affects the overall economic situation in Russia. In the event of instability in the Russian banking sector, the Bank's customers could withdraw some or all of their deposits more quickly than is assumed in the Bank's current liquidity and cash flow forecasts, which may have an adverse effect on the Bank's liquidity, business, financial condition, results of operations and/or prospects.

Market Risks

The Bank is exposed to market risks including interest rate and currency risks.

The Bank is exposed to risks resulting from mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets. While the Bank monitors interest rates with respect to its assets and liabilities, and generally matches its interest rate positions, interest rate movements may adversely affect the Bank's financial position.

The Bank limits its exposure to foreign currencies positions and such limits comply with the minimum requirements of the CBR. The Bank also uses management tools and policies which are aimed at reducing currency risk. However, the Bank still faces foreign exchange risk due to adverse movements in exchange rates of the currencies in which it maintains assets and liabilities.

If the Bank's risk management procedures and limits do not minimise the impact of interest rate and currency risks in the way intended, the Bank's, business, financial condition, results of operations or prospects may be adversely affected.

Liquidity Risks

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan drawdowns and guarantees. This results in liquidity risk arising out of mismatches between the maturities of its assets and liabilities and may result in the Bank being unable to meet its obligations in a timely manner.

The Bank continues to diversify its funding sources by accessing international and domestic capital markets, contributions from shareholders, syndicated borrowing and through its promissory note programme. The Bank's ability to continue to access the above markets and funding sources to the extent sufficient to meet its funding needs, including the refinancing of outstanding debt falling due, could be adversely affected by a number of factors, including Russian and international economic conditions and the state of the Russian financial system.

The Bank believes that its level of access to domestic interbank loans, the capital markets and the international syndicated debt market, along with its favourable credit standing and its liquidity risk management policy will allow it to meet its liquidity needs. Nevertheless, a decrease in the Bank's ability to access the domestic interbank loan market, the international syndicated debt market and/or the capital markets, or maturity mismatches between the Bank's assets and liabilities, may, together or separately, have a material adverse effect on the business, financial condition, results of operations or prospects of the Bank.

Interest Rate Volatility

Like other Russian commercial banks, the Bank is exposed to interest rate risk as a result of lending and making advances to customers and other banks at fixed interest rates and in amounts and for periods which differ from the Bank's funding sources (customer deposits, bank offerings and the issuance of securities). The Bank attempts to manage this risk by fixing lending rates on a short-term basis only. In addition, the Bank includes provisions in each of its loan contracts to allow it to unilaterally change the interest rate if market conditions change.

The Bank also seeks to match interest rate positions to minimise interest rate risk. Despite these efforts, there can be no assurance that significant adverse interest rate movements will not have a material adverse effect on the Bank's operations.

Interest rates have been declining in Russia over the past few years. Further decreases in interest rates in Russia are expected which will exert pressure on the Bank's interest margins. While management expects that growth in lending will continue to generate increased interest income, which should offset any decreases in interest margins, the pace of its loan portfolio growth may be constrained by the ability of the Bank to increase its lending to customers who meet the Bank's high credit-quality standards and other business criteria. There can be no assurance that such factors will not adversely affect the Bank's business, financial condition, results of operations and/or prospects.

Risks related to Growth Strategy

Business Growth Risk

The Bank has experienced significant growth in recent years, particularly in the size of its overall loan portfolio, which increased by 55 per cent. (gross of provisions for losses) during the year ended 31 December 2005 and increased by 18 per cent. during the period from 1 January 2006 until 30 June 2006. The Bank's consumer loan portfolio during the year ended 31 December 2005 increased by 49 per cent. and by 30 per cent. during the period from 1 January 2006 to 30 June 2006 (gross of provision of losses). The Bank intends to continue to concentrate on expanding its loan portfolio as part of its strategy.

The ability of the Bank to grow its customer base and expand its loan portfolio will depend on, among other things, effective adherence to its credit policies and provisioning procedures, as well as the promotion of capital growth in order to maintain its capital adequacy requirements. If the Bank accepts a higher degree of credit risk to achieve growth in the future, it could increase the level of non-performing loans in its loan portfolio, which could, in turn, have a material adverse effect on its financial performance and results of operations and/or prospects.

Expansion of Network

The Bank may only grow further by making strategic acquisitions and through successful organic growth. Such steps would entail additional investment and increased operating costs and would necessitate a significant input of resources from the current management team, along with the strengthening of its management team. There is no assurance that the Bank will achieve positive returns on any investment (funds or resources) that it makes in the development of its distribution network or that it will be able to successfully integrate any new acquisitions.

The growth of the Bank's business requires greater allocation of management resources away from daily operations, the ability to integrate new branches of newly acquired financial services businesses with existing operations, the continued development of its financial and information management control systems, the ability to attract and retain sufficiently qualified personnel, the continued training of sales representatives and other personnel, and the adequate supervision and maintenance of its client service. If the Bank fails to properly manage its growth, such failure could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

Dependence on Key Management and Personnel

The Bank is dependent on its senior management for the implementation of its strategy and the operation of its day-to-day activities. In addition, certain business relationships of members of senior management are important to the conduct of the Bank's business. No assurance can be given that the key members of senior management will remain at the Bank or that such business relationships will endure.

The Bank's success and, in particular, its ability to achieve its growth strategy depends, in part, on its ability to attract and retain high-quality personnel to fill all positions required in its banking operations. However, competition in the Russian banking market for such personnel is intense, and this has become increasingly so over the past two years as banks and financial institutions have expanded their operations. If the Bank fails to continue to attract and retain qualified employees and

successfully manage its needs, this could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects or growth strategy.

Licence Risks

All banking and various related operations in the Russian Federation require a general banking licence from the CBR. The Bank maintains such a licence in connection with its banking operations including those which involve foreign currencies. There is no assurance that the Bank will be able to maintain this licence in the future. The CBR is authorised to suspend or revoke a banking licence of a credit organisation for breach of any applicable banking regulations or non-compliance with the mandatory economic ratios and reserve requirements set out by the CBR. The loss by the Bank of a CBR licence or a breach of the terms of a CBR licence could result in the Bank being unable to continue its banking activities and in the imposition of penalties such as fines being imposed by the CBR on the Bank. This could adversely affect the business, financial condition, results of operations and/or prospects of the Bank.

Furthermore, in order to maintain its customers' current accounts, the Bank applied for admission to (and was granted on 2 December 2004) the Russian Deposit Insurance System (as defined below). The loss of a CBR licence, a breach of the terms of a CBR licence by the Bank, or the discontinuation of its membership of the Russian Deposit Insurance System for the insurance of retail bank deposits, could result in the Bank being unable to continue its retail banking activities and in penalties, such as fines, being imposed on it by the CBR. Any such failure could, in turn, affect the Bank's ability to fulfil payment obligations, either generally or under the Loan Agreement, and could have a material adverse effect on the Bank's business, financial condition, results of operations and/or prospects.

Risks Related to Information Technology

The Bank's financial performance and its ability to meet its strategic objectives will depend to a significant extent upon the functionality of its information technology ("IT") systems and its ability to increase their capacity. Any interruption (even short-term), deterioration, failure or lack of capacity of the Bank's IT systems or any other systems in its branch network, clearing operations or elsewhere, or any unauthorised use of the Bank's system, may cause the Bank to fail to complete transactions or verify critical information on a timely basis. This may cause a material adverse effect on the business, financial condition, results of operations and/or prospects of the Bank.

Insurance Risks

The insurance industry in the Russian Federation is still in an early stage of development and many forms of insurance protection common in other jurisdictions are not yet generally available. The Bank holds bankers blanket bond insurance that covers losses resulting from deliberate action of employees of the Bank and third parties as well as losses resulting from failures of the Bank's electronic systems and damage resulting from computer crimes. The Bank also has a separate insurance with coverage in respect of damage to all of its equipment and property and a separate insurance with coverage in respect of civil liability of the Bank. The insurer is Rosgosstrah.

Enforcement of Security

The Bank takes pledges over real estate, equipment and securities as security for its lending. Under Russian law, security (which includes pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations which automatically terminate if the secured obligation becomes void. Furthermore, the enforcement of security under Russian law generally requires a court order and a public sale of the relevant collateral. A court may, in its discretion, delay such public sale for a period of up to one year upon a pledgor's application. A mortgage under Russian law is a pledge over real property, such as land and buildings, which requires state registration to be valid. Such state registration may be difficult to obtain, especially for real property under construction. Russian law has no pledge perfection system for collateral other than mortgages, which may contribute to the incidence of unexpected and/or conflicting claims of secured creditors to the pledged property. Therefore, the Bank may have difficulty enforcing pledges when customers

default on their loans, which could adversely affect the Bank's business, financial condition, results of operations and/or prospects.

RISKS RELATED TO THE ISSUER

Examiners, Preferred Creditors under Irish law and Floating charges

The Issuer has its registered office in Ireland. As a result, there is a rebuttable presumption that its centre of main interest is in Ireland and, consequently, it is likely that any insolvency proceedings applicable to it would be governed by Irish law.

An examiner may be appointed to an Irish company in circumstances where it is unable, or likely to be unable, to pay its debts. One of the effects of such an appointment is that during the period of appointment, there is a prohibition on the taking of enforcement action by any creditors of the company. Given that the Issuer is a special purpose entity, the limited recourse nature of the Issuer's liabilities and the structure of the transaction, it is unlikely that an examiner would be appointed to the Issuer.

In an insolvency of the Issuer, the claims of certain preferential creditors (including the Irish Revenue Commissioners for certain unpaid taxes) will rank in priority to claims of unsecured creditors and claims of creditors holding floating charges. In addition, the claims of creditors holding fixed charges may rank behind other "super" preferential creditors (including expenses of any examiner appointed and certain capital gains tax liabilities) and, in the case of fixed charges over book debts, may rank behind claims of the Irish Revenue Commissioners.

In certain circumstances, a charge which purports to be taken as a fixed charge may take effect as a floating charge. Under Irish law, for a charge to be characterised as a fixed charge, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets including any bank account into which such proceeds are paid.

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

RISKS RELATED TO THE RUSSIAN FEDERATION

The Bank is a Russian bank, and virtually all of its assets are located in the Russian Federation. There are certain risks associated with an investment in the Russian Federation:

Risks related to Investments in Emerging Markets

Investors in emerging markets such as the Russian Federation should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies such as the economy of the Russian Federation are subject to rapid change and that the information set out herein may become outdated relatively quickly. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved, and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes.

A worsening of the political climate in the Russian Federation may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts among executive, legislative and judicial authorities which negatively impacted Russia's business and investment climate. While Russia's current President, Vladimir Putin, re-elected for a second presidential term in March 2004, has maintained the stability of the Russian federal government (the "Government") and introduced policies generally oriented towards the continuation of economic reforms, there can be no assurances that there will be no material changes to Government policies or to economic or regulatory reforms. The State Duma (the lower chamber of

the Russian parliament) elections in December 2003 resulted in an increase in the percentage of the aggregate vote received by the “United Russia” party and other members of the State Duma allied with the President. Furthermore, President Putin replaced the Prime Minister and changed the composition of the Government just prior to President Putin’s re-election. The Bank’s business, financial condition, results of operations or prospects could be materially affected if political instability recurs or if reform policies are reversed or lose effectiveness.

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 in the recent past and continue to maintain a presence there. Russia has suffered a number of terrorist attacks, including suicide bombings, bombings of two domestic passenger flights and hostage-taking at a school in Beslan, Russia, resulting in significant loss of life and damage to property. In addition, in October 2005, terrorists conducted a co-ordinated series of attacks on police and other government buildings in Nalchik, Kabardino-Balkaria and low-level terrorist attacks have continued since then from time to time. Any future acts of terrorism or armed conflicts in the Russian Federation or internationally could have an adverse effect on the financial and commodity markets and the global economy in general and the Bank’s financial results in particular.

In September 2004, President Putin announced a proposed reform of the sub-federal election system. Pursuant to the proposed reform, the heads of executive authorities on the sub-federal level will be elected by their respective legislatures from a list of candidates nominated by the President of the Russian Federation (instead of direct election by the population without the participation of federal authorities in the nomination process). The proposed amendments to Russian election legislation were approved by both chambers of the Russian parliament and entered into force in December 2004. These events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on the Bank’s business, financial condition, results of operations or prospects.

Furthermore, in October 2003, the ex-Chief Executive Officer of NK OAO “Yukos” (“Yukos”), Mikhail Khodorkovsky, was arrested on charges of fraud and tax evasion and was sentenced to nine years in prison in May 2005 (later commuted to eight years) on criminal charges. Despite Yukos’ filing for Chapter 11 protection in the United States, 100 per cent. of the voting shares in Yuganskneftegaz (Yukos’ main oil-extracting subsidiary) were sold at an auction organised by the Russian Federal Property Fund to recover Yukos’ alleged debts to the Russian tax authorities. There has been considerable volatility in the Russian stock market in the context of these events. According to some commentators, these events have called into question the security of property and the contractual rights and independence of the judiciary in Russia, and raise concerns about the revision of tax and mineral resources legislation, the re-examination of Russia’s privatisations and the re-distribution of the assets involved.

Legislation to protect against nationalisation and expropriation may not be enforced in the event of a nationalisation or expropriation of the Bank’s assets

Although the Russian government has enacted legislation to protect property against expropriation and nationalisation and to provide for fair compensation to be paid if such events were to occur, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and sufficient mechanisms to enforce judgments, and corruption among Russian state officials.

The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, the Bank may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the Russian Government decides to nationalise or expropriate some or all of the Bank’s assets. While management considers that the Bank’s assets are not liable to be nationalised or expropriated, any expropriation or nationalisation of any of the Bank’s assets without fair compensation may have a material adverse effect on the Bank’s business, financial condition, results of operations and/or prospects.

Economic Risks

The Russian economy is less stable than those of most Western countries

Since the dissolution of the Soviet Union in 1991, Russia's society and economy have been undergoing a rapid transformation in the context of the Russian Government's inconsistent attempts to transform the Russian Federation from a one-party state with a centrally-planned economy to a pluralist democracy with a market-oriented economy. This transformation has been marked by periods of significant instability, and the Russian economy at various times has experienced:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high levels of state debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- high levels of loss-making enterprises that have continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of black and grey market economies;
- pervasive capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment and under-employment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. The events and aftermath of 17 August 1998 – the Russian Government's default on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, the abandonment by the CBR of the Rouble currency band and its efforts to maintain the Rouble/U.S. dollar rate within it and the temporary moratorium on certain hard currency payments to foreign counterparties – led to a severe devaluation of the Rouble, a sharp increase in the rate of inflation, a significant deterioration in the Russian 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 by Russian borrowers.

From May to July 2004, following a general fall in confidence in the Russian banking system, the Russian interbank lending market constricted significantly resulting in a decrease in liquidity. While the market has since recovered, the Bank's management is unable to predict the effect that a future significant deterioration in the liquidity of, or significant volatility in, the Russian banking system could have on the Bank's liquidity, ability to access the capital markets or on its financial position.

There can be no assurance that recent positive trends in the Russian economy, such as an increase in the gross domestic product, a relatively stable Rouble, the reduced rate of inflation and the reduction in the levels of state debt, will continue or will not be abruptly reversed. Moreover, the strengthening of the Rouble in real terms relative to the U.S. dollar and the consequences of a relaxation in monetary policy, or other factors, could have an adverse effect on the Russian economy and/or the Bank's business, financial condition, results of operations or prospects in the future.

Although economic conditions in the Russian Federation have improved in the last few years, there is a lack of consensus as to the scope, content and pace of economic and political reform. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that the Russian Federation will remain receptive to foreign investment, or that the economy of the Russian Federation will continue to improve. Any failure or reversal of the current

policies of economic reform and stabilisation could have a material adverse effect on the Bank's business, financial condition, results of operations and/or prospects.

Fluctuations in the global or Russian economies may have an adverse effect on the Bank's ability to attract future capital as well as on its financial condition and prospects

The Russian economy could be adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside the Russian Federation or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because the Russian Federation produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market, and a decline in the price of oil and gas could have a significant negative impact on the Russian economy.

These developments could severely limit the Bank's access to capital and could adversely affect the Bank's business, financial condition, results of operations or prospects.

Recent terrorist activity inside and outside of the Russian Federation and the recent armed conflicts in the Middle East have had a significant effect on international and domestic finance and commodity markets. Any future acts of terrorism or armed conflicts in the Russian Federation or internationally could have an adverse effect on the financial and commodities markets and the global economy. As the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts causing disruptions of Russian oil and gas exports could negatively affect the Russian economy and, thus, adversely affect the Bank's business, financial condition, results of operations and/or prospects.

If Russia were to return to heavy and sustained inflation, the Bank's results of operations could be adversely affected

According to Government estimates, the inflation rate (CPI) in the Russian Federation was 19 per cent. in 2001, 15 per cent. in 2002, 12 per cent., in 2003, just under 12 per cent. in 2004 and 11 per cent. in 2005. The Government expects inflation to be between 7 per cent., and 8.5 per cent., in 2006. Although the rate of inflation has been declining, any return to heavy and sustained inflation could lead to market instability, new financial crises, reductions in consumer purchasing power and erosion of consumer confidence. Any one of these events could lead to decreased demand for the Bank's products and services and, consequently, have an adverse effect on the Bank's business, financial condition, results of operations and/or prospects.

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

Federal Law No. 173 FZ "On Currency Regulation and Currency Control" published on 17 December 2003 ("Currency Control Law of 2003") introduced a new currency control regime. Most of the provisions of the Currency Control Law of 2003 came into effect on 18 June 2004. According to the Currency Control Law of 2003, only a limited number of restrictions can be imposed in respect of currency operations (such as, for instance, reserve requirements or requirements to effect relevant operations through special purpose accounts). The Currency Control Law of 2003 provides for most current restrictions to be effective until 1 January 2007. The CBR has enacted a number of regulations to implement the Currency Control Law of 2003, concerning mainly technical issues of the new currency control regime. In addition, the CBR has introduced special account and reserve requirements with respect to certain operations of Russian corporations. However, to date no such restrictions have been introduced with respect to Russian banks. It is expected that the CBR and the Government will enact further regulations under the Currency Control Law of 2003. Until all of the regulations for the effective implementation of the Currency Control Law of 2003 are published and implemented, it will not be possible to assess fully the effect of the currency control regime introduced by the Currency Control Law of 2003, and there may be uncertainties and disputes in the interpretation of the Currency Control Law of 2003. Accordingly, there can be no assurance that the Currency Control Law of 2003 and the related regulations will not have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The official data upon which prospective investors may base their investment decision may not be as reliable as equivalent data from official sources in the West

Official statistics and other data published by the CBR, Russian federal, regional and local governments, and federal agencies may be substantially less complete or researched and, consequently, less reliable than those published by comparable bodies in other jurisdictions. Accordingly, the Bank cannot assure prospective investors that the official sources from which the Bank has drawn some of the information set out herein are reliable or complete. Russian state entities may produce official statistics on bases different from those used by comparable bodies in other jurisdictions. Any discussion of matters relating to the Russian Federation herein may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Russia's physical infrastructure is in very poor condition, which could disrupt normal business activity

The physical infrastructure in the Russian Federation largely dates back to Soviet times and has not been adequately funded and maintained over the past decade. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. For example, during the winter of 2000/2001, electricity and heating shortages in the Russian Federation's far eastern Primorye region seriously disrupted the local economy. In August 2000, a fire at the main communications tower in Moscow interrupted television and radio broadcasting for weeks. In May 2005, an electricity blackout affected much of Moscow for one day, disrupting normal business activity. The state of the Russian Federation's physical infrastructure negatively affects the Russian Federation's national economy, disrupts the transportation of goods and supplies, imposes additional costs on business and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the Bank, in particular, and on the value of investments in the Russian Federation, in general.

SOCIAL RISKS

Crime and corruption could disrupt the Bank's ability to conduct business and could adversely affect its business, financial condition, results of operations or prospects

The political and economic changes in the Russian Federation since the early 1990s have resulted in reduced policing of society and increased lawlessness. The Russian and international press have reported high levels of organised criminal activity and corruption of officials in the Russian Federation and other countries of the former Soviet Union. Some commentators have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. Additionally, some commentators allege that the publication of biased reports in the Russian media in return for payments is widespread. The Bank's business, financial condition, results of operations or prospects could be materially adversely affected by illegal activities, corruption or by claims alleging involvement in illegal activities.

Social instability in the Russian Federation, together with difficult economic conditions, the failure of the state and main private enterprises to make full and timely payment of salaries on a regular basis and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living have led in the past, and could lead in the future, to labour and social unrest and increased support for a renewal of centralised authority, increased nationalism, restrictions on foreign involvement in the economy, and increased violence. Any of these could adversely affect the Bank's business, financial condition, results of operations and/or prospects.

Risks Relating to the Russian legal system and legislation

Weaknesses relating to the Russian legal system and legislation create an uncertain environment for investment and business activity which could affect the Bank

The Russian Federation is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies in their application. The following aspects of Russia's legal

system create uncertainty with respect to many of the legal and business decisions that the Bank's management make. Many of these risks do not exist in countries with more developed legal systems:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code and by other federal laws, and by decrees, orders and regulations issued by the President, the Government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There may be inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion. There is a risk that the state may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use immaterial defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and judicial decisions carry limited weight as precedents;
- the Russian Federation has a judiciary with limited experience in interpreting and applying market-oriented legislation and which is vulnerable to economic and political influence; and
- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor will obtain effective redress in a Russian court.

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

Unlawful or arbitrary government action in Russia may have an adverse effect on the Bank's business

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

Difficulty in enforcing the Bank's rights in Russia may have an adverse effect on the Bank's financial condition, results, operations and prospects

The current status of the Russian legal system makes it uncertain whether the Bank would be able to enforce its rights in disputes with any of its contractual counterparties. Furthermore, the dispersion of regulatory power among a number of state agencies in the Russian Federation has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Government has rapidly introduced laws and regulations and has changed its legal structure in an effort to make

the Russian economy more market-oriented, resulting in considerable legal confusion. No assurance can be given that local laws and regulations will become stable and more consistent in the future. The Bank's ability to operate in the Russian Federation could be adversely affected by difficulties in protecting and enforcing its rights and by future changes to local laws and regulations. Further, its ability to protect and enforce such rights is dependent on the Russian courts, which are underdeveloped, inefficient and, in places, corrupt. Judicial precedents generally have no binding effect on subsequent decisions.

Russian banking and financial regulations have changed significantly recently, and it is unclear how these changes will impact on the Bank's business

Like most Russian law on business activities, Russian legislation on banks and banking activity continues to evolve. In addition to the Federal Law of 10 July 2002 No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)", as amended (the "**CBR Law**") and the Federal Law of 2 December 1990 No. 395-I ("**On Banks and Banking Activity**"), as amended (the "**Banking Law**"), Russia has adopted and continues to develop new banking legislation.

In December 2003, President Putin signed into law the Federal Law of 23 December 2003 No. 177- FZ "On Insurance of Deposits Placed by Individuals with Banks in the Russian Federation" (the "**Retail Deposit Insurance Law**"), which introduced a system of mandatory insurance of deposits made by individuals with Russian banks, whereby the federally owned "Agency for Deposits Insurance" guarantees repayment of individuals' deposits up to RUB100,000 per individual in the event of a withdrawal of the banking licence of the Russian bank or a CBR imposed moratorium on payments made by such Russian bank (the "**Russian Deposit Insurance System**"). Banks operating in Russia must participate in the Russian Deposit Insurance System or lose their ability to accept retail deposits and open bank accounts for individuals. The enactment of the Retail Deposit Insurance Law is expected to strengthen 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.

In addition, the CBR has recently required banks to comply with certain regulatory requirements on a daily basis.

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, due to the recent changes in the regulatory system, 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 the Bank's ability to provide its banking services or to compete effectively, thus adversely affecting the Bank's business, financial condition, results of operations and/or prospects.

Underdevelopment of the Russian Taxation System

The Russian Government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. The cornerstone of this reform was a complete redrafting of the Russian Tax Code; this included a reduction of the corporate profits tax rate from 35 per cent. for most companies and 43 per cent. for financial institutions, insurance and intermediary companies to 24 per cent. for all companies from 1 January 2002 and also allowed for a broader range of deductible expenses. Payroll-related taxes have been reduced substantially and for individuals who are tax residents in Russia the current personal income tax rate is 13 per cent. The general rate of VAT has been reduced to 18 per cent. and certain minor taxes have been abolished, such as road users' tax (abolished from 1 January 2003) and sales tax (abolished from 1 January 2004).

Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. For example, there is a possibility that the current three-year statute of limitations for the assessment of taxes pursuant to a tax audit could be significantly extended. In accordance with the Constitution of the Russian Federation, laws which introduce new taxes or worsen a taxpayer's position can not be applied retroactively. However, there have been several instances when such laws were introduced and applied retroactively.

Despite the Russian Government's taking steps to reduce the overall tax burden in recent years in line with its objectives, Russia's largely ineffective tax collection system and continuing budgetary funding requirements may increase the likelihood that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on Bank's business, financial condition, results of operations or prospects. Additionally, tax has been utilised as a tool for significant state intervention in certain key industries.

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

Transfer-pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20 per cent. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (i.e. if the price in respect of such transactions differs from the prices on similar transactions conducted within a short period of time by more than 20 per cent.). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. There has been no formal guidance (although some court practice is already available) as to how these rules will be applied. Moreover, the Ministry of Finance of the Russian Federation is in the process of drafting proposed amendments to the transfer pricing legislation, which may come into force in 2007. Such amendments, if adopted, are expected to result in stricter transfer pricing rules. If the tax authorities were to impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on business, financial condition, results of operations or prospects of the Bank.

It is expected that Russian tax legislation will become more sophisticated, which may result in the introduction of additional revenue raising measures. Although it is unclear how these measures would operate, the introduction of such measures may affect the Bank's overall tax efficiency and may result in significant additional taxes becoming payable. The Bank cannot offer prospective investors any assurance that additional tax exposures will not arise while the Notes are outstanding. Additional tax exposures could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects of the Bank.

RISKS RELATED TO THE NOTES

Credit Rating

Outstanding Eurobonds of the Russian Federation are rated "Baa3" (outlook "positive") by Moody's Investor Services Inc., "BBB-" (outlook "stable") by Standard & Poor's and "BBB" (outlook "stable") by Fitch, Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation. The Bank has a long-term rating of "B-" (outlook positive) assigned by Fitch Inc. and a long-term rating of "B1" assigned by Moody's Investors Service, Inc. The Notes have been rated "B-" by Fitch Inc. and "B1" by Moody's Investors Service, Inc. Any change in the credit rating of the Bank, of the Notes or of the Russian Federation could adversely affect the trading price for the Notes. See "Risks Relating to the Russian Federation" above. A change in the credit rating of one or more corporate Russian borrowers could also adversely affect the trading price for the Notes.

Limited Recourse Obligations of the Issuer

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

Noteholders receiving less than the scheduled amount of principal and/or interest and/or other amounts (if any) payable on the Notes.

No Direct Recourse of the Noteholders to the Bank

Save as otherwise expressly provided in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under, or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any provision of the Loan Agreement or have direct recourse to the Bank as borrower except through action by the Trustee pursuant to the Security Interests (as defined in the Trust Deed) granted to the Trustee in the Trust Deed. Under the Trust Deed, the Trustee shall not 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.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. Although application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to be admitted to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes may be redeemed prior to maturity

In the event that the Bank would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Russian Federation or any political subdivision thereof or any authority therein or thereof having power to tax, the Bank may redeem all outstanding Notes in accordance with the Conditions.

The Notes will be represented by the Global Certificate except in certain limited circumstances described in the Global Certificate. The Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificate, investors will not be entitled to receive Definitive Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Notes are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Bank will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Certificate will not have a direct right under the Global Certificate to take enforcement action against the Bank in the event of a default under the Notes but will have to rely upon their rights under the Bank's covenant to pay under the Loan Agreement.

Russian withholding tax

In general, interest payments on borrowed funds made by a Russian legal entity to a non-resident are subject to Russian withholding tax at a rate of 20 per cent. for legal entities, unless such

withholding is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Based on professional advice, the Bank believes that interest payments on the Loan made to the Issuer should not be subject to withholding tax under the terms of the applicable double tax treaty between the Russian Federation and Ireland. However, there can be no assurance that such double tax treaty relief will be available or will continue to be available throughout the term of the Loan.

If any payments under the Loan are subject to any Russian or Irish withholding tax, the Bank will be obliged to increase the amounts payable by it under the Loan Agreement as may be necessary to ensure that the Noteholders receive a net amount equal to the amount they would have received in the absence of such withholding taxes.

In addition, payments in respect of the Notes by the Issuer will, except in certain limited circumstances, be made without deduction or withholding for or on account of Irish taxes except as required by law. Based on professional advice, the Bank believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of Irish taxes as described in "*Taxation – Ireland*". In the event of such a deduction or withholding, the Issuer will only be required to increase payments to the extent that it receives corresponding amounts from the Bank under the Loan Agreement. While the Loan Agreement provides for the Bank to pay such corresponding amounts in these circumstances, there are some doubts as to whether a tax gross up clause such as that contained in the Loan Agreement is enforceable under Russian law. Due to the limited recourse nature of the Notes, if the Bank fails to pay any such gross-up amounts, the amount payable by the Issuer under the Notes will be correspondingly reduced. Any failure by the Bank to increase such payments would constitute an Event of Default under the Loan Agreement. In certain circumstances (including following enforcement of the security upon the occurrence of a Relevant Event as defined in the Trust Deed), in the event that the Bank is obliged to increase the amounts payable, it may prepay the principal amount of the Loan together with accrued interest and/or additional amounts payable (if any) thereon, and all outstanding Notes would be redeemed by the Issuer (to the extent that it has actually received the relevant funds from the Bank).

The Issuer has granted security over certain of its rights in the Loan Agreement to the Trustee in respect of its obligations under the Notes. The security under the Trust Deed will become enforceable upon the occurrence of an Event of Default or a Relevant Event, as further described in "Terms and Conditions of the Notes". In these circumstances, payments under the Loan Agreement (other than in respect of Reserved Rights) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by the Bank to the Trustee will in general be subject to Russian income tax withholding at a rate of 20 per cent. (or potentially, 30 per cent. in respect of individual Noteholders). It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. In addition, while it may be possible for some Noteholders who are eligible for an exemption from Russian withholding tax under double taxation treaties to claim a refund of tax withheld, there would be considerable practical difficulties in obtaining any such refund. If, during the life of the Notes, the Issuer ceases to be resident for tax purposes in Ireland and becomes resident for tax purposes in another jurisdiction, in the event that such jurisdiction requires the Issuer to effect deduction for or on account of any taxes (other than taxes of Ireland) in respect of payments which the Issuer is obliged to make under or in respect of the Notes, under the terms of the Loan Agreement the Bank will be under no obligation to increase payments to the Issuer under the Loan Agreement in respect of such withholding or deduction for or on account of any taxes (other than taxes of Ireland). In such circumstances, the Noteholders will receive payments under the Notes net of such withholding or deduction and will have no right to require that their Notes be repaid.

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

Disposals of the Notes in the Russian Federation

If a non-resident Noteholder that is a legal person or organisation which in each case is not organised under Russian law and which holds and disposes of the Notes otherwise than through a permanent establishment in Russia sells Notes and receives proceeds from a source within the Russian Federation, there is a risk that any part of the payment, that represents accrued interest may be subject to a 20 per cent. Russian withholding tax. Where proceeds from a disposal of the Notes are received from a source within the Russian Federation by a non-resident Noteholder that is an individual, there is a risk that withholding tax would be charged at a rate of 30 per cent. on gross proceeds from such disposal of the Notes less any available cost deduction. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation – Russian Federation”.

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus, as well as written and oral statements that the Bank and its officers make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be “forward-looking statements”. Forward-looking statements include statements concerning the Bank’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. The Bank uses the words “anticipates”, “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and other similar expressions to identify forward-looking statements. These forward-looking statements are contained in “Risk Factors”, “Business” and other sections of this Prospectus. The Bank has based these forward-looking statements on the current views of its management with respect to future events and financial performance. These views reflect the best judgment of the management of the Bank but involve uncertainties and are subject to certain risks, the occurrence of which could cause actual results to differ materially from those the Bank predicts in its forward-looking statements and from its past results, performance or achievements.

Although the Bank believes that the estimates and the projections reflected in its forward looking statements are reasonable, if one or more risks or uncertainties were to materialise or occur, including those which the Bank has identified in this Prospectus, or if any underlying assumptions prove to be incomplete or inaccurate, its results of operations may vary from those it expected, estimated or projected.

Forward-looking statements that may be made by the Bank from time to time (but that are not included in this document) may also include projections or expectations of interest income, net interest income, operating income (or loss), net profit (or loss) (including on a per share basis), dividends, capital structure or other financial items or ratios.

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

- inflation, interest rate fluctuations and exchange rate fluctuations in Russia;
- prices for securities issued by Russian entities;
- the health of the Russian economy, including the Russian banking sector;
- the effects of, and changes in, the policy of the federal government of Russia and regulations promulgated by the CBR;
- the effects of competition in the geographic and business areas in which the Bank conducts its operations;
- the effects of changes in laws, regulations and taxation or accounting standards or practices in the jurisdictions where the Bank conducts its operations;
- the Bank’s ability to maintain or increase market share for its products and services and control expenses;
- the management of the rapid growth of the Bank’s business and assets;
- acquisitions or divestitures;
- technological changes; and
- the Bank’s success at managing the risks associated with the aforementioned factors.

This list of important factors is not exhaustive. When reviewing forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Bank operates. Such forward-looking statements speak only as at the date on which they are made. Accordingly, but subject to the requirements of the UK Listing Authority, the Bank is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements

attributable to the Bank, or persons acting on the Bank's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place reliance on these forward-looking statements.

ENFORCEABILITY OF JUDGMENTS

The Bank is a joint stock company organised under the laws of the Russian Federation. The majority of the Bank's directors and executive officers named in this Prospectus reside in the Russian Federation. Moreover, substantially all the assets of the Bank and of such persons are located in the Russian Federation. As a result, the Trustee, acting on behalf of the Noteholders, may not be able to effect service of process in the United Kingdom on the Bank or any of the Bank's directors or executive officers named in this Prospectus. No Noteholder will have any entitlement to enforce any provisions of the Loan Agreement, or have direct recourse to the Bank. The Trustee will not be required to enter into proceedings to enforce payment from the Bank under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses, which it may incur in connection therewith.

Similarly, the Trustee may not be able to obtain or enforce English court judgments in the Russian Federation against the Bank or its directors or executive officers. Courts in the Russian Federation will only recognise judgments rendered by a court in any jurisdiction outside the Russian Federation 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. No such treaty for the reciprocal enforcement of foreign court judgments in civil and commercial matters exists between the Russian Federation and most Western jurisdictions (including the United Kingdom and Ireland), which may require new proceedings to be brought in the Russian Federation in respect of a judgment already obtained in any such jurisdiction against the Bank or its directors or executive officers. In addition, Russian courts have limited experience in the enforcement of foreign court judgments. The limitations described above, including the general procedural 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 deprive the Noteholders or the Trustee of effective legal recourse for claims under the Notes relating to the Loan.

The Loan Agreement is governed by English law and provides that if any dispute or proceeding arises from or in connection with the Loan Agreement, the Issuer may elect, by notice in writing to the Bank, to settle the claim by arbitration in accordance with the Rules of the London Court of International Arbitration. The place of such arbitration shall be London, England. The Russian Federation and the United Kingdom are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognise and enforce in the Russian Federation an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention (subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and other procedures and requirements established by Russian legislation). However, it may be difficult to enforce arbitral awards in the Russian Federation due to:

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

Moreover, in September 2002, the new arbitrazh procedural code of the Russian Federation (the "**Arbitrazh Procedural Code**") entered into force. The Arbitrazh Procedural Code established the procedure for Russian courts to refuse to recognise and enforce any such arbitral award. The Arbitrazh Procedural Code and other Russian procedural legislation could change; therefore, *inter alia*, other grounds for Russian courts to refuse the recognition and enforcement of foreign courts' judgments and foreign arbitral awards could arise in the future. In practice, 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 the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Certain financial information set out herein has been derived from the audited consolidated financial statements of the Bank and its consolidated subsidiaries taken as a whole (together, the “**Group**”) as at, and for the years ended 31 December 2005 and 2004 that are set out on pages F-29 to F-56 of this Prospectus (the “**2005 Consolidated Financial Statements**”) and from the audited consolidated financial statements of the Group as at, and for the years ended 31 December 2004 and 2003 that are set out on pages F-57 to F-81 of this Prospectus (the “**2004 Consolidated Financial Statements**” and, together with the 2005 Consolidated Financial Statements, the “**Audited Financial Statements**”) prepared in accordance with U.S. GAAP. The unaudited interim consolidated financial statements for the six months ended 30 June 2006 (the “**Interim Financial Statements**”) prepared in accordance with U.S. GAAP are set out on pages F-2 to F-28 of this Prospectus.

Investors should consider the section “Summary of Significant Differences between U.S. GAAP and IFRS” below for a summary of significant differences between U.S. GAAP and International Financial Reporting Standards (“**IFRS**”) issued by the International Accounting Standards Board. Investors should consult their own professional advisors for an understanding of the accounting differences that exist between U.S. GAAP and IFRS and how those differences might affect the financial information included herein.

All references in this Prospectus to “**CBOM**” or the “**Bank**” are to either Credit Bank of Moscow (open joint-stock company), or where financial information is referred to, to the Group, as the case may be.

Auditors

KPMG Limited, independent auditors, having their registered address at 11 Gogolevsky Boulevard, Moscow 119019, Russian Federation (“**KPMG**”), have audited the Audited Financial Statements and have reviewed the Interim Financial Statements included in this Prospectus. KPMG is a corporate member of the Institute of Professional Accountants of Russia and a member of the Audit Chamber of Russia.

Currency

In this Prospectus, the following currency terms are used:

- “**Euro**”, “**EUR**” or “**€**” means the lawful currency of the Member States that adopted the single currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Union, as amended;
- “**Russian Rouble**”, “**Rouble**” or “**RUB**” means the lawful currency of the Russian Federation; and
- “**U.S. dollar**”, “**Dollar**” or “**U.S.\$**” means the lawful currency of the United States of America.

Exchange Rates

The following table sets out, for the periods indicated, the high, low, average and period-end interbank exchange rates, in each case for the purchase of Roubles, all expressed in Roubles per U.S. dollar.

	U.S. dollar/Rouble Interbank Exchange Rate			
	High	Low	Average	Period End
2006 (up to and including 1 September 2006).....	28.4834	26.6738	27.4011	26.7295
2005	28.9978	27.4611	28.6705	28.7825
2004	29.4545	27.7487	28.8080	27.7487
2003	31.8846	29.2450	30.5648	29.4545
2002	31.8600	30.1372	30.9986	31.7844

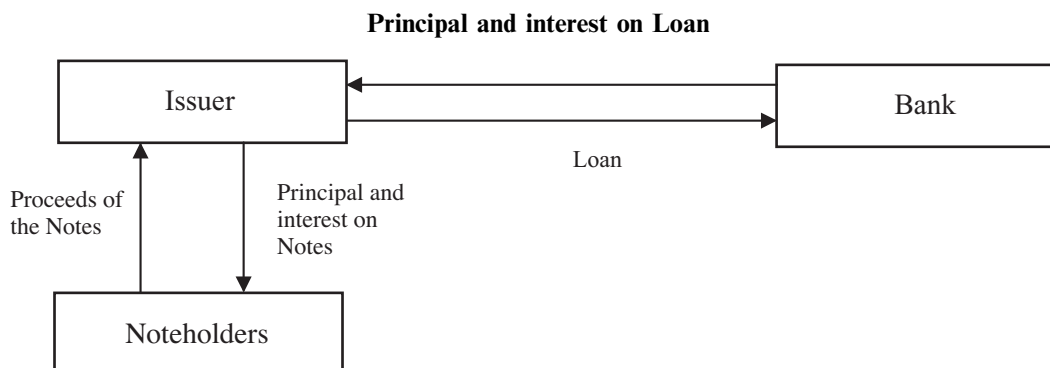
Source: www.cbr.ru (Central Bank of the Russian Federation).

Rounding

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

DESCRIPTION OF THE TRANSACTION

The following summary description should be read in conjunction with, and is qualified in its entirety by, the information set out under “Terms and Conditions of the Notes” and “The Loan Agreement” appearing elsewhere in this Prospectus.



The transaction will be structured as a Loan to the Bank by the Issuer under the Loan Agreement. The Issuer will issue the Notes, which will be limited recourse loan participation notes issued for the sole purpose of funding the Loan to the Bank. The Loan will be made on the terms of the Loan Agreement and will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. The Notes will be constituted by, be subject to, and have the benefit of the Trust Deed. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives by or for its account from the Bank pursuant to the Loan Agreement or that are deposited in the Account, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed).

As provided in the Trust Deed, the Issuer has charged in favour of the Trustee for the benefit of the Noteholders as security for its payment obligations in respect of the Notes (a) its rights to all principal, interest and additional amounts (if any) payable by the Bank under the Loan Agreement, (b) its right to receive all sums which may be or become payable by the Bank under any claim award or judgment relating to the Loan Agreement and (c) its rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent in the name of the Issuer, together with the debt represented thereby (the “**Account**”) (collectively, the “**Charged Property**”), in each case other than the Reserved Rights (as defined in the Trust Deed) and amounts relating thereto. The Issuer has assigned absolutely certain administrative rights under the Loan Agreement to the Trustee for the benefit of the Noteholders. The Bank will be obliged to make payments under the Loan to the Issuer in accordance with the terms of the Loan Agreement to the Account or, following a Relevant Event, as otherwise instructed by the Trustee.

The Issuer has covenanted not to agree to any amendments to, or any modification or waiver of, or authorise any breach or potential breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent (in each case except in relation to the Reserved Rights).

The Issuer (save as expressly provided in the Trust Deed, the Loan Agreement or with the consent of the Trustee) shall not pledge, charge or otherwise deal with the Loan or the Charged Property or any right or benefit either present or future arising under or in respect of the Loan Agreement or the Account or any part thereof or any interest therein or purport to do so (in each case except in relation to the Reserved Rights). Any amendments, modifications, waivers or authorisations made with the Trustee’s consent shall be notified to the Noteholders in accordance with Condition 14 (Notices) of the “Terms and Conditions of the Notes” and will be binding on the Noteholders.

The security under the Trust Deed will become enforceable upon the occurrence of a Relevant Event, as further described in “Terms and Conditions of the Notes”.

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of Ireland or the Russian Federation except as required by law. See “Terms and Conditions of the Notes-Taxation”. In that event, the Issuer will only be required to pay an additional amount to the extent it receives corresponding amounts from the Bank under the Loan Agreement. The Loan Agreement provides for the Bank to pay such corresponding amounts in these circumstances. In addition, payments under the relevant Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes in the Russian Federation or any jurisdiction from, or through, which any payments are made, except as required by law, in which event the Bank will be obliged to increase the amounts payable under the Loan Agreement. See “Risk Factors-Risks Related to the Notes”.

The Bank may prepay the Loan at its principal amount, together with accrued interest and additional amounts (if any), in the event that the Bank is required to increase the amount payable or to pay additional amounts on account of taxes of the Russian Federation or Ireland pursuant to the Loan Agreement or if it becomes unlawful for the Loan or the Notes to remain outstanding, as set out in the Loan Agreement. In each case (to the extent that the Issuer has actually received the relevant funds from the Bank), the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) thereon. See “The Loan Agreement – Repayment and Prepayment – Prepayment in the event of Taxes and Prepayment in the event of Illegality” and “Terms and Conditions of the Notes – Redemption”.

USE OF PROCEEDS

The proceeds from the offering of the Notes, expected to amount to U.S.\$100,000,000 will be used by the Issuer for the sole purpose of financing the Loan to the Bank. The Bank will use the proceeds of the Loan to fund its lending activities and for general banking purposes. Total commissions and expenses payable by the Bank in connection with the issuance and admission to trading of the Notes and the extension of the Loan are expected to be approximately U.S.\$1,233,000.

CAPITALISATION AND INDEBTEDNESS OF THE BANK

The following table sets forth the Bank's capitalisation and indebtedness as at 30 June 2006 and 31 December 2005. This information should be read in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Bank's Consolidated Financial Statements included elsewhere in this Prospectus. Save as discussed below, there has been no material change in the consolidated capitalisation and indebtedness of the Bank since 30 June 2006.

	As at 30 June 2006	As at 31 December 2005
	(in US\$ thousands)	
Shareholders' equity		
Share capital ⁽¹⁾	93,658	63,940
Additional paid-in capital.....	6,612	6,612
Other comprehensive income.....	14,213	7,584
Retained earnings	27,665	24,584
Total shareholders' equity	142,148	102,720
Debt		
Due to other banks	110,713	144,854
Customer accounts	288,143	229,160
Debt securities in issue	191,604	164,195
Total indebtedness	590,460	538,209
Total capitalisation and indebtedness	732,608	640,929

Note:

- (1) As at 30 June 2006, the charter capital of the Bank comprised 2,376,158,008 ordinary shares with a par value of RUB 1 per share.
- (2) On 7 September 2006, the Bank received the proceeds of its U.S.\$20 million subordinated loan with EBRD signed on 10 August 2006. This will be recognised as Tier 2 capital.
- (3) On 11 September 2006, the Bank signed a U.S.\$52.55 million syndicated loan and received the proceeds on 18 September 2006. The mandated Lead Arrangers of this syndicated loan are as follows: Commerzbank, Aktiengesellschaft and Standard Bank PLC.

SELECTED CONSOLIDATED FINANCIAL INFORMATION OF THE BANK

The following tables present selected consolidated financial information of the Bank which has been derived from and which should be read in conjunction with the Audited Financial Statements and the Interim Financial Statements and the notes thereto included elsewhere in this Prospectus, and as well as the sections entitled “Capitalisation and Indebtedness of the Bank” and “Management’s Discussion and Analysis of the Financial Condition and Results of Operations”.

Selected Statement of Operations Data

	30 June 2006	30 June 2005	31 December 2005	31 December 2004
		<i>(in U.S.\$ thousands)</i>		
Net interest income.....	12,865	10,962	22,555	24,241
Provision for credit impairment	(1,844)	(1,496)	3,802	(2,506)
Net interest income after provision for credit impairment	11,021	9,466	26,357	21,735
Net trading gains ¹	2,910	405	726	2,133
Net fee and commissions income	8,890	5,495	17,113	10,332
Other operating income.....	641	373	1,026	950
Total operating income.....	23,462	15,739	45,222	35,150
Administrative and other operating expenses	19,665	12,018	30,996	27,287
Income tax expense.....	(716)	(792)	(3,319)	(2,473)
Profit for the period.....	3,081	2,929	10,907	5,390

¹ Net trading gains includes net foreign exchange gains and net trading profits from equity securities.

Selected Balance Sheet Data

	30 June 2006	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>		
Assets			
Cash and due from CBR	50,430	78,546	48,363
Due from Credit institutions, net	32,696	52,078	37,053
Trading Securities	136,228	87,211	32,711
Loans to customers, net.....	516,715	426,226	274,517
Property and equipment	4,104	3,556	3,430
Other assets	6,982	6,490	3,470
Total assets.....	747,155	654,107	399,544
Liabilities			
Deposits by credit liabilities.....	110,713	144,854	49,604
Deposits by customers	288,143	229,160	125,564
Debt securities issued	191,604	164,195	119,810
Income tax liabilities	9,893	10,021	7,378
Provisions, accruals and other liabilities.....	4,654	3,157	1,738
Total Liabilities	605,007	551,387	304,094
Shareholders' equity.....	142,148	102,720	95,450
Total liabilities and shareholders' equity	747,155	654,107	399,544

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN US GAAP AND IFRS

The financial information included in this Prospectus has been prepared and presented in accordance with US GAAP. Certain differences exist between US GAAP and IFRS which might be material to the financial information included herein.

Certain selected differences between US GAAP and IFRS that may be significant relative to the Audited Financial Statements referred to in this Prospectus are summarised below. Such differences involve methods for recognising and measuring the amounts shown in the Audited Financial Statements, as well as differing financial statement presentation and disclosure requirements. This summary should not be construed to be exhaustive, nor should it be expected to reveal all differences between US GAAP and IFRS that are relevant to the Bank. No attempt has been made to identify any differences between US GAAP and IFRS in relation to disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the Audited Financial Statements or notes thereto. Additionally, no attempt has been made to identify future differences between US GAAP and IFRS as the result of proposed changes in accounting standards. Finally, no attempt has been made to identify future differences between US GAAP and IFRS that may affect the financial statements as a result of transactions or events that may occur in the future.

In making an investment decision, investors must rely upon their own examination of the Bank and the Group, the terms of the offering and the financial information. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and U.S. GAAP, and how those differences might affect the financial information herein.

Functional currency

The criteria for determining the functional currency of an entity under US GAAP differs from that of IFRS. Additionally US GAAP requires that in years prior to 1 January 2003, when Russia was hyperinflationary, an entity's financial statements must be remeasured as if the functional currency were the reporting currency. IFRS contains no such requirement but requires when an entity's functional currency is that of a hyperinflationary economy all items in the financial statements be restated for the effects of inflation.

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

The following discussion and analysis of the consolidated financial condition and results of operations of the Bank principally covers the years ended 31 December 2004 and 31 December 2005 and the six month periods ended 30 June 2006 and 30 June 2005. Unless otherwise specified, the financial information presented in this discussion has been derived from the Consolidated Financial Statements or the Interim Financial Statements, as appropriate. This section should be read in conjunction with the Consolidated Financial Statements, the Interim Financial Statements and the notes thereto and the other financial information included elsewhere in the Prospectus.

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Forward-Looking Statements".

Overview

The principal business activity of the Bank is providing financing to corporate, retail and SME customers in Russia through direct lending, trade finance and mortgages. The Bank is a full service bank and offers its clients banking services including international payments, foreign exchange, deposits and custody services.

Interest income represents the largest source of the Bank's revenue for the years ended 31 December 2004 and 2005. For the year ended 31 December 2005, corporate loans (including small business loans) amounted to U.S.\$357.1 million representing 81.3 per cent. of the Bank's gross loan portfolio, with the largest categories being loans to companies involved in the following industries: consumer electronics and computers; construction materials; lighting and foods. Loans to individuals amounted to U.S.\$82.2 million, representing 18.7 per cent. of the Bank's gross loan portfolio. For the six months ended 30 June 2006, corporate loans (including small business loans) amounted to U.S.\$400.4 million representing 77 per cent. of the Bank's gross loan portfolio. Loans to retail customers amounted to U.S.\$106.7 million representing 20.5 per cent. of the Bank's gross loan portfolio.

For the year ended 31 December 2005, the Bank had operating income (being the aggregate of interest income after provision for credit impairment, and non-interest derived income) of U.S.\$45.2 million and net income of U.S.\$10.9 million compared with operating income (being the aggregate of interest income after provision for credit impairment, and non-interest derived) of U.S.\$35.2 million and net income of U.S.\$5.4 million, respectively, for the year ended 31 December 2004. For the six months ended 30 June 2006, the Bank had operating income (being the aggregate of interest income after provision for credit impairment, and non-interest derived income) of U.S.\$23.5 million and net income of U.S.\$3.1 million with operating income (being the aggregate of interest income after provision for credit impairment, and non-interest derived income) of U.S.\$15.7 million and net income of U.S.\$2.9 million, respectively for the six months ended ending 30 June 2005.

As at 31 December 2005, the Bank had total assets of U.S.\$654.1 million, an increase from U.S.\$399.5 million as at 31 December 2004. The Bank's net loans to customers were U.S.\$426.2 million at 31 December 2005, an increase from U.S.\$274.5 million as at 31 December 2004. As at 30 June 2006, the Bank had total assets of U.S.\$747.2 million, an increase from U.S.\$485.9 million as at 30 June 2005. The Bank's net loans to customers were U.S.\$516.7 million at 30 June 2006, an increase from U.S.\$426.2 million as at 31 December 2005.

Significant Factors Affecting Results of Operations

The Russian market for financial and banking services is highly competitive. The Bank faces increasing competition from a number of Russian banks and Russian subsidiaries of major international financial institutions. In this market, the Bank is focusing on three main products: SME financing, consumer lending (particularly auto lending and, more recently, mortgages) and trade finance. The Bank has an acknowledged presence in the Russian auto lending and trade finance markets. Management hopes that its development of SME financing will help the Bank, firstly, to

lend at higher interest margins than it would otherwise be able to achieve in lending to large corporates and, secondly, to better diversify its credit portfolio.

Risk management

Management of risk arising from financial assets is fundamental to the Bank's business and is an essential element of its operations. The major risks faced by the Bank are solvency risk, liquidity risk, credit risk, interest rate risk and foreign currency risk. The Bank's risk management system is designed to identify and manage these risks by setting appropriate limits and by monitoring these risks with advanced administrative and information systems.

The Bank's risk management is conducted by several banking departments, including the Credit Monitoring Department, the Planning and Analysis Department, the Treasury Department, the Internal Audit Department, and the Finance and Internal Control Department. These departments are supervised by the Credit Committee and the Asset and Liability Committee ("ALCO"). The Bank manages its major risks in the following manner:

Solvency risk

The Bank is exposed to solvency risk and it monitors its own solvency on a daily basis. The system in place to monitor solvency risk measures the Bank's market value by applying discounts to the book value of assets, thus allowing the Bank to calculate its "net conventional capital". The Bank's objective in so doing is to maintain its solvency and liquidity at a very high level. The Bank's adherence to maintaining solvency within pre-defined levels allows it to avoid making investments in high risk assets and to reduce the risk of losses on the impairment of existing assets by selling them at an appropriate time. EBRD and IFC (both defined below) select recipient banks by strict professional banking criteria. The Bank's involvement therefore evidences these institutions' favourable opinion of the Bank's performance and its solvency.

Liquidity risk

Liquidity risk arises from mismatches between the maturities of the Bank's assets and liabilities. Managing liquidity risk includes monitoring the Bank's asset and liability structure and predicting future fluctuations in respect thereof. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw-downs and guarantees. The Bank monitors liquidity with the objective of ensuring that funds are available at all times to honour cash flow obligations as they arise. ALCO sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover unexpected levels of withdrawals.

Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligations to the Bank. The Bank monitors the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single borrower, or group of borrowers, and to specific industry and geographical segments. Such risks are typically monitored on a quarterly basis and are subject to review at least once per annum.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing its lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and/or personal guarantees.

With respect to undrawn loan commitments, the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the relevant loan agreements.

The major part of the Bank's exposure to credit risk arises as a result of its principal business (providing credit to corporates and individuals). The Bank believes it maintains an adequate level of provision for loan impairment the levels of which have been declining during recent years.

	30 June 2006	31 December 2005	31 December 2004
		<i>(per cent.)</i>	
Loan loss provisions/Gross loans and advances to customers	0.7	3.0	5.6
Overdue loans/Gross loans and advances to customers	1.1	2.3	2.0

The Bank's loan portfolio consists of a large number of loans with relatively low outstanding amounts spread across a wide customer base. As at 30 June 2006, loans to the Bank's 10 largest borrowers and largest single borrower made up 19.4 per cent. (U.S.\$104.1 million) and 4.3 per cent. (U.S.\$22.1 million) of the total loan portfolio respectively. As at 31 December 2005, the Bank's 10 largest borrowers represented 16.4 per cent. (U.S.\$71.9 million) of the Bank's total loans to customers (representing 11.0 per cent. of the Bank's total assets). The Bank's 10 largest borrowers as at 31 December 2004 represented 23.8 per cent. (U.S.\$69.2 million) of the Bank's total loans to customers (representing 17.3 per cent. of the Bank's total assets). As at 31 December 2005, the largest single borrower to which the Bank was exposed accounted for 2.7 per cent. (U.S.\$11.9 million) of the Bank's loan portfolio, whereas the Bank's exposure to the largest single borrower as at 31 December 2004 accounted for 7.3 per cent. (U.S.\$21.2 million) of the Bank's loan portfolio.

As at 31 December 2005, the Bank had two groups of borrowers (where a group of borrowers comprises a borrower and its affiliated parties) whose loan balances exceeded 10 per cent. of equity (with aggregated loan balances totalling U.S.\$28.0 million). As at 31 December 2004, the Bank had one group of borrowers (where a group of borrowers comprises a borrower and its affiliated parties) whose loan balances exceeded 10 per cent. of equity (with an aggregated loan amount totalling U.S.\$21.2 million). These loan balances represent 6.4 per cent. and 7.3 per cent. of the Bank's gross loans and advances to customers as at 31 December 2005 and 31 December 2004 respectively. As at 30 June 2006, the Bank had one group of borrowers whose loans balances exceeded 10 per cent. of equity. The gross value of these loans as at 30 June 2006 was U.S.\$22.2 million. As at 31 December 2005 and 30 June 2006, the Bank was in compliance with the single lender ratios promulgated by the CBR (no single borrower in excess of 25 per cent. of the Bank's capital, reported in accordance with Russian Accounting Regulations). The Bank has developed policies and procedures for the management of credit exposures, including preliminary credit scoring of retail customers, guidelines to limit portfolio concentration, the establishment of a Credit Committee and ALCO for liquidity management, which actively monitors the Bank's credit and risk management. For more information, see "*Business of the Group – Risk Management*".

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table provided in "*Risk Management – Liquidity risk*". Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities. The Bank's interest rate policy is reviewed and approved by ALCO.

To minimise the impact of adverse interest rate fluctuations on the Bank's financial results, the Bank performs statistical analyses to decide the optimal allocation of the Bank's assets and the composition of its liabilities.

Foreign currency risk

The Bank's assets and liabilities, including its loan portfolio, are denominated in Russian roubles, U.S. dollars, EUR and other currencies. As such, the Bank is exposed to adverse fluctuations in the prevailing exchange rates of such currencies. The Bank is also exposed to foreign currency exchange rate fluctuations on its cash flows. To minimise this risk, the Bank monitors Russia's macroeconomic situation and developments in the international financial markets. The Board of Directors of the Bank also sets limits on the level of exposure of the Bank to certain currencies (such limits are in compliance with requirements imposed on Russian banks by the CBR). To further minimise the Bank's exposure to currency risk, the Treasury department hedges the Bank's foreign currency positions with swap transactions executed with highly-rated domestic financial institutions such as ZAO Raiffeisenbank Austria, OJSC MDM Bank and JSICB Nomos Bank (CJSC).

Critical accounting policies, estimates and judgments in applying accounting policies

The Bank's consolidated financial condition and results of operations presented in its Consolidated Financial Statements and notes thereto are, to a large degree, dependent upon the Bank's accounting policies which, in some cases, involve a certain amount of management discretion. The Bank's significant accounting policies are described in the Notes to the Consolidated Financial Statements appearing on pages F-9 to F-12 of this Prospectus.

The Bank has identified the following accounting policies which it believes are the most relevant in reviewing the consolidated results of its operations and financial condition. These critical accounting policies require management's subjective and complex judgment about matters that are inherently uncertain. The impact of, and any associated risks related to the Bank's critical accounting policies on its business operations, are discussed throughout this section where these policies affect the Bank's consolidated financial results as presented in this Prospectus.

Use of estimates

Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the Consolidated Financial Statements in conformity with accounting principles generally accepted in the USA, in particular in respect of loan loss provisions. Actual results could differ from those estimates.

Loans to customers

The carrying amounts of the Bank's loans to customers are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any impairment is indicated, the recoverable amounts for such loan are estimated. The recoverable amount of loans is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the loan. An impairment loss is recorded whenever the carrying amount of a loan exceeds its recoverable amount.

The Bank has established collective assessment of impairment loss for its retail loan portfolios and for its small business loan portfolios. This assessment is based on the determination of historical patterns of overdue loans and expected losses separately for each category of loan portfolio.

Amounts due from credit institutions

In the normal course of its business, the Bank lends or deposits funds for various periods with other credit institutions. Impairment losses for placements with banks and other credit institutions are calculated in accordance with a policy similar to that applied to loans to customers (detailed above).

Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and impairment losses. Depreciation is applied on a straight-line basis over the estimated useful economic life of the asset. The useful economic lives for relevant assets are as follows:

Asset	Years
Buildings	50
Furniture and equipment	6
Vehicles	5
Other	5
Computers	4

Impairment of property and equipment

The Bank accounts for long-lived assets in accordance with Statement of Financial Accounting Standard (“SFAS”) No.144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under this accounting standard, the carrying value of an asset is considered to be impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable, and is less than the carrying value. In that event, an impairment loss is recognised based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognised in the income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

Taxes

Income taxes are accounted for under the asset and liability method in accordance with SFAS No. 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognised on the basis of the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rate is recognised as income in the period in which the change is enacted.

Russia also has various other operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of non-interest expense in the income statement. Taxes payable by Russian companies are substantial and include (without limitation) value added tax, excise duties, profit taxes, payroll-related taxes and property taxes. Russian Federal and local tax laws and regulations are subject to frequent change, varying interpretation and inconsistent enforcement. In some instances, despite its unconstitutionality, Russian tax authorities apply taxes retrospectively, issue tax claims for periods which, under the statute of limitations, have expired and review the same tax period on multiple occasions. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. Accordingly, management’s interpretation of the appropriate tax legislation, as applicable to the transactions and activities of the Bank, may be challenged by relevant regional and Federal authorities.

Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years following the relevant tax year. The fact that a tax year has been reviewed by the relevant authorities does not preclude the tax authorities from carrying out further review of that tax year, or any tax declaration applicable to that year, during the three-year period. Furthermore, recent events within the Russian Federation suggest that the tax authorities may be taking a more aggressive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged in the future. This could result in significant additional taxes, penalties and interest being payable by the Bank.

Moreover, transfer-pricing legislation became effective in Russia on 1 January 1999. This legislation allows the tax authorities to make transfer-pricing adjustments and impose additional tax liabilities in respect of all “controlled” transactions, provided that the transaction price differs from

the market price by more than 20 per cent. “Controlled” transactions include transactions with related parties, barter transactions, external trade transactions and transactions with unrelated parties with significant price fluctuations (if the price in respect of the relevant transaction differs by more than 20 per cent. from the prices on similar transactions between two different counterparties conducted within a short period of time). Transfer pricing adjustments are also applicable to the trading of derivatives and securities. The Bank does not conduct transactions at off-market rates. There has been no formal guidance (although some court practice is already available) as to how these rules will be applied. As a result of such transfer-pricing adjustments, the tax authorities could impose significant additional tax liabilities on the Bank.

Management believes that it has provided adequately for tax liabilities in that it believes it has accounted for all applicable taxes and has paid these in full and on time. As a result, the Bank has not, therefore, made any provision in this respect. However, the relevant tax authority could take a different position and the effect on its Consolidated Financial Statements, if the tax authorities were successful in enforcing their position, could be significant.

Adoption of New or Revised Standards and Interpretations

There are no new or revised accounting standards or interpretations that will have an effect on the Bank’s operations and accounting policies for the years ending 31 December 2006 and 2007

New Accounting Pronouncements

There are no new or revised accounting standards or interpretations required to be incorporated into the Bank’s accounting policies for the years ending 31 December 2006 and 2007.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Bank’s financial statements.

Financial Performance

The following tables set out the Bank's results of operations for the six months ended 30 June 2006 and 2005, and for the years ended 31 December 2005 and 2004.

	Six month figures		Year end figures	
	30 June 2006	30 June 2005	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>			
Interest income	28,564	18,299	42,470	34,831
Interest expense.....	(15,699)	(7,337)	(19,915)	(10,590)
Net interest income	12,865	10,962	22,555	24,241
Reversal of provision/(provision) for credit impairment	(1,844)	(1,496)	3,802	(2,506)
Net interest income after provision for credit impairment	11,021	9,466	26,357	21,735
Fees and commissions income	8,890	5,495	17,113	10,332
Foreign exchange gains, net	2,611	405	726	1,524
Equity securities trading profits, net.....	299	—	—	609
Other operating income	641	373	1,026	950
Non interest income	12,441	6,273	18,865	13,415
Salaries and employment benefits.....	11,647	7,369	18,858	12,943
Administrative expenses.....	6,255	3,296	8,839	7,580
Fees and commissions expense	469	556	1,272	2,202
Depreciation and amortization.....	546	479	1,037	1,116
Contribution to the State deposit insurance system	255	98	280	—
Troubled debt restructuring.....	217	—	—	—
Other operating expenses.....	276	220	990	3,446
Non interest expense	19,665	12,018	30,996	27,287
Income before income taxes	3,797	3,721	14,226	7,863
Income taxes	(716)	(792)	(3,319)	(2,473)
Net income	3,081	2,929	10,907	5,390
Foreign currency transaction adjustments....	6,629	(3,258)	(3,637)	5,587
Other comprehensive (loss)/income	6,629	(3,258)	(3,637)	5,587
Comprehensive income	9,710	329	7,270	10,977

Net income

The Bank generated net income of U.S.\$3.1 million in the first six months of 2006, compared to net income of U.S.\$2.9 million in the first six months of 2005. For the year ended 31 December 2005, the Bank's net income increased by 102.4 per cent. to U.S.\$10.9 million from U.S.\$5.4 million in 2004. The increase was due primarily to an increase in lending and fee generating activity and a reduction in commission and operating expenses.

Net interest income

The amount of net interest income earned by the Bank is affected by a number of factors. It is primarily determined by the volume of interest-earning assets and interest-bearing liabilities, and the

difference between rates earned on interest-earning assets and paid on interest-bearing liabilities. Interest-earning assets comprise predominantly fixed rate loans to corporate clients and individuals, together with loans to banks and promissory notes with corporate and sovereign bonds. Although the Bank's most significant source of interest income for the six months ended 30 June 2006 and the year ending 31 December 2005 is from corporate loans, the Bank's medium term (i.e. three to five years) target is to increase the volume of SME and retail loans for better diversification of its interest earnings.

The following table sets out the principal components of the Bank's consolidated total interest income for the six months ended 30 June 2006 and 2005 and the years ended 31 December 2005 and 2004.

	30 June 2006	30 June 2005	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>			
Interest income				
Loans to customers.....	23,083	16,339	33,950	32,659
Due from credit institutions	685	173	741	229
Debt securities	4,796	1,787	7,779	1,943
Total interest income	28,564	18,299	42,470	34,831

The Bank's total interest income increased by U.S.\$10.3 million from U.S.\$18.3 million for the six months ended 30 June 2005 to U.S.\$28.6 million for the six months ended 30 June 2006. For the year ended 31 December 2005, total interest income increased by U.S.\$7.7 million from U.S.\$34.8 million for the year ended 31 December 2004 to U.S.\$42.5 million for the year ended 31 December 2005. This increase was due primarily to the increased interest income attributable to debt securities held by the Bank. Interest generated by debt securities increased by 300.4 per cent., or U.S.\$5.8 million, from U.S.\$1.9 million to U.S.\$7.8 million. This was in part due to a rise in the average effective interest rates for corporate promissory notes and Rouble-denominated bonds (from 7.0 per cent. during 2004 to 7.7 per cent. during 2005) – the Bank's portfolio of corporate promissory notes and bonds grew by U.S.\$50.0 million from U.S.\$21.5 million at 31 December 2004 to U.S.\$71.5 million as at 31 December 2005.

The Bank's total net loan portfolio increased by U.S.\$151.7 million from U.S.\$274.5 million at 31 December 2004 to U.S.\$426.2 million at 31 December 2005. At 30 June 2006, the Bank's total net loan portfolio amounted to U.S.\$517 million. The positive effect of the Bank's growing loan portfolio was partly offset by a decrease in the average effective interest rates for loans to customers in U.S. dollars and other foreign currencies (from 13.0 per cent. to 10.5 per cent. for U.S. dollars and from 7.5 per cent. to 4.1 per cent. for other currencies). However, the majority of the Bank's loan portfolio is in Russian roubles (72.1 per cent. as at 31 December 2005 and 71.6 per cent. as at 30 June 2006), the average effective interest rates for which rose from the 2004 level of 9.1 per cent. to 10 per cent. for 2005 and 11.0 per cent. as at 30 June 2006. The increase in the Bank's loan portfolio is attributable to further penetration of its target markets (for SME lending this is approximately U.S.\$25 million by the end of 2006 and for retail lending this is approximately U.S.\$135 million by the end of 2006) and the development of its auto loans business. As at 30 June 2006 the average effective interest rates for loans to customers in U.S. dollars was 10.8 per cent.

As at 31 December 2005, the Bank's gross loans and advances to customers totalled U.S.\$439.3 million, representing a 51.1 per cent. increase in the gross loan portfolio over the corresponding figure as at 31 December 2004. As at 30 June 2006, the Bank's gross loans to customers totalled U.S.\$520.3 million. The Bank's letters of credit portfolio turnover amounted to U.S.\$37.6 million as at 30 June 2006 compared to U.S.\$35.3 million as at 31 December 2005. The Bank's gross auto loans portfolio increased by 81.8 per cent. from U.S.\$42.2 million as at 31 December 2004 to U.S.\$76.7 million as at 31 December 2005. As at 30 June 2006, the Bank's gross auto loans portfolio amounted to U.S.\$96.1 million representing a 25 per cent. increase from the figure as at 31 December 2005.

The Bank's management anticipates further growth in interest income in 2006 from retail loans, as a result of the Bank's developing mortgage and auto loan portfolios and from corporate loans as result of further expansion of its lending to SMEs and wholesale/retail trading corporates. In the future, increased competition between existing and new mortgage providers may result in slower growth of the mortgage portfolio. Interest income includes loan-servicing fees that are considered to be an integral part of the overall profitability of a loan but some components of the fees are shown separately in the Bank's US GAAP financial statements under the heading "Commissions Income". These commissions are designed to compensate the Bank for its costs that result from the process of approving and granting loans and they are classified as commissions. Although the proportion of SME lending, auto loans, mortgages and small business lending made up 21 per cent. of the Bank's overall loan portfolio as at 31 December 2005, in 2006 the management of the Bank anticipates, subject to adverse interest rate fluctuations, a significant increase in the proportion that these revenues bear to its overall portfolio profit. However, increased competition in the Russian banking sector may negatively affect such growth projections.

For the year ended 31 December 2005, interest income earned on interbank deposits increased by U.S.\$512,000, from U.S.\$229,000 in 2004 to U.S.\$741,000 in 2005. This increase was due primarily to an increase in the average amount of short-term liquid funds that could be placed on the interbank market, an increase of average interest rates for loans denominated in U.S. dollars and Russian roubles and development of the Bank's correspondent network. For the six months ended 30 June 2006, interest income earned on interbank deposits amounted to U.S.\$685,000 compared with U.S.\$173,000 as at 30 June 2005. This increase was also due to an increase in the average amount of short-term liquid funds that could be placed on the interbank market and an increase of average interest rates as set out above.

As at 31 December 2005, the Bank's balance in cash and cash equivalents (including amounts due from credit institutions with original maturities of less than three months) was U.S.\$120.6 million, representing a 52.9 per cent. increase over the corresponding figure for the same period in 2004. This increase was due to the growth of the Bank's short-term liabilities accounts – the Bank's liabilities for terms of less than one month rose from U.S.\$138.8 million in 2004 to U.S.\$229.8 million in 2005. These factors resulted in an increase of U.S.\$22.3 million in cash on hand from 2004 to 2005, representing 53.5 per cent. of the total increase in cash and cash equivalents during that period. As at 30 June 2006, the Bank's balance in cash and cash equivalents (including amounts due from credit institutions with original maturities of less than three months) was U.S.\$69.5 million representing a 13.8 per cent. decrease as compared to 30 June 2005 this was a result of the decrease in the level of short-term interbank lending. The Bank's liabilities for terms of less than one month amounted to U.S.\$231.7 million as at 30 June 2006 and U.S.\$155 million as at 30 June 2005.

As part of its liquidity policy, the Bank engages in the trading of Russian securities. The Bank aims to invest in blue-chip securities for these purposes. The Bank's portfolio of trading securities increased from U.S.\$23 million as at 30 June 2005 to U.S.\$136 million as at 30 June 2006. This is due to the fact that the Bank uses these financial instruments to support liquidity. Furthermore, attracted funds (any funds received by the Bank on the international and local debt markets) are immediately invested in interest-bearing financial instruments for profitability reasons. Such trading securities are not included within cash and cash equivalents in the Bank's audited US GAAP financial statements.

Interest expense

Interest expense is principally comprised of amounts incurred by the Bank as interest on funding received from financial institutions and customers, on debt securities issued by the Bank, and the expenses arising on pricing spreads for the underlying securities of repurchase and reverse repurchase agreements.

The following table sets out the principal components of the Bank's consolidated interest expense for the six months ended 30 June 2006 and 2005 and the years ended 31 December 2005 and 2004.

	30 June 2006	30 June 2005	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>			
Interest expense				
Deposits by customers	(4,997)	(2,245)	(9,623)	(4,412)
Debt securities issued	(6,818)	(3,147)	(5,540)	(4,842)
Deposits by credit institutions	(3,884)	(1,945)	(4,752)	(1,336)
Total interest expense	(15,699)	(7,337)	(19,915)	(10,590)

For the year ended 31 December 2005, interest expense increased by U.S.\$9.3 million from U.S.\$10.6 million for the year ended 31 December 2004 to U.S.\$19.9 million for the year ended 31 December 2005. The increase in interest expense can be largely attributed to the growth in borrowings attracted by the Bank from retail, corporate and other financial institutions to fund its growing loan portfolio. During 2005, the Bank started to actively borrow funds from the international market. For the six months ended 30 June 2006, interest expense amounted to U.S.\$15.7 million, an increase of U.S.\$8.4 million from the figure of U.S.\$7.3 million for the six months ended 30 June 2005. This was due to the growth in interest bearing liabilities by 50 per cent. for the same period and increased share of higher-rate borrowings such as local bonds and notes and funding from foreign banks and financial institutions.

Deposits by customers increased by 82.5 per cent. (or U.S.\$103.6 million), from U.S.\$125.6 million as at 31 December 2004 to U.S.\$229.2 million as at 31 December 2005. Of this increase, 89.5 per cent. was due to Russian roubles denominated deposits, which gave rise to an interest rate increase to 3.2 per cent. (from 3.0 per cent. for 2004). As a result of these movements, interest expense incurred in respect of such customer deposits increased by 118.1 per cent. from 31 December 2004 to 31 December 2005. The average interest rates presented in the Bank's consolidated Financial Statements were effective as at the year end and not the average interest rates during the relevant years. At the year end there are typically large volumes of cash collection and delivery operations and this leads to significant growth in the Bank's account balances.

Deposits by customers increased by 25.7 per cent. (U.S.\$58.9 million) from U.S.\$229.2 million as at 31 December 2005 to U.S.\$288.1 million as at 30 June 2006. Of this increase 99.5 per cent. was due to Rouble-denominated deposits, which gave rise to an interest rate increase to 3.7 per cent. (from 3.2 per cent. for 2005). As a result of these movements, interest expense incurred in respect of such customer deposits increased by 3.9 per cent. from 31 December 2005 to 30 June 2006 on an annual basis.

Deposits by credit institutions increased by 192 per cent. (or U.S.\$95.3 million) from U.S.\$49.6 million as at 2004 to U.S.\$144.9 million as at 31 December 2005. Of this increase, 74.5 per cent. was derived from U.S. dollar denominated deposits, which gave rise to an interest rate increase to 7.1 per cent. (from 2.6 per cent. for 2004). This sharp interest rate rise resulted in an interest expense increase in respect of deposits by credit institutions of 255.7 per cent. from U.S.\$1.3 million as at 31 December 2004 to U.S.\$4.8 million as at 31 December 2005, contributing to the overall increase in interest expense incurred by the Bank from 31 December 2004 to 31 December 2005. As at 30 June 2006, deposits by credit institutions amounted to U.S.\$110.7 million which gave rise to an interest rate increase to 8.2 per cent. This resulted in an interest expense figure of U.S.\$3.9 million for the six months ended 30 June 2006 compared with an interest expense figure of U.S.\$1.9 million for the six months ended 30 June 2005.

At 30 June 2006 and 30 June 2005, the outstanding amount of syndicated loans attracted by the Bank was U.S.\$40 million. The Bank attracted long-term funding to re-finance its mortgage and

SME-lending programmes from the International Finance Corporation (“IFC”) and the European Bank for Reconstruction and Development (“EBRD”) respectively.

Interest Margin

The Bank’s overall net interest margin (net interest income before provision for loan impairment, as a percentage of average interest bearing assets) decreased from 6.7 per cent. in 2004 to 5.0 per cent. in 2005. The Bank’s overall interest margin (net interest income before provision for loan impairment, as a percentage of average interest bearing assets, on an annual basis) decreased from 6 per cent. for the six months ended 30 June 2005 to 4.1 per cent. for the six months ended 30 June 2006.

As at 31 December 2005 and 30 June 2006, the Bank’s average interest rates on Russian roubles denominated borrowings and U.S. dollar denominated borrowings were as follows:

	30 June 2006			31 December 2005			31 December 2004		
	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies	USD	RUB	Other foreign currencies
	<i>(per cent.)</i>								
Interest earning assets									
Due from credit institutions .	0.4	5.6	—	3.3	7.1	—	0.2	3.5	—
Government bonds	6.4	6.3	—	5.6	6.1	—	6.6	6.5	—
Corporate notes and municipal bonds.....	—	7.2	—	—	7.7	—	—	7.0	—
Loans to customers.....	10.8	11.0	5.9	10.5	10.0	4.1	13.0	9.1	7.5
Interest bearing liabilities									
Deposits by credit institutions	8.2	5.1	1.7	7.1	7.0	3.8	2.6	3.8	3.1
Deposits by customers	6.0	3.7	5.7	6.1	3.2	5.2	5.2	3.0	6.3
Debt securities issued.....	7.6	9.8	3.4	6.7	6.2	3.5	3.6	12.4	5.8

The above table summarises the effective interest rates by U.S. dollars, Russian roubles and other foreign currencies for major monetary financial instruments of the Bank for the six months ended 30 June 2006 and the years ended 31 December 2005 and 2004. The analysis has been prepared using period-end effective rates used for amortization of the respective assets/liabilities. The effective interest rate on a loan is calculated as the yield to maturity using the contractual cash flows of the loan, which includes annuity interest payments and loan servicing fees. The sign “—” in the table means that there are no respective assets or liabilities in the corresponding currencies.

Provisions for loan impairment

Following the recovery of U.S.\$3.1 million during the year ended 31 December 2005, the overall amount of provisioning for loan impairment decreased from U.S.\$16.2 million for the year ended 31 December 2004 to U.S.\$13.1 million for the year ended 31 December 2005. The levels of provisions for loan impairment as a percentage of the Bank’s gross loan portfolio has been decreasing steadily from 31 December 2004. As at 31 December 2004, it amounted to 5.6 per cent. of the Bank’s gross loan portfolio. As at 31 December 2005 and 30 June 2006, it amounted to 3.0 per cent. and 0.7 per cent., respectively, of the Bank’s gross loan portfolio.

Fee and commission income

Fee and commission income is primarily comprised of commissions generated by the Bank’s settlement transactions and cash operations. A significant part of the Bank’s fee and commission income is made up of cash collection and delivery operations, which are included in “cash operations”. Operations with plastic cards, income from lending and factoring operations, which are included under the heading “other” also make a significant contribution to fee and commission

income. The remainder of fee and commission income predominantly results from fees charged for the issuance of letters of credit and guarantees (and for business introduction in 2005).

The following table sets out the principal components of the Bank's fee and commission income for the six months ended 30 June 2006 and 2005 and the years ended 31 December 2005 and 2004.

	30 June 2006	30 June 2005	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>			
Fee and commission income				
Settlements and wire transfers	1,840	1,483	5,280	3,858
Cash operations.....	3,584	1,879	2,938	2,474
Business introduction	—	—	1,784	—
Guarantees and letters of credit issued	1,972	1,207	993	2,040
Other	1,494	926	6,118	1,960
Total fee and commission income.....	8,890	5,495	17,113	10,332

The amount of fees and commissions generated from the origination of bank guarantees and the issuance of letters of credit decreased by U.S.\$1.1 million from U.S.\$2.0 million for the year ended 31 December 2004 to U.S.\$993,000 for the year ended 31 December 2005. This was due to a decrease of U.S.\$4.1 million in the Bank's activities in respect of the issuing of letters of credit and guarantees from U.S.\$18.8 million for the year ended 31 December 2004 to U.S.\$14.7 million for the year ended 31 December 2005. The amount of fees and commissions generated from the origination of bank guarantees and the issuance of letters of credit increased by U.S.\$800,000 from U.S.\$1.2 million for the six months ended 30 June 2005 to U.S.\$2.0 million for the six months ended 30 June 2006.

Fee and commission income increased by U.S.\$6.8 million to U.S.\$17.1 million for the year ended 31 December 2005 from U.S.\$10.3 million for the year ended 31 December 2004. The major component of this increase in fee and commission income was commissions on "Other", which includes income derived from the Bank's cash collection activities, lending, factoring and plastic card operations. These commissions increased by U.S.\$4.2 million to U.S.\$6.1 million for the year ended 31 December 2005, from U.S.\$2.0 million for the year ended 31 December 2004. This increase was primarily caused by an increased level of activity in the Bank's lendings, factoring and plastic cards operations and the income that such activities generated. Fee and commission income increased by U.S.\$3.4 million from U.S.\$5.5 million for the six months ended 30 June 2005 to U.S.\$8.9 million for the six months ended 30 June 2006. "Other" commissions increased by U.S.\$568,000 from U.S.\$926,000 for the six months ended 30 June 2005 to U.S.\$1,494,000 for the six months ended 30 June 2006. Again, this increase can be explained by the increased level of the Bank's operations in the areas of cash collection and delivery which amounted to U.S.\$3.3 million for the six months ended 30 June 2006 and U.S.\$1.7 million for the six months ended 30 June 2005. Similarly, the amount of fees and commissions generated from lending and factoring operations grew from U.S.\$636,000 for the six months ended 30 June 2005 to U.S.\$1.1 million for the six months ended 30 June 2006.

The increase in commissions on cash operations from U.S.\$2.5 million for the year ended 31 December 2004 to U.S.\$2.9 for the year ended 31 December 2005 was primarily driven by the expansion of, and increased activity in, the Bank's cash collection and delivery services. Fees and commissions generated by the Bank from business introduction services contributed U.S.\$1.8 million for the year ended 31 December 2005 as the Bank started operations in this area. Management is of the opinion that this area of activity will be reduced and cut out of the Bank's operations in the near future, as it is not seen to be core to the Bank's principal business operations.

Fee and Commission Expense

For the year ended 31 December 2005, fee and commission expense decreased by U.S.\$930,000 to U.S.\$1.3 million, compared to U.S.\$2.2 million for the year ended 31 December 2004. This decrease was largely a corollary of the decrease in the Bank's issuing of letters of credit and

guarantees. Fee and commission expense decreased by U.S.\$87,000 from U.S.\$556,000 for the six months ended 30 June 2005 to U.S.\$469,000 for the six months ended 30 June 2006. The decrease can be partly explained by the Bank's costs in the first six months of 2005, which arose in connection with the Bank's conclusion of financing agreements with the IFC, some of these costs (including legal fees and due diligence costs) were included as expenses under "Fee and commission expense".

Net gains from trading securities

Despite posting a net profit of U.S.\$609,000 in 2004 in respect of operations with equity securities, the Bank did not engage in any share trading in 2005. This was in line with the conservative policy that the Bank has adopted in relation to investing in and trading on the equity markets in the Russian Federation. However, the Bank achieved an increase of U.S.\$176,000 in respect of net securities trading profits (including other operating income), from U.S.\$850,000 for the year ended 31 December 2004 to U.S.\$1.0 million for the year ended 31 December 2005. Following a period during which the Bank did not engage in share trading in 2005 (due to its perception of the high level of market risk and conservative attitude towards risk), for the six months ended 30 June 2006 the Bank made a net profit of U.S.\$299,000 in respect of operations with equity securities. The Bank also achieved an increase of U.S.\$299,000 in respect of net securities trading profits, from U.S.\$0 for the six months ended 30 June 2005 to U.S.\$299,000 for the six months ended 30 June 2006. The figure of U.S.\$0 for the six months ended 30 June 2005 is representative of the fact that the Bank was not involved in share trading prior to 2006.

Net gains from trading in foreign currencies

The Bank is an active participant in the Russian foreign exchange market and provides operations in trading with all major currencies. Total net gains from foreign exchange trading for the year ended 31 December 2005 were U.S.\$726,000. This was a decrease of U.S.\$798,000 from the year ended 31 December 2004. The Bank's total net gains from foreign exchange trading reflects the year-end result of the Bank's currency trading position, as well as the revaluation (at official CBR rates) of any of the Bank's assets that are held in foreign currencies. Accordingly, the Bank's total net gains from foreign exchange trading are dependent, to a certain extent, on adverse fluctuations in the U.S. dollar / Russian rouble exchange rate at the year end. Total net gains from foreign exchange trading for the six months ended 30 June 2006 were U.S.\$2.6 million. This was an increase of U.S.\$2.2 million from the gains for the six months ended 30 June 2005. The Bank hedges its foreign currency position daily and foreign currency translation adjustments are reflected in "Foreign exchange gains" in the Bank's financial statements. The increase mentioned above reflects partly the changes in the Rouble/US dollar exchange rate.

Foreign currency translation adjustments

For the year ended 31 December 2005, the Bank incurred net foreign currency translation adjustment losses of U.S.\$3.6 million, compared with a net gain of U.S.\$5.6 million for the year ended 31 December 2004. For the six months ended 30 June 2005, the Bank incurred net foreign currency translation adjustment losses of U.S.\$3.3 million, compared with a net gain of U.S.\$6.6 million for the six months ended 30 June 2006.

Employment-related, Administrative and Other Operating Expenses

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

The following table sets out the principal components of the Bank's administrative and other operating expenses for the six months ended 30 June 2006 and 2005, and the years ended 31 December 2005 and 2004.

	30 June 2006	30 June 2005	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>			
Salaries	9,845	6,696	17,091	12,053
Social security costs	1,791	672	1,755	890
Other	11	—	12	—
Salaries and employment benefits.....	11,647	7,368	18,858	12,943
Occupancy	1,915	1,372	3,184	3,165
Operating taxes	1,029	588	1,826	1,442
Business development.....	855	347	1,348	1,309
Communications	409	317	730	729
Transport	519	245	629	426
Security.....	606	102	408	178
Other	922	325	714	331
Administrative expenses	6,255	3,296	8,839	7,580

Salaries and employment benefits

The entry in respect of “Salaries” in the Bank's financial statements comprises amounts expended on both salaries and bonuses for the Bank's employees. For the year ended 31 December 2005, salaries increased by U.S.\$5.0 million to U.S.\$17.1 million, as compared to U.S.\$12.1 million for the year ended 31 December 2004. This was primarily due to an increase in the number of employees as a result of increased activity in the Bank's operations and due to expansion, and a general increase in salary levels. The Bank employed 1,405 persons as at 30 June 2006, compared to 1319 as at 31 December 2005 and 1193 as at 31 December 2004. Salaries of the Bank's employees increased by U.S.\$3.1 million from U.S.\$6.7 million for the six months ended 30 June 2005 to U.S.\$9.8 million for the six months ended 30 June 2006. Expenses in respect of social security costs rose from U.S.\$890,000 for the year ended 2004 to U.S.\$1.8 million for the year ended 2005. Expenses in respect of social security costs also rose from U.S.\$672,000 for the six months ended 30 June 2005 to U.S.\$1.8 million for the six months ended 30 June 2006. The changes in the salaries and social security costs reflect the changes in the Bank's salary structure for employees, in particular in respect of fixed salaries and premium wages. The Bank does not have pension arrangements aside from the State pension of the Russian Federation. The Russian Federation pension system requires contributions from the Bank in respect of its employees, calculated as a percentage of current gross salary payments. This expense is charged to the income statement in the period to which the relevant amount is earned by the employee. The Bank does not have any stock option plans for its employees.

Operating Taxes

Taxes other than on income increased from U.S.\$1.4 million for the year ended 31 December 2004 to U.S.\$1.8 million for the year ended 31 December 2005 and from US\$588,000 for the six months ended 30 June 2005 to US\$1,029,000 for the six months ended 30 June 2006. Operating taxes include value added tax (“VAT”), property tax and tax on advertising.

Business Development

Business development expenses increased marginally by U.S.\$39,000 from U.S.\$1.3 million for the year ended 31 December 2004 to U.S.\$1.3 million for the year ended 31 December 2005 and by U.S.\$508,000 from U.S.\$347,000 for the six months ended 30 June 2005 to U.S.\$855,000 for the six months ended 30 June 2006. Such expenses are primarily marketing expenses. The Bank conducts

marketing programmes, particularly bill-boards, advertising on the underground and various other forms of mass media such as magazines and newspapers. The Bank intends to continue with such advertising mediums in the future and has no plans to commence marketing campaigns via television advertising, as a result of the increased costs involved.

Depreciation and amortisation

For the year ended 31 December 2005, the expense of depreciation and amortisation of property and equipment decreased by U.S.\$79,000 to U.S.\$1.0 million, compared to U.S.\$1.1 million for the year ended 31 December 2004. For the six months ended 30 June 2006, the expense of depreciation and amortisation of property and equipment increased by U.S.\$67,000 to U.S.\$546,000 from U.S.\$479,000 for the six months ended 30 June 2005. Property and equipment are recorded at historical cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost on a straight-line basis over the estimated useful economic lives of the assets using the rates as indicated above in “*Critical Accounting Policies, Estimates and Judgments in applying accounting policies*”.

The Bank accounts for long-lived assets in accordance with SFAS No. 144 *Accounting for the Impairment or Disposal of Long-lived Assets* as described above in “*Critical Accounting Policies, Estimates and Judgments in applying accounting policies*”.

Income Tax Expense

The Bank’s income tax expenses (current and deferred) amounted to U.S.\$2.5 million for the year ended 31 December 2004, compared to U.S.\$3.3 million for the year ended 31 December 2005. For the six months ended 30 June 2006, the Bank’s income tax expenses amounted to U.S.\$716,000 compared with U.S.\$792,000 for the six months ended 30 June 2005. The statutory rate of Russian federal and regional taxation applicable to the Bank in both periods was 24 per cent. Net non-deductible costs for taxation purposes comprised U.S.\$61,000 and U.S.\$623,000 in the years ended 31 December 2005 and 31 December 2004, respectively. Net non-deductible costs for taxation purposes comprised U.S.\$51,000 for the six months ended 30 June 2005 and U.S.\$68,000 for the six months ended 30 June 2006.

Analysis of the Consolidated Balance Sheets as at 31 December 2005 and 2004

	30 June 2006	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>		
Assets			
Cash and due from Central Bank.....	50,430	78,546	48,363
Due from Credit institutions, net	32,696	52,078	37,053
Trading Securities	136,228	87,211	32,711
Loans to customers, net.....	516,715	426,226	274,517
Property and equipment	4,104	3,556	3,430
Other assets	6,982	6,490	3,470
Total assets.....	747,155	654,107	399,544
Liabilities			
Deposits by credit liabilities.....	110,713	144,854	49,604
Deposits by customers	288,143	229,160	125,564
Debt securities issued	191,604	164,195	119,810
Income tax liabilities	9,893	10,021	7,378
Provisions, accruals and other liabilities.....	4,654	3,157	1,738
	605,007	551,387	304,094

	30 June 2006	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>		
Stockholders' equity			
Common stock	93,658	63,940	23,340
Additional paid-in capital	6,612	6,612	47,212
Retained earnings	27,665	24,584	13,677
Other comprehensive income – cumulative translation adjustment	14,213	7,584	11,221
Total shareholders' equity	142,148	102,720	95,450
Total liabilities and shareholders' equity	747,155	654,107	399,544

Total Assets

As at 31 December 2005, the Bank had total assets of U.S.\$654.1 representing a 63.7 per cent., or U.S.\$254.6 million increase in total assets, as compared to total assets of U.S.\$399.5 million as at 31 December 2004. The increase in total assets was mainly driven by the growth of loans and advances to customers funded by the increase of customer accounts and funds attracted from other banks and debt securities issued. Below is an analysis of changes in the major asset categories during the period from 31 December 2004 to 31 December 2005. As at 30 June 2006, the Bank had total assets of U.S.\$747.2 million compared to U.S.\$654.1 million as at 31 December 2005. This increase was due to the expansion of lending to corporate and retail customers.

Cash and amounts due from the CBR

As at 31 December 2005, the Bank had cash, and amounts due from the CBR of U.S.\$78.5 million, representing an increase of U.S.\$48.4 million from the corresponding figure as at 31 December 2004. The primary reason for this increase was as a result of an increase in cash on hand from U.S.\$11.7 million as at 31 December 2004 to U.S.\$34.0 million as at 31 December 2005, the reasons for which are explained at “*Financial Performance – Net interest income*” above. As at 30 June 2006, the Bank had cash and amounts due from the CBR of U.S.\$50.4 million compared with U.S.\$78.5 million as at 31 December 2005, representing a decrease of U.S.\$28.1 million. As at 31 December 2005, the Bank had cash balances with the CBR (other than mandatory reserve deposits) of U.S.\$34.5 million, representing a decrease of U.S.\$4.4 million from the corresponding figure as at 31 December 2004. As at 30 June 2006, the Bank had cash balances with the CBR (other than mandatory reserve deposits) of U.S.\$22.1 million, representing an increase of U.S.\$12.4 million from the figure as at 31 December 2005. The Bank's correspondent account with the CBR represents balances held with the CBR related to settlement activity and was available for withdrawal at period end.

Amounts due from other credit institutions.

As at 31 December 2005, the total amount of deposits due from other credit institutions was U.S.\$52.1 million, which were comprised of 88.8 per cent., or U.S.\$46.2 million of term deposits and U.S.\$5.8 million of current accounts. The entire amount of deposits due from other credit institutions were for terms of less than one month. As at 31 December 2005, there were two credit institutions whose balances owed to the Bank exceeded 10 per cent. of the Bank's equity, the gross value of such aggregated balances as at 31 December 2005 amounted to U.S.\$31.2 million, as compared to U.S.\$21.6 million as at 31 December 2004 (during which financial year such balances were also due from two credit institutions). As at 30 June 2006, there were no banks whose deposits balances exceeded 10 per cent. of equity. As at 30 June 2006, the total amount of deposits due from other credit institutions was U.S.\$32.7 million, which were comprised of 67.3 per cent. or U.S.\$22 million of time/term deposits and U.S.\$10.7 million of current accounts. The entire amount of deposits due from other credit institutions were for terms of less than one month.

Loans and advances to customers

As at 31 December 2005, loans and advances to customers (net of provisions for loan impairment) amounted to U.S.\$426.2 million, representing a 55.3 per cent. (or U.S.\$151.7 million) increase over the corresponding figure as at 31 December 2004. This increase is attributable to the growth of the Bank's gross loan portfolio, wherein corporate loans (including small business loans) grew by 51.6 per cent. or U.S.\$121.6 million and the retail portfolio grew by 48.9 per cent. or U.S.\$27.0 million. As at 30 June 2006, loans and advances to customers (net provisions for loan impairment) amounted to U.S.\$516.7 million. This increase of 21.2 per cent. (U.S.\$90.5 million), from U.S.\$426.2 million as at 31 December 2005 represented mainly by the increase in consumer loans and loans to small and medium entities is a result of the Bank's strict adherence to its strategy.

Trading securities

As at 31 December 2005, the Bank held U.S.\$87.2 million of trading securities, all of which were debt instruments. The equivalent figure as at 31 December 2004 was U.S.\$32.7 million and as at 30 June 2006 the equivalent figure was U.S.\$136.2 million. The amounts provided for trading securities are calculated by reference to "fair value" prices (based on quoted market prices for those or similar instruments) of the total securities held by the Bank as at 31 December 2005, 82.0 per cent. were made up of corporate promissory notes and bonds, with the remaining 11.1 per cent. and 6.9 per cent. represented by fixed income Russian Government debt securities and municipal bonds respectively. Both corporate and municipal securities bore an average effective interest rate of 7.7 per cent., whereas government securities bore an average effective interest rate of 6.1 per cent. for securities denominated in Roubles and 5.6 per cent. for securities denominated in US dollars. Of the total securities held by the Bank as at 30 June 2006, 71.2 per cent. were made up of Russian corporate promissory notes and bonds, 9.3 per cent. were made up of Russian Government debt securities, 17.9 per cent. were made up of municipal bonds and the remaining 1.6 per cent. were made up of equity securities. Both corporate and municipal bonds bore an average effective interest rate of 7.2 per cent. whereas government securities bore an average effective interest rate of 6.3 per cent. for securities denominated in Roubles and 6.4 per cent. for securities denominated in US dollars.

Property and equipment

The Bank's net values for property and equipment after accumulated depreciation were U.S.\$3.6 million as at 31 December 2005, and U.S.\$3.4 million as at 31 December 2005. As at 30 June 2006, the Bank's net values for property and equipment after accumulated depreciation were U.S.\$4.1 million.

Total Liabilities and Shareholders' Equity

Debt securities in issue

Debt securities issued by the Bank as at 31 December 2005 amounted to U.S.\$164.2 million, representing an increase of U.S.\$44.4 million over the corresponding figure as at 31 December 2004. This increase is due primarily to the placement in April 2005 of the Bank's RUB500 million domestic bond issue (equivalent to approximately U.S.\$17.4 million) and further drawdowns under the Bank's RUB1 billion promissory note programme (equivalent to approximately U.S.\$35 million), under which the Bank can issue Rouble- and foreign currency-denominated promissory notes with maturities ranging from 3-12 months. Debt securities issued by the Bank as at 30 June 2006 amounted to U.S.\$191.6 million representing an increase of U.S.\$27.4 million from the figure as at 31 December 2005. This increase reflects the Bank's second rouble-denominated bond, which was issued in June 2006 in the amount of RUB 1 billion (approximately U.S.\$37.2 million).

Deposits from customers

As at 31 December 2005, deposits from customers had grown by 82.5 per cent. from the corresponding amount for 2004, or by U.S.\$103.6 million to U.S.\$229.2 million as compared to U.S.\$125.6 million as at 31 December 2004. This increase was primarily attributable to the growth of deposits of corporate clients by 90.9 per cent. from U.S.\$75.2 million as at 31 December 2004 to U.S.\$143.6 million as at 31 December 2005 and term deposits by private individuals from U.S.\$50.4 million as at 31 December 2004 to U.S.\$85.6 million as at 31 December 2005. The Bank anticipates

continued increase in the volume of its customer accounts due to increased brand awareness and an increased presence in Moscow and the Moscow region as a result of branch expansion. As at 31 December 2005, 31 December 2004 and 30 June 2006, there were no on demand or term deposits from customers which individually exceeded 10 per cent. of the Bank's equity. As at 30 June 2006, deposits from customers amounted to U.S.\$288.1 million compared to U.S.\$229.2 million as at 31 December 2005.

Deposits by credit institutions

Deposits and balances due to other credit institutions totalled U.S.\$144.9 million as at 31 December 2005, representing an increase of U.S.\$95.3 million or 192.0 per cent. from the corresponding figure as at 31 December 2004. The main contributing factor to this increase was the increase in term deposits by credit institutions, which rose by 197.2 per cent. or U.S.\$95.1 million, from U.S.\$48.3 million as at 31 December 2004 to U.S.\$143.4 million as at 31 December 2005, included in which was an international syndicated loan for U.S.\$40 million, issued to the Bank in September 2005. As at 30 June 2006, deposits and balances due to other credit institutions totalled U.S.\$110.7 million representing a 23.6 per cent. decrease from U.S.\$144.9 million as at 31 December 2005.

As at 31 December 2005, the Bank had deposits from two banks (as compared to three banks as at 31 December 2004), whose values exceeded 10 per cent. of the Bank's equity, the aggregated value of which was U.S.\$30.4 million (as compared to U.S.\$38.9 million as at 31 December 2004), both of which were term deposits. As at 30 June 2006, there were no banks whose deposits' balances exceeded 10 per cent. of equity.

Shareholders' equity

As at 31 December 2005, total shareholders' equity amounted to U.S.\$102.8 million, representing an increase of U.S.\$7.3 million over the corresponding figure as at 31 December 2004. This increase was caused primarily by the increase in earnings retained by the Bank, which rose from U.S.\$13.7 million as at the year ended 31 December 2004 to U.S.\$24.6 million as at the year ended 31 December 2005. As at 30 June 2006, total shareholders' equity amounted to U.S.\$142.1 million, representing an increase of U.S.\$39 million over the corresponding figure as at 31 December 2005. During this period the earnings retained by the Bank rose to U.S.\$27.7 million from U.S.\$24.6 million as at 31 December 2005.

Contingencies and Commitments

The Bank's principal off-balance sheet commitments are comprised of undrawn loan commitments and letters of credit and guarantees. As at 31 December 2005, its outstanding commitments in these areas were as follows: undrawn loan commitments – U.S.\$11.9 million, and letters of credit and guarantees – U.S.\$14.7 million. The equivalent figures as at 31 December 2004 were U.S.\$3.7 million for undrawn loan commitments and U.S.\$18.8 million for letters of credit and guarantees. As at 30 June 2006, the Bank's outstanding commitments were as follows: undrawn loan commitments U.S.\$9.5 million, letters of credit U.S.\$20.2 million and guarantees U.S.\$6.5 million.

Capital Adequacy and Liquidity

The Bank is required to comply with the capital adequacy guidelines promulgated by the CBR. These guidelines require the Bank to maintain a minimum 10 per cent. level of regulatory capital against risk-weighted assets and off-balance sheet exposure. The Bank's capital ratios are in full compliance with the requirements established by the CBR. The Bank's risk-based capital adequacy ratio as at 31 December 2005 was 19 per cent., compared to 28 per cent. as at 31 December 2004. Over the last three years, the Bank's equity grew by 22 per cent. in absolute figures (from U.S.\$84.4 million as at 31 December 2003 to U.S.\$102.7 million as at 31 December 2005), but decreased as a percentage of liabilities as a result of the increase in, and diversification of, the Bank's funding base. The Bank's risk-based capital adequacy ratio as at 30 June 2006 was 21 per cent. which exceeds the minimum ratio of 8 per cent. recommended by the Basle Accord. The Bank's equity also grew in absolute figures to U.S.\$142.1 million as at 30 June 2006.

The following table sets forth Credit Bank of Moscow's compliance with the CBR's capital adequacy, liquidity and exposure ratios as at the six months ended 30 June 2006, and the years ended 31 December 2005 and 2004.

		Mandatory ratio	Actual ratios		
Ratios:			30 June 2006	31 December 2005	31 December 2004
			<i>(per cent.)</i>		
N1	Capital adequacy.....	> 10	17.7	14.9	24
N2	Quick liquidity	> 15	33.3	62.5	61.8
N3	Current liquidity	> 50	58.8	76.7	72.5
N4	Long-term liquidity.....	< 120	60.5	62.9	58.5
N5	General liquidity ⁽¹⁾	> 20	—	—	24.8
N6	Exposure to a single borrower.....	< 25	21.5	20.2	13.4
N7	Maximum large credit risk	< 800	140.9	207.0	112.5
N9.1	Maximum exposure to shareholders	< 50	0	0.0	0
N10.1	Aggregate exposure to shareholders	< 3	1	0.9	1.7
N12	Equity interest in third parties.....	< 25	0	0.0	0

⁽¹⁾ The general liquidity ratio was abolished after 2004.

The Bank also complies with the Bank Capital Accord standards established by the Bank for International Settlements (“BIS”). In accordance with the Bank Capital Accord standards, banks should maintain a total capital ratio in excess of 8 per cent. The Bank's medium-term minimum target BIS capital adequacy ratio is 15 per cent.

The following table sets forth the Bank's capital base, based on Basle Capital Accord Standards, for the six months ended 30 June 2006, and the years ended 31 December 2005 and 2004.

	30 June 2006	31 December 2005	31 December 2004
	<i>(In U.S. thousands, unless stated otherwise)</i>		
Tier 1 Capital			
Share capital.....	93,658	63,940	23,340
Share premium	6,612	6,612	47,212
Retained earnings	27,665	24,584	13,677
Cumulative translation adjustment	14,213	7,584	11,221
Total Tier 1 Capital.....	142,148	102,720	95,450
Tier 2 Capital			
Subordinated Deposits	—	—	—
General reserve.....	—	—	7,559
Total Tier 2 Capital.....	0	0	7,559
Subtotal.....	142,148	102,720	103,009
Total capital.....	142,148	102,720	103,009
Capital Adequacy Ratio			
Risk Adjusted Weighted Assets	692,936	564,274	374,915
Total capital.....	142,148	102,720	103,009
Tier I capital adequacy ratio (%)	20.51%	18.20%	25.46%
Total capital adequacy ratio (%).....	20.51%	18.20%	27.48%

Subsequent Events

The Bank is not aware of any recent events that may negatively impact on its solvency.

BUSINESS OF THE GROUP

Description of the Bank's Business

Business Overview

Established in 1992, Credit Bank of Moscow was created as a result of the restructuring of commercial bank "Credit Bank of Moscow" (limited liability company) ("**LLC Credit Bank of Moscow**"). LLC Credit Bank of Moscow was itself created as a result of the restructuring of Joint-Stock Commercial Bank "Credit Bank of Moscow" ("**JSCB Credit Bank of Moscow**").

Credit Bank of Moscow is a universal bank headquartered in Moscow with a branch network covering Moscow and the Moscow region. Its principal business activities are focused on SME lending, consumer lending, trade finance, mortgage lending and car finance, as well as providing credit card services, foreign exchange operations, brokerage services, corporate and trade finance and cash management.

As at 30 June 2006, the Bank's total assets amounted to U.S.\$747.2 million, with U.S.\$142.1 million of total equity. The Bank's net income for the year ended 31 December 2004 amounted to U.S.\$5.4 million and for the year ended 31 December 2005 amounted to U.S.\$10.9 million. The Bank's net income for the six months ended 30 June 2006 amounted to US\$3.1 million compared with US\$2.9 million for the six months ended 30 June 2005. In 2005, the Bank's return on equity was 11.0 per cent. (calculated as a ratio of net profit to average shareholders' equity). The Bank's Tier 1 BIS capital adequacy ratio was 18.2 per cent. and total BIS capital adequacy ratio was 19.4 per cent. The Bank's return on Tier 1 BIS capital for the year ended 31 December 2005 (calculated as a ratio of net profit to average Tier 1 BIS capital) was 11 per cent. As at 30 June 2006, the Bank's Tier 1 BIS capital adequacy ratio and total capital adequacy ratio was 20.51 per cent. The Bank's return on Tier 1 BIS Capital was 5.03 per cent. as at 30 June 2006. According to "Profile" magazine, the Bank ranked 31st among Russian banks in terms of stability as at 1 October 2005. The Bank was also ranked 53rd in terms of the size of its loan portfolio and 57th by total assets by RBK-Rating in July 2005.

The Bank is ultimately controlled by Mr Roman Avdeev.

The Bank provides trade finance services to small and medium-sized businesses in Russia, and was the first Russian bank after the 1998 crisis to be recognised as a partner for the credit export agency Euler Hermes with Commerzbank granting it an 8.5-year credit line to finance its customers' long-term projects. The Bank has also built strong relationships with a number of export credit agencies ("**ECAs**") around the world (see "*Corporate Banking – Trade Finance*"), which enables it to provide long-term capital goods financing to its customers. In 2005, the Bank joined the Trade Facilitation Programme of the European Bank for Reconstruction and Development (the "**EBRD**"), which greatly enhanced its trade finance capacity. During 2005, the Bank financed over 77 trade finance transactions for its customers by way of guarantees, letters of credit, pre-export financing and forfeiting, and its trade finance portfolio amounted to U.S.\$104.7 million, which represented an increase of 65.8 per cent. from the corresponding amount for 2004. Since January 2003, the total amount of these guaranteed loans exceeds U.S.\$200 million.

The Bank operates principally in Moscow, as well as the Moscow region, where, as at 6 September 2006, it had 14 full-scale branches, seven outlets, 16 cash offices and six currency exchange offices. The Bank plans to open up to 50 new offices in Moscow and the Moscow region by the end of 2007.

The Bank has a diversified client portfolio (with limited concentration in any one sector or industry group containing consumer concentrations), which is developing with the aim of satisfying the growing needs of the affluent population of the Moscow region. As a result, the Bank has evolved into a diversified bank, which provides a wide range of services to both legal entities and individuals on the domestic and international financial markets. At 1 August, the Bank has over 60,000 customer accounts, comprised of more than 45,000 individuals (of which more than 10,000 have deposits with the Bank, and 35,000 have taken out plastic cards through the Bank), and 15,000 legal entities.

In the retail banking sector, the Bank specialises in consumer credit and residential mortgages. The Bank's conservative approach to its banking activities meant that, at the time of the Russian economic crisis in August 1998, its liquidity was relatively high and protected the Bank against the constriction in the liquidity of the Russian banking sector that stemmed from the 1998 Russian economic crisis. As at 30 June 2006, approximately 42 per cent. of the Bank's customer deposits are sourced from the retail sector, which accounts for 19.9 per cent. of the Bank's total liabilities. As at 31 August 2006, approximately 45 per cent. of the Bank's customer deposits were sourced from the retail sector, which accounts for 19.5 per cent. of the Bank's total liabilities.

Car finance is one of the most important areas of focus for the Bank, with its portfolio growing from U.S.\$42.2 million as at 31 December 2004 to U.S.\$76.7 million as at 31 December 2005. At 30 June 2006, the Bank's car loan portfolio amounted to U.S.\$96.1 million. The Bank has arrangements with more than 300 car dealerships in the Moscow region for the provision of consumer car finance at the point of sale. In June 2005, the news agency RosBusinessConsulting published a report on its website <http://www.rbcnews.com> ranked the Bank 3rd amongst the largest Russian banks in terms of the size of car loan portfolios.

The Bank raises finance on the European syndicated loan market. Its debut syndicated loan, arranged by Bank Gesellschaft Berlin AG ("**BGB AG**") in 2003 was over-subscribed by 40 per cent. and raised U.S.\$14,000,000. In January 2005, the Bank raised U.S.\$10,000,000 in a syndicated loan arranged by Commerzbank AG ("**Commerzbank**"). On 19 September 2005, the Bank raised a further U.S.\$40,000,000 in a one-year syndicated loan arranged by BGB, Commerzbank and Standard Bank Plc, which was over-subscribed by 60 per cent. On 2 August 2006, the Bank raised U.S.\$20,000,000 under a syndicated loan with a tenor of one year, backed by car loan receivables and arranged by Standard Bank Plc and ZAO Standard Bank.

On 25 April 2005, the Bank issued its first domestic rouble bond amounting to RUB500 million (equivalent to approximately U.S.\$17.4 million). Interest is payable quarterly at 11.5 per cent. for the first year and at 10.5 per cent. for the second year, with the issue maturing on 25 April 2007. The Bank made a second bond issue amounting to RUB1 billion maturing in 2009 (equivalent to approximately U.S.\$37.2 million) on 8 June 2006. Interest on this bond is payable semi-annually at a rate of 10.4 per cent. per annum.

The Bank maintains its accounting records in Russian roubles and prepares its statutory financial statements in accordance with Russian Accounting Regulations ("**RAR**"). To satisfy the requirements of the Central Bank of the Russian Federation (the "**CBR**"), the Bank provides the CBR with financial statements prepared in accordance with International Financial Reporting Standards ("**IFRS**") in a format prescribed by the CBR. It also prepares financial statements in accordance with U.S. Generally Accepted Accounting Principles ("**U.S. GAAP**"). The Bank's management has elected to use the U.S. dollar as the reporting currency in its U.S. Generally Accepted Accounting Principles ("**U.S. GAAP**") financial statements.

The Bank's financial statements as of and for the six months ended 30 June 2006 and as of and for the years ended 31 December 2005 and 31 December 2004 (included in this Prospectus) have been prepared in accordance with U.S. GAAP and audited or reviewed (as the case may be) by KPMG, independent accountants, as stated in their reports appearing herein.

The Bank's Ratings, Licences and Memberships

The Bank was first rated by Moody's in September 2003. In October 2005, Moody's confirmed its current rating of Long-term "B1" and "E+" Financial Strength Rating with a stable outlook.

The Bank was first rated by Fitch in September 2004. In September 2006, Fitch confirmed its ratings for the Bank as Long-term "B-", Short-term "B", with a positive outlook.

The Bank is organised as an open joint-stock company under the laws of the Russian Federation with its registered office at 4 Marshala Rybalko Street, Moscow 123060, Russian Federation and with telephone number 7 (495) 795 0211. The Bank operates under general banking licence No.1978 of the CBR. The Bank also holds licences issued by the Federal Service for Financial Markets, allowing it to carry out operations on the securities market together with all other licences

and permissions it considers necessary for its operations. The Bank also has a stock exchange licence and a licence to deal in precious metals.

The Bank is registered with the Unified State Register of Legal Entities with the Ministry of Taxes and Levies of the Russian Federation under the registration number 1027739555282.

Strategy

The Bank's mission is to develop into the most efficient and stable universal bank in Russia and be the leader in providing financial products and services to small and medium-sized businesses and private individuals.

Strategic Goals and Objectives

The Bank seeks to develop its positions in the Russian banking market as a universal financial institution providing the whole range of banking and financial services to retail customers, SMEs and corporate clients. In order to achieve this objective, the Bank is firmly committed to realising its strategy on the development of the following core businesses:

- Lending to corporate clients

The Bank intends to further develop its partnerships with clients within its core client base. Many of the clients in the Bank's core client base are the major Moscow-based wholesale and retail trading companies, some of which possess advanced distribution networks and operate across various sectors including consumer electronics and computers, sporting goods, construction materials, consumer chemicals, light industry and paper and stationery. The majority of these companies are major direct importers and leaders in their respective industries.

- Lending to SMEs

The Bank has made it a priority to further develop its scope and market penetration in respect of SME lending. It sees this target market as a strategic opportunity in which to expand and diversify its loan portfolio. During 2005, the Bank's total volume of lending to SMEs increased 270 per cent. (from U.S.\$3.7 million as at 31 December 2004 to U.S.\$10.3 million as at 31 December 2005). As at 30 June 2006, it amounted to U.S.\$13.2 million. The Bank intends to continue its expansion in this sphere of lending and anticipates continued growth in the volume of its SME loan portfolio, and aims to increase the size of the portfolio to approximately U.S.\$25 million by the end of 2006.

- Lending to retail customers

The Bank's principal focus in relation to its retail lending activity is directed towards maintaining its dominant position in the car finance sector of the Russian banking market. It is focusing on the continued development of its car finance operations, offering credit facilities with tenors of up to 5 years.

Another of the Bank's objectives in the sphere of its retail lending activity is the development of its mortgage-lending programmes in this new area of Russian consumer finance. To this end, the Bank obtained a U.S.\$5 million loan facility from the International Finance Corporation (the "IFC"), specifically designated for use in developing the Bank's mortgage lending programme. This was the first housing finance loan from the IFC to a Russian-owned bank. The Bank also intends to nurture and develop its newly-created leasing and factoring businesses.

Financial Targets

Apart from the principal strategically-important targets outlined above, the Bank has set a number of broader priorities on which it will focus in the short and medium-term:

- The further promotion of the Bank as a universal banking institution, with a focus on retail lending;
- The further expansion of the Bank into Moscow and the Moscow region;
- The continued diversification of its loan portfolio to obtain additional sources of funding;
- The further development of the Bank's retail-lending activities, with the aim of generating greater returns through the higher margins available on these products as compared to corporate and SME lending;

- The further development of its corporate governance rules and procedures to bring in line with are in line with international standards;
- The further development of its Russian debt securities issuance programme;
- The establishment of debt securities issuance programmes in the international capital markets, and the development of its strategic collaboration with international banks and foreign commercial and investment banks;
- Increasing the level of deposits from retail customers;
- The development and improvement of its centralised cost control system, which, together with the introduction of additional high margin products, will result in greater profit margins for the Bank.

Marketing and Customer Relationship Management

The Bank intends to build on its established Customer Relationship Management (“CRM”) system as an efficient tool with which to manage the Bank’s business with its clients. The CRM system combines all client requests, applications and orders. In addition to providing the client relationship manager with a useful combined source of client information, it allows the relationship manager to monitor and analyse the operations and needs of each individual client and to take a pro-active approach to providing the client with products to satisfy their various requirements and needs.

Part of this strategy is the development of new delivery channels for customers, including delivery through branches, retail outlets and telephone and internet banking services.

Geographical Focus

The Bank operates principally in Moscow, as well as the Moscow region, where, as at 6 September 2006, it had 14 full-scale branches, seven outlets, 16 cash offices and six currency exchange offices. As part of its longer term strategy, the Bank is considering the possibility of expanding its network outside of Moscow and the Moscow region. However, at present, its main focus is on Moscow and the Moscow region, in which it plans to continue to expand and build on its market share by opening approximately 50 new branches during 2006 and 2007.

Tariff Policy

The Bank takes a sensitive approach to ensuring its product pricing is competitive by taking into consideration factors such as the costs involved in managing certain customer relationships and how that corresponds to the overall value of the customer to the Bank. The cost of borrowing in relation to any particular product is determined by a formula which factors into consideration opportunity costs, pre-defined levels of required return and other relevant factors. The Bank also takes into account all the underlying costs in order to determine the cost of borrowing and product pricing.

Ownership

The legal shareholders of the Bank include companies which are members of Rossium Concern. Rossium Concern is an investment and industrial group that involved in agriculture, the food industry, food retailing, construction and production of construction materials. The ultimate beneficial owner of Rossium Concern is Mr Roman I. Avdeev.

Mr Avdeev is the founder and owner of the Rossium Concern, the Chairman of the Bank’s Supervisory Board, and a management body member of several key companies of the Concern. “*Business of the Group – Rossium Concern*”.

There are no formal shareholder agreements in place between the Bank and Mr. Avdeev. Mr. Avdeev exercises his rights as a shareholder in accordance with Russian law. Mr. Avdeev is also Chairman of the Bank’s Supervisory Board. This role is defined by the Bank’s charter and by Russian law and Mr. Avdeev acts within the framework of such laws and regulations.

The following table sets out the shareholders of the Bank as at 30 June 2006:

Name	Principal activities	Percentage shareholding of the capital
“Centre Garant”, SLL	Financial intermediation	36.00
“Yuridicheskoye Agentstvo”, SLL.....	Provision of legal services to enterprises and individuals	26.63
“MKB-Group”, SLL.....	Leasing of real estate	16.68
Rossinform, SLL	IT consultancy services	19.93
Rossium Concern, OJSC.....	Agricultural, food and construction activities	0.76
Total		100.00

Rossium Concern

The Rossium Concern is a major investment and industrial group with interests in the agricultural and construction sectors of the Russian economy. Companies in the Rossium Concern are the legal shareholders of the Bank. The Rossium Concern is ultimately owned by Mr Avdeev. The Rossium Concern in its present form was established in 2000, however its history dates back to the early 1990's. It was established to increase the investment potential of its member companies. The Concern is a diversified holding company consisting of three major group companies, each operating in different spheres of business activity – banking (the Bank), agriculture (Agro-Industrial Group “Chernozemye”) and industry (Investment and Industrial Group).

The “Chernozemye” group includes several agricultural firms, suppliers and sellers. Having been established in 1997, its main activities are the cultivation and processing of grain crops and vegetables in the Lipetsk region of the Russian Federation.

The Investment and Industrial Group comprises a number of companies that specialise in the production of building materials, particularly concrete and reinforced concrete products. At present, the Group includes a high-capacity reinforced concrete production plant and various sales divisions, which collectively carry out the entire production and sales cycle of concrete and reinforced concrete products. The Group also includes a textiles mill and operates and is the lessor of a trade fair for companies within the construction industry.

Subsidiaries and Affiliates

The Bank has two subsidiaries: MKB-Leasing, which is principally involved in the provision of leasing services to corporate clients and SMEs; and Relex Enterprise, the principal activities of which are introductory and business advisory services.

Dependency

The Bank is not dependent upon any other entities within its group, nor, to the best of its knowledge, do there exist any arrangements, the operation of which may at a subsequent date result in a change in control of the Bank. Furthermore, the Bank does not know of any material contracts, that have been entered into in the ordinary course of the Bank's business, which could result in any material obligation of the Bank or any other member in its group impairing the Bank's ability to meet its obligations to CBOM Finance PLC under the loan, or, of CBOM Finance PLC's obligations to the Noteholders.

Branch network

As at 1 July 2006, the Bank's branch network is present in Moscow and the Moscow region, which have a combined estimated population of approximately 17,400,000. As at 30 June 2006, the Bank had 14 full-scale branches, 6 outlets, 16 cash offices and 6 exchange houses. The Bank plans to

open up to 50 new offices in Moscow and the Moscow region by the end of 2007. A survey by the major Russian daily newspaper “Izvestiya”, published on 12 April 2005, showed that in the first quarter of 2005, the Bank was among the top 10 most widely recognised banks in Moscow and the Moscow region. In addition, the Bank has arrangements with more than 300 car dealerships for the provision of consumer credit loans to finance vehicle purchases at the point of sale.

Market position and Competition

According to the CBR, as at 1 August 2006, 1,217 banks and non-banking credit institutions were operating in the Russian Federation, with the operations of most large banks being based in Moscow. A small number of Moscow-based banks dominate the Russian banking industry and the level of competition in general has intensified over the past few years as foreign banks have scaled up their operations in the Russian market. The Bank’s management considers that the main competitors of the Bank in the area of corporate lending are CJSC Promsvyazbank, OJSC Alfa-Bank, OJSC Bank of Moscow, OJSC MDM Bank, JSCB Rosbank, OJSC Petrocommerce and OJSC Probusinessbank. In the SME sector, management believes that the Bank’s main competitors are CJSC KMB-Bank, JSCB Sberbank, OJSC Vneshtorgbank, ZAO Raiffeisenbank Austria and JSCB Bank Soyuz. In the sphere of consumer lending the Bank considers its main competitors to be Impexbank and Bank Avangard JSB and generally banks with operations in Moscow with large networks. The Bank’s main competitors in the car loan market are ZAO Raiffeisenbank Austria, CJSC Moscow International Bank, JSCB Rosbank, OJSC Sobinbank, JSCB Bank Soyuz, OJSC MDM Bank and ZAO International Industrial Bank, whereas in the mortgage sector, management believes that the Bank’s main competitors are ZAO Raiffeisenbank Austria, CJSC DeltaCredit, JSCB National Reserve Bank, JSCB Gorodskoy Ipotechny Bank (City Mortgage Bank), OJSC Vneshtorgbank, JSCB Sberbank, JSCB Moskovskoye Ipotechnoye Agentstvo (Moscow Mortgage Agency) and JSCB Fora Bank (CJSC). In the sphere of factoring, the Bank’s main competitors are Nomos, Uralsib JSCB, Probusinessbank (OJSC), CJSC Promvyazbank and in the sphere of plastic cards, the Bank views certain branches of the large Russian state-owned banks, such as OJSC Sberbank (Savings Bank of the Russian Federation) to be its strongest competitors.

Competitive Strengths

The Bank’s management believes that it has a number of competitive advantages over some of its competitors in the Russian banking market, which include:

Higher than average pace of assets growth:

From 2000 to 2005, The Bank saw an average annual asset growth of 57 per cent., which management believes to be higher than the average in the Russian banking market over those years. Management believes that this was largely attributable to the Bank’s policy in relation to its loan products, which was to focus on corporates from within the rapidly developing sectors of the Russian retail industry, which itself was a direct result of the Bank’s senior management’s in-depth knowledge of the Bank’s target client markets. For these same reasons, the Bank’s management believes that its assets will continue to grow at levels above the market average. On 15 June 2006, Kommersant ranked the Bank 36th in respect of the average growth rate of assets of banks within Russia and the CIS.

Clear strategic vision:

The Bank’s evolution as a universal bank has been shaped by well-designed strategic initiatives, with a focus on corporate lending which has more recently successfully embraced SME lending, retail banking and consumer finance. The Bank’s consistency in its strategy implementation has enabled it to develop dynamically throughout recent years and allowed it to increase its presence in the marketplace, especially in respect of the sphere of retail banking.

Leading positions in certain fast-growing banking segments:

The Bank spearheads competition in Russia’s car finance sector. The Bank offers car loans through a diversified network of local car dealers representing all major foreign and domestic manufacturers. The Bank considers that it is well placed to enjoy growth in its newly-established

businesses of mortgage-lending and factoring. The Bank is also enjoying growth in certain other areas such as cash management, where it is one of a very small number of providers in Moscow and the Moscow region. In corporate banking, the Bank's main competitive advantage is its established experience of providing high volume banking solutions to Russian retail trade companies.

High quality assets and liquid loan portfolio:

The Bank pursues a policy of diversification in relation to the composition of its loan portfolio by way of targeting new clients in a number of different industry sectors. Related party exposure is kept at a relatively low percentage of assets (6.2 per thousand). Furthermore, 96 per cent. of the Bank's loan portfolio is comprised of standard loans to the 1st risk group, i.e. effectively risk-free loans.

Transparency of business and reputation in the international financial markets:

The transparent structure of the Bank's business operations and financial activities has been one of the factors that has enabled it to successfully establish partnerships with a number of international institutions, such as the EBRD and the IFC. The Bank's ability to raise finance from these international financial institutions has allowed it to fuel its development in general and, particularly, in relation to certain new areas of activity, such as mortgage-lending.

Strong management team:

The senior management of the Bank has significant experience in the Russian banking sector, many of whom have been with the Bank for more than 10 years, and who bring to the Management Board of the Bank a full range of banking expertise, encompassing both Russian and international operations.

Efficient risk management system:

The Bank has established credit risk assessment and monitoring systems, which have enabled the Bank to keep the ratio of its overdue loans before write off and after write off at a level of 3.2 per cent. and 1.1 per cent. of its gross loan portfolio respectively at 30 June 2006. The Bank believes that its credit experience and ability to assess risk is key to maintaining the quality of its loan portfolio and the continued growth in its profits. As at 30 June 2006, the Bank's largest non-performing loan, to APK Velikiy Novgorod (amounting to U.S.\$6 million) was written-off although the Bank is actively pursuing recovery of this loan through the Russian courts. The Bank co-operates with a major Russian Credit Bureau, 'Experian Interfax'. The Bank anticipates that the exchange of information regarding the credit history and credit status of potential borrowers will allow the Bank to improve the quality of its loan portfolio. Also, the Bank plans to expand co-operation with debt collection agencies to optimise the process of loan recovery. The Bank has developed, and updates and improves on a continuing basis, a scoring system for potential borrowers which takes into account its experience in respect of problem borrowers.

Banking Services and other Activities

In accordance with article 3.2 of its Charter, the Bank can perform banking operations, including: attracting deposits from legal entities and individuals; lending; opening and maintaining bank accounts for individuals and legal entities; effecting cash settlement at the instruction of individuals and legal entities, including correspondent banks; providing cash collection services; buying and selling foreign currency; accepting deposits of precious metals and allocating such deposits; issuing bank guarantees and providing money transfer services at the instruction of individuals who do not have accounts with the Bank.

The Bank is also authorised to perform the following transactions: acting as surety on behalf of third parties; providing factoring services; providing cash and asset-fiduciary management services to individuals and legal entities; effecting transactions with precious metals and precious stones; providing safe-deposit boxes and services; effecting leasing transactions; providing consultancy and information services; performing various transactions with securities and acting as a professional participant in the securities market.

In addition to this, the Bank may carry out a range of other transactions that are permissible under Russian law.

Corporate Banking

The Bank offers its corporate clients a range of traditional and tailored commercial banking products, including cash management services, business loans and guarantees, leasing, trade finance and international payments.

As at 30 June 2006, the Bank had more than 15,000 corporate clients. The Bank allocates account managers to most corporate clients. The role of these account managers is to monitor and analyse the entire business of their clients and to offer them both standard and tailored products and services on an individual basis. These products include:

Cash Management

The Bank provides cash management services and products to Russian and foreign corporate clients. The Bank provides such services through its full-scale branches. The branches offer a basic package of cash management services (with payments in Russian roubles and foreign currencies, delivery and safe-guarding cash and valuables, a wide range of deposit options, payroll services and electronic banking). Many of the Bank's customers view the collection and delivery of cash and valuables as being one of the most important settlement and cash services that the Bank offers to its customers. Relatively few Russian banks perform these services and management believes that the Bank has been one of the leading Moscow-based banks to provide this service for several years and its failsafe and proficient collection and delivery services have enabled it to develop long-term customer relationships. Moreover, given that the Bank has been focusing on large Moscow-based corporates who require such services to transport various valuable goods, the Bank sees this activity as a strong opportunity to cross-sell its other corporate services. The Bank's collection and delivery of cash services generated revenue for the year ended 31 December 2005 of U.S.\$3.8 million, compared to U.S.\$0.9 million for the year ended 31 December 2004. The Bank's collection and delivery of cash services generated revenue for the six months ended 30 June 2006 of U.S.\$3.3 million compared with U.S.\$1.7 million for the six months ended 30 June 2005.

Corporate Lending

The Bank offers financing in the form of loans or guarantees to large and medium-sized companies that specialise in industries such as wholesale and retail trade, consumer electronics and computers, construction materials, consumer chemicals, and paper and stationery. The product range offered by the Bank to its corporate customers includes overdraft facilities, non-revolving and revolving credit facilities as well as trade finance instruments, such as guarantees and letters of credit. The Bank also provides funding by purchasing promissory notes issued by its customers.

In line with the Bank's risk management policy to minimise lending on an unsecured basis, the Bank takes collateral in all circumstances, except in respect of short-term overdraft lending. The value of such collateral is usually equal to 100 per cent. of the amount of the loan together with accrued interest.

In accordance with the Bank's policies to de-concentrate its credit exposure, the Bank has not only decreased the proportion of loans that the Bank has granted to its 10 largest borrowers from 23.8 per cent. of the Bank's total loan portfolio as at 31 December 2004 to 16.4 per cent as at 31 December 2005 and 19.4 per cent. as at 30 June 2006, but it has also reduced the Bank's exposure to its largest borrower from 7.3 per cent. of the Bank's total loan portfolio as at 31 December 2004 to 2.7 per cent. as at 31 December 2005. As at 30 June 2006, the Bank's exposure to its largest borrower was 4.3 per cent. of the Bank's total loan portfolio.

The Bank's target corporate client base is large Moscow-based wholesale and retail trading companies, including, for example, clients from the consumer electronics and computer industries. Such companies have large distribution networks and are leaders in their business sectors. The Bank views this category of clients as a priority as the short-term business cycles result in a more rapid turnover of stock and stable cash flows, and whose lack of involvement in long-term projects means that such clients are a lower default risk for the Bank. As a result, loans to customers from the

consumer electronics and computer industries comprised 21.9 per cent. (U.S.\$87.7 million) of the Bank's corporate loan portfolio as at 30 June 2006, representing a decrease to 23.8 per cent. (amounting to U.S.\$82.7 million) as at 31 December 2005, which was itself a 14.8 per cent. increase from the figure as at 31 December 2004. Given the volume of business generated for the Bank by these customers, the Bank offers a product range specifically tailored to the needs of trade companies.

Loans are provided in accordance with a strict and detailed credit policy with clearly-defined criteria for the evaluation of potential and existing borrowers. The policy also establishes separate lending frameworks for large, medium and small-sized companies. The Bank's credit policy requires the collateral provided for loans to satisfy certain liquidity requirements.

The volume of the Bank's total loan portfolio amounted to U.S.\$439.3 million as at 31 December 2005 and U.S.\$520.3 million as at 30 June 2006, of which corporate loans accounted for U.S.\$346.8 million and U.S.\$400.4 million respectively.

SME Lending

Since its inception in 1992, the Bank has focused primarily on work with corporate customers. However, in September 2003, the Bank launched a non-sector-specific special lending programme for SMEs. The programme provides for the delivery of a full range of banking products and services to such companies, with loans provided to customers in the range of U.S.\$5,000 up to U.S.\$1,000,000 at a fixed rate of interest for a term of up to three years. The loans may be used by the borrower for the acquisition of new assets that are necessary for its business or for working capital purposes. As a result of the greater profit margins available in this sector than in the large corporate lending sector, and the further diversification of the Bank's loan portfolio, the Bank now prioritises this category of customer.

The Bank's SME programme is financed by funds borrowed from international financial institutions (in particular, two loans of U.S.\$10 million that the Bank obtained from both the IFC and the EBRD in 2004 and 2005, respectively, each with tenors of five years with a view to enabling the Bank to develop its SME lending programmes).

During 2005, the Bank's total volume of lending to SMEs increased by approximately 178 per cent. (from U.S.\$3.7 million as at 31 December 2004 to U.S.\$10.3 million as at 31 December 2005). As a percentage of the Bank's total corporate loan portfolio for these periods, the Bank's SME portfolio was 1.6 per cent. and 2.9 per cent. respectively, whereas as a percentage of the Bank's total loan portfolio for these periods, the Bank's SME portfolio was 1.3 per cent. and 2.3 per cent. respectively.

As stated in the Bank's strategy, the Bank intends to continue its expansion in this sphere of lending and anticipates continued growth in the volume of its SME loan portfolio. As at 30 June 2006, its SME loan portfolio had increased to U.S.\$13.2 million, representing 2.5 per cent. of the Bank's total loan portfolio at that time. The Bank anticipates strong levels of continued growth in this area, and aims to increase the size of its portfolio to approximately U.S.\$25 million by 31 December 2006.

While risks stemming from doing business with this market segment may be higher than in the large corporate sector due to the generally lower levels of transparency in this area, the Bank believes that its focus on this sector is justified, given the higher and more stable margins associated with this sector, as well as the contribution that diversification in this area makes to the contribution of the Bank's loan portfolio. The Bank's credit policy requires that all loans advanced to SMEs are secured, with the exception of short-term overdraft lending.

Trade Finance

The Bank has developed its trade finance business through the provision of letters of credit, guarantees, pre-export financing and forfeiting. Since May 2005, the Bank has been an active participant in the EBRD's Trade Facilitation Programme which has given it access to a U.S.\$15 million credit line. The combined effect of this, together with the U.S.\$10 million credit line that the Bank obtained from the IFC under its Global Trade Facilitation Programme in February 2006 has made a positive impact on the Bank's presence in the Russian markets. As at 30 June 2006, the

outstanding trade finance portfolio of the Bank (including off-balance sheet commitments) was U.S.\$36.5 million, representing approximately 7 per cent. of the Bank's total loan portfolio.

Cooperation with various ECAs enables the Bank to structure long-term transactions for purchasing equipment for its corporate clients. ECAs with which the Bank has strong relationships include: Export-Import Bank of the United States ("**Ex-Im Bank**"), SACE S.p.A. in Italy, Compagnie Française d'Assurance pour le Commerce Extérieur société anonyme ("**COFACE**") in France; CESECE in Spain; Export Credits Guarantee Board ("**EKN-Swedish**") in Sweden; Export Development Canada ("**EDC**") in Canada; Euler Hermes ("**Hermes**") in Germany; ONDD in Belgium; and ASHR'A in Israel, thereby allowing the Bank access to the provision of long-term capital goods financing to its customers. Moreover, for transactions with Hermes, the Bank has basic credit lines set up with Commerzbank, BGB AG, Dresdner Bank AG, AKA Export Finance Bank and Hypovereinsbank ABH (HVB) for projects with maturities of up to 8.5 years.

Within its SME customer base, the main industry concentrations are in the industry sectors of food production, consumer electronics, construction materials and retail in the Moscow region as they relate to the import and export of capital equipment and consumer goods.

As at 31 December 2005, the aggregate total in respect of trade finance facilities, established for the Bank by over 100 European, American and Asian financial institutions and ECAs, was in excess of U.S.\$300,000,000.

Leasing

One of the Bank's more recent finance initiatives in respect of its clients is a leasing programme, which enables the Bank's clients to finance assets such as machinery, vehicles and other specialist equipment. In order to develop this initiative further, the Bank established a subsidiary company OJSC "MKB-Leasing". The Bank provides lease finance to customers, subject to the following conditions: the proposed asset, which is the subject of the leasing arrangement, must benefit from annual appreciation of between 7 and 11 per cent. (depending on certain conditions as included in the relevant leasing agreement); the leasing period can extend to five years, with the transaction value amounting to a minimum of U.S.\$10,000 – ten per cent. of which must be taken in the initial drawdown. The Bank aims to inform the applicant of its preliminary decision as to whether or not it will enter into any particular transaction within one business day from the submission of the applicant's application.

International Payments

The Bank maintains a broad correspondent account network in all major currencies with leading financial institutions worldwide. The Bank's correspondent network includes more than 100 accounts held with domestic and foreign credit institutions, enabling the Bank to effect many types of payments to many parts of the world in a timely and cost-efficient manner.

The Bank has established correspondent banking relationships with financial institutions in the following countries: United States, Japan, Germany, Austria, Italy, France, the United Kingdom, Sweden, Finland, Slovenia, the Czech Republic, Ukraine and Belarus, and its principal correspondent banks are: American Express Bank, Wachovia Bank, UBS, Sumitomo Mitsui Banking Corporation, Commerzbank AG, Ost-West Handelsbank AG, Dresdner Bank AG, HypoVereinsbank AG, Raiffeisen Zentralbank Österreich AG, Donau-Bank AG, BCEN-Eurobank, Banca Nazionale del Lavoro S.p.A., IntesaBci S.p.A., UniCredito Italiano S.p.A., Svenska Handelsbanken, Nordea Bank Finland Plc, Nova Ljubljanska banka d.d., Komerční Banka a.s., Privatbank, and Belvnesheconombank.

Retail Banking

The Bank has been an active player in the Moscow retail banking market since 2002 and currently offers customers the following retail banking services:

- credit products such as consumer loans, car finance, mortgages and other products to individuals;
- services such as payroll and corporate card services to the employees of the Bank's corporate clients; and

- other banking services such as card services, transfer services, travellers' cheques, deposits, and safe-deposit boxes.

The Bank has experienced significant growth in its retail loan portfolio. The development of its retail loan portfolio and an increase in the number of borrowers is one of the strategic goals in the further development of the Bank. As at 31 December 2005 and 2004, the Bank's retail loan portfolio amounted to U.S.\$82.2 million (or 18.7 per cent. of the Bank's total loan portfolio) and U.S.\$55.2 million (or 19.0 per cent. of the Bank's total loan portfolio), respectively. By 30 June 2006, the Bank's retail loan portfolio had grown to U.S.\$106.7, representing 20.5 per cent. of the Bank's total loan portfolio.

The Bank's principal focus in relation to its retail lending activity is directed towards maintaining its dominant position in the car finance sector of the Russian banking market, and the development of its newly-established mortgage-lending programmes.

Car Finance

The Bank is one of the major operators in the Russian car loan market. The Bank offers car loans to individuals for up to 5 years at rates between nine and 18 per cent., depending on the currency. The Bank's car loan portfolio grew from U.S.\$42.2 million as at 31 December 2004 to U.S.\$76.7 million as at 31 December 2005, an increase of 81.8 per cent. In the first half of 2006, the total volume of car loans extended by the Bank grew by a further 25 per cent. to U.S.\$96.1 million. In a rating survey carried out by car magazine "Avtomobilniye Izvestiya" published in April 2003, the Bank's car loan programme was rated the "most attractive" (<http://www.autozvestia.ru/gazeta/?id=226>). The Bank offers its car loan products through over 300 car dealerships in the Moscow region (including major Moscow-based dealers of foreign and domestic cars), as well as its network of branches and outlets. As at 30 December 2005, the Bank ranked 14th by volume of car loans among Russian banks (RBK Rating, 28 February 2006 at www.rating.rbc.ru).

The car loan application process is streamlined, with the basic requirements being a completed application form together with the applicant's passport and driver's licence, at which point the Bank carries out credit checks on the applicant. In the case of an express loan, the Bank aims to provide the applicant with a response within one hour of its submitting the application, and three hours for normal loans. The applicant's credit-worthiness is assessed by the Bank employees or by employees of the car dealerships who receive appropriate credit assessment training from the Bank.

The Bank's car loans are secured on the cars that the customers acquire with the loan proceeds, and the cars are insured with leading insurance companies such as Rosgosstrakh, Ingosstrakh (rated BB by Moody's) and other major Russian insurers.

Mortgage Lending

The Russian mortgage lending market entered into a period of rapid growth in 2005 when Russian legislators abolished the requirement for mortgages to be notarised at a cost of 1.5 per cent. of the property purchase price. Accordingly, mortgage lending is a new product line for the Bank and, as such, its share of the Russian mortgage market is not significant at present. The Bank's mortgage loan portfolio has grown from U.S.\$1.4 million as at 31 December 2005 to U.S.\$5.7 million as at 30 June 2006. On 8 July 2005, the Bank secured a U.S.\$5,000,000 loan from the IFC to support the expansion of its mortgage programme. This is the first housing finance loan from the IFC to a Russian-owned bank. The Bank is also participating in the Russian Primary Mortgage Market Development project, sponsored by the IFC, which aims to improve industry standards.

The Bank's focus in its mortgage lending activities is on mid-level income families (with average incomes per working family member of over U.S.\$1,000 per month) for the purchase of two room residential apartments with an average value of U.S.\$150,000. The Bank grants mortgages with terms of up to 20 years at a rate of 10-11 per cent. per annum. The Bank requires borrowers to take out payment protection insurance in respect of their mortgage payments with one of Russia's leading insurance companies.

Bank Cards

The Bank is a member of the VISA International payment system. Currently the Bank offers a wide variety of debit cards to its customers. The Bank offers cards free of charge to any of its customers. As at 31 December 2005, the Bank had 35,000 cardholders and more than 48,000 cardholders as at 30 June 2006. The variety of cards available to a customer depends on the tariff subscribed to by that particular customer. The more exclusive the tariff, the more features offered to the cardholder.

Bank Accounts and Deposits

The Bank has significantly increased its private customer deposits base as a result of changes it has made to its product range aimed at making its product range more simple and user-friendly and at the same time more attractive due to certain promotions, the expansion of its branch network in Moscow and the raising of quality standards of client services, and currently more than 10,000 individuals have deposit accounts with the Bank. As at 30 June 2006 the volume of retail deposits amounted to U.S.\$120.1 million, which represents an increase of 40 per cent. compared to its volume of U.S.\$85.6 million as at 31 December 2005. The new products include the Pearl of the Nile which provides more attractive conditions for the depositors of the Bank, in particular, higher interest rates which are between 9.75 and 11.60 per cent. per annum for deposits in Roubles, between 6.50 and 8.25 per cent. per annum for deposits in US dollars and between 5.75 and 7.25 per cent. per annum for deposits in euro. This programme also provides for special offers, such as: issue of international plastic cards free of charge for all the depositors under this programme and a monthly lottery with a ticket for a group tour to Egypt as a prize.

As with its corporate and SME customer deposits, the vast majority of the retail deposits accepted by the Bank are term deposits (accounting for 87.4 per cent. and 83.7 per cent. of the retail deposit portfolio as at 30 June 2006 and 31 December 2005, respectively). As at 31 December 2005, the ratio of private customer deposits to total liabilities was 15.5 per cent. and the ratio of private customer deposits to total customer deposits was 37.4 per cent. As at 30 June 2006, the ratio of private customer deposits to total liabilities was 19.9 per cent. and the ratio of private customer deposits to total customer deposits was 41.7 per cent.

On 2 December 2004, the Bank was admitted to the Russian Deposit Insurance System. The Russian Deposit Insurance System guarantees the repayment of deposits placed with banks within the Russian Deposit Insurance System up to the amount of RUB100,000 (equivalent to approximately U.S.\$3,500).

The Bank accepts deposits in Euros, U.S. dollars and Russian roubles and offers a wide variety of specialist products, such as special prize draws, pensioners accounts, savings funds offering Mastercard Gold Credit Cards for depositors with over U.S.\$30,000, €30,000 or RUB900,000, monthly savings plans and deluxe deposit accounts offering attractive rates of interest and platinum credit cards for deposits of U.S.\$100,000, €100,000 or RUB3,000,000. A deposit account can be opened by anyone over the age of fourteen.

As at 30 June 2006, the Bank's total retail deposit portfolio represented 19.9 per cent. of the Bank's total liabilities, as compared to 15.5 per cent. as at 31 December 2005. When combined with the Bank's corporate and SME deposit portfolio, as at 30 June 2006 and 31 December 2005 the Bank's total deposits portfolio represented 47.6 and 41.6 per cent. of the Bank's total liabilities, respectively.

Financial Markets, Treasury and Trading Securities

The Bank participates in the interbank foreign exchange, international, domestic, government and corporate bonds and securities markets. The Bank's total gains (less losses) from trading in foreign currencies in 2005 amounted to U.S.\$726,000. The Bank's total gains (less losses) from trading in foreign currencies as at 30 June 2006 amounted to U.S.\$2.6 million.

The Bank has limits on treasury transactions in respect of individual issuers of bonds and promissory notes, interbank limits, and limits on the Bank's total volume of equity and debt instruments. The limits are established by the Finance Department of the Bank and approved by the

Assets and Liabilities Committee of the Bank. The Bank does not currently engage in the use of derivatives.

The Bank trades securities on MICEX (the Moscow Interbank Currency Exchange) and as at 31 December 2005, its securities portfolio represented 13.3 per cent. of the Bank's total assets; the corresponding figure for 2004 was 8.2 per cent. of the Bank's total assets. As at 30 June 2006, the Bank's securities portfolio represented 18.2 per cent. of the Bank's total assets.

As shown in the table below, bonds and promissory notes of Russian banks and companies dominate the Bank's securities portfolio (71.2 per cent. at 30 June 2006, 82 per cent. at 31 December 2005 and 66 per cent. at 31 December 2004). The next largest component of the Bank's securities portfolio is fixed income state debt securities (OFZ) (9.2 per cent. at 30 June 2006, 11 per cent. at 31 December 2005 and 17 per cent. at 31 December 2004).

Type of Security	30 June	31	31
	2006	December	December
		2005	2004
	<i>(in U.S.\$ thousands)</i>		
Corporate bonds.....	51,555	29,868	2,170
Federal loan bonds (OFZ).....	12,590	9,611	5,575
Russian Federation Eurobonds.....	54	57	52
Promissory notes of Russian banks and companies	45,482	41,637	19,342
Municipal bonds.....	24,388	6,035	5,571
Other securities	2,159	—	—
Total Securities	136,228	87,211	32,711

The securities portfolio of the Bank represents highly liquid instruments (for example, state government and municipal bonds, and promissory notes and bonds of top-rated Russian issuers ("blue chips")). These mostly include Sberbank, Vneshtorgbank, Gazprom and Gazprombank. These instruments are utilised as a means of short-to-medium term liquidity management.

Information Technology

Information technology is an integral part of the Bank's operations. The Bank has commenced a substantial upgrade of its Management Information and other information technology systems in addition to implementing improved risk management processes.

A key element in this upgrade is the phased implementation of a cost management system based on the concept of Activity-based Costing. This will comprise three main stages: Activity-based Costing, Activity-based Budgeting and Activity-based Management. Management believes that the implementation of Activity-based Costing will be crucial in achieving efficiency and profitability improvements especially important in the climate of falling interest rates.

The system is based on OROS, an advanced software platform for mathematical distribution. To obtain a comprehensive cost analysis, the system takes account of more than 50 principal products and services, including the related overhead cost for each product. This comprehensive analysis is performed on a quarterly basis. The practical outcome of the implementation of the system is that costs per product are reduced while at the same time increasing income per product. The Bank's IT capital expenditure during the first eight months of 2006 amounted to U.S.\$467,400 compared to U.S.\$102,000 during 2005.

Advertising and Marketing

The Bank's marketing division, together with the Bank's Department of Advertising continually monitors the Russian banking markets in order to appreciate and adapt the Bank's competitive capacity. In order to effect this, the division conducts regular market analysis, on the back of which, special programmes designed to promote the Bank's services as well as attract new clients are

developed and tested. The marketing division is also responsible for strategically planning and analysing the Bank's activities in the various sectors in which the Bank operates.

Call Centre

In 2003, the Bank established a call centre, which is located in Moscow. The call centre is open from 9.00 a.m. to 7.00 p.m. and is serviced by more than 50 operators. Operators can advise customers on the range of retail products offered by the Bank, its approval process, repayment channels and locations. In addition, the Bank's call centre is responsible for processing client contacts and other client information.

The Call Centre is designed to enable intelligent data flow management. It processes incoming and outgoing phone calls as well as requests received electronically, thus providing a convenient access channel to those who prefer to receive the required information without leaving their homes or offices.

Insurance

The Bank is a party to insurance policies designed to cover the many complex banking risks that it faces as a banking institution in the Russian Federation. The Bank holds Bankers Blanket Bond insurance and a separate insurance covering losses resulting from failures of the Bank's electronic systems and damages resulting from computer crimes. All the insurance risks are fully reinsured with Lloyd's of London. Furthermore, the Bank insures its car loans and mortgages and is a member of the Russian Deposit Insurance System.

Litigation

Although the Bank is the subject of legal proceedings and adjudications from time to time, there are currently no, and have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Bank or the Group.

FUNDING

The Bank's funding base relies primarily on deposits from individuals and corporate customers. Other sources of funding for the Bank include its promissory note programme, the Russian interbank market, funds raised from syndicated loans from foreign banks and funds raised from issues of rouble-denominated bonds.

- *Equity contributions:* The Bank's total equity as at 30 June 2006 was U.S.\$142.1 million and as at 31 December 2005 was U.S.\$102.7 million. On 5 June 2006, the CBR approved a new capital injection by shareholders of U.S.\$29.7 million, which increased the total common stock up to U.S.\$93.7 million. The Bank's issued, outstanding and paid stock as at 30 June 2006 comprised 2,376,158,008 shares, which each carry a par value of RUB1 per share.
- *Deposits:* As at 31 December 2005, 41.6 per cent. (or U.S.\$229.2 million) of the Bank's total liabilities (U.S.\$551.4 million) was represented by customer accounts, of which 37.4 per cent. are individuals' accounts and 62.6 per cent. are corporate accounts. Customer accounts as at 31 December 2004 amounted to U.S.\$125.6 million and made up 41.3 per cent. of the Bank's total liabilities. The Bank has no dominating depositors in the structure of its liabilities (as at 31 December 2005, the largest deposit accounted for 0.6 per cent. of total liabilities). The core deposit base is formed from a large number of deposits from small and medium-sized corporates and individuals. As at 30 June 2006, the largest deposit accounted for 4 per cent. of the Bank's total liabilities. As at 30 June 2006 the Bank's total deposits from customers amounted to U.S.\$ 288.1 million, representing 47.6 per cent. of the Bank's total liabilities (U.S.\$605 million) as at 30 June 2006.
- *Trade Finance:* The Bank currently cooperates with around 50 foreign banks, which allows the Bank to support import transactions with unsecured letters of credit and guarantees. As at 30 June 2006, the Bank's trade finance portfolio (including letters of credit and trade finance guarantees) amounted to U.S.\$82.8 million. The Bank has successfully developed relationships with a number of ECAs in order to provide long-term financing for its customers that acquire capital goods.
- *Russian debt instruments:* The Bank's debt securities issues accounted for 31.7 per cent. of the Bank's total liabilities as at 30 June 2006. The same figures for the years ended 31 December 2005 and 31 December 2004 were 29.8 per cent. and 39.4 per cent., respectively. The Bank issues and redeems promissory notes on standard terms and conditions. The Bank's promissory notes are quoted by market makers and are actively traded. In 2005, the aggregate volume of notes issued by the Bank in U.S. dollars, Russian roubles and Euros amounted to an equivalent in the relevant currencies of U.S.\$150.5 million and for the six months ended 30 June 2006, the corresponding figure was US\$142.6 million.

As at 30 June 2006, approximately 9.1 per cent. of the Bank's liabilities was represented by the Bank's rouble-denominated bonds, compared to 3.2 per cent. as at 31 December 2005. The Bank placed its first rouble-denominated bonds in April 2005 in the amount of RUB500 million (approximately U.S.\$17.4 million), which matures in April 2007. The Bank made a second bond issue in the amount of RUB1 billion (approximately U.S.\$37.5 million) in June 2006, which matures in June 2009.
- *Russian interbank market:* Interbank deposits generally represent funds raised from international banks and financial institutions. The average overnight deposit/borrowing turnover of the Bank for the three month period 1 April 2006 to 30 June 2006 was U.S.\$7,428 thousand in respect of interbank deposits and U.S.\$3,953 thousand in respect of interbank borrowings.
- *European syndicated loans:* The Bank entered the European syndicated loan market in October 2003 when it concluded an agreement for a syndicated facility of U.S.\$14,000,000 with BGB AG. In September 2005, the Bank entered into a one year syndicated loan facility for U.S.\$40 million with a syndicate of international banks.

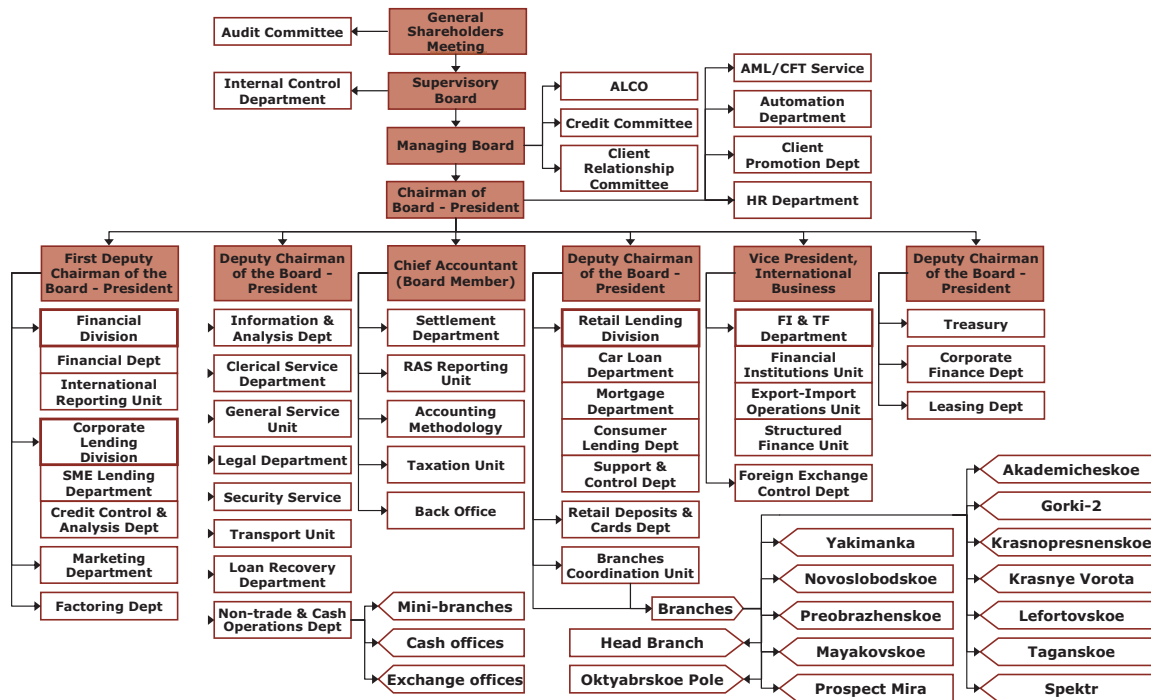
On 2 August 2006, the Bank raised U.S.\$20,000,000 under a syndicated loan backed by car loan receivables arranged by Standard Bank Plc and ZAO Standard Bank. The tenor of the loan is 12 months with an option to extend for another 12 months. As at 30 June 2006, the aggregate amount outstanding under the Bank's syndicated facilities was U.S.\$40 million, which represented 6.6 per cent. of the Bank's total liabilities.

- *Facilities from international financial institutions:* In October 2004, the IFC extended a U.S.\$10,000,000 five year loan facility to the Bank for on-lending to SMEs. In May 2005, the Bank joined EBRD's Trade Facilitation Program (TFP) with a U.S.\$15,000,000 limit and eligible tenors of up to 2 years. In June 2005, the EBRD granted a U.S.\$10,000,000 five year facility to the Bank to facilitate SME lending. Also in July 2005, the IFC extended a U.S.\$5,000,000 eight year facility to the Bank to support the expansion of its mortgage-lending programme. This was the first housing finance loan from the IFC to a Russian-owned bank. The Bank is also participating in the Russian Primary Mortgage Market Development sponsored by the IFC with the aim of improving industry standards. The Bank was also the first Russian issuing bank to join IFC's Global Trade Finance Programme in February 2006 with a U.S.\$10,000,000 limit and eligible tenors of up to 3 years. In August 2006, the Bank received a subordinated loan in the amount of U.S.\$20,000,000 for 7 years (extendible to 9 years), the first bank to receive such a loan under EBRD's new programme of enhancing Russian medium-sized banks' capitalisation. Total funding provided to the Bank by the EBRD and the IFC amounts to U.S.\$70,000,000.

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

MANAGEMENT

The structure of the Bank's management is organised into various levels and sub-levels, each of which is responsible for different aspects of the Bank's overall activities. The following chart sets out the management structure of the Bank and its corporate governance reporting lines:



Management Bodies

In compliance with Russian law, the supreme management body of the Bank is the General Meeting of Shareholders. This is followed by the Supervisory Board (the “**Board of Directors**”), which is responsible for the overall management of the Bank, and the Chairman of the Bank's Management Board (the “**President of the Bank**”) who is responsible for overseeing the Management Board.

General Meeting of Shareholders

The General Meeting of Shareholders is the Bank's supreme corporate governance body. Shareholders' Meetings are convened by the Bank's Supervisory Board at least once a year. The following decisions fall within the exclusive competence of the General Meeting of Shareholders:

- amending the Bank's Charter;
- electing the members of the Bank's Supervisory Board and terminating their appointment;
- electing and terminating the appointment of the members of the Bank's Audit Committee, and appointing the Bank's auditors;
- increasing or reducing the Banks' share capital;
- setting the Bank's development targets and approving the Bank's strategy;
- determining the amount, nominal value and types of authorised shares;
- approving the annual statutory accounts and report;
- approving the payment of any dividends by the Bank; and
- certain other matters provided for by law and the Bank's Charter.

Supervisory Board (Board of Directors)

Between shareholders' meetings, the general corporate governance of the Bank is overseen by the Bank's Supervisory Board. The Supervisory Board is responsible for the overall management of the Bank, with the exception of those matters that are designated by law and by the Bank's charter as falling within the exclusive powers of the General Meeting of Shareholders. The Supervisory Board determines the Bank's business priorities and makes decisions as to the composition of various executive bodies.

Members of the Bank's Supervisory Board are elected at the annual General Shareholders' Meeting and may be re-elected an unlimited number of times.

There are currently five members of the Supervisory Board, all of whom were elected by the General Meeting of Shareholders. The names, positions and certain other information are set out below in respect of each board member.

Mr Roman Avdeev (Chairman of the Board of Directors):

Mr Avdeev was born in 1967 in Odintsovo, Moscow region. He graduated from the Lipetsk State Technological University with a degree in design engineering, and subsequently from the Moscow International University of Business and Information Technologies with a degree in banking. In 1999 he was awarded a Degree in Engineering Sciences from Penza State Architecture and Construction Academy. Mr Avdeev is the founder and owner of Rossium Concern, the beneficial owner of the Bank, and a management body member of several key companies in the Rossium Concern.

Mr Alexander Khrilev:

Mr Khrilev was born in 1967. He is the Chairman of the Management Board and President of the Bank. In 1993, Mr Khrilev graduated from the Moscow State Technical University Named after N. E. Bauman with a degree in Thermo-physics. He has worked at the Bank since 1995. In August 2004, he was appointed as Chairman of the Management Committee before which he worked as the First Deputy.

Mr Genadii Belyaev:

Mr Belyaev was born in 1933. In 1957 he graduated from the Moscow Energy Institute. Since May 2005 he has been the Chairman of the Supervisory Board of the Rossium Concern. Since 1957 he was engaged in research and training activities and computer science and automation with the aforementioned institute. Since 1993 he has been working in private business. First he joined the Bank as an IT expert then, in 2001, moved to the OAO Rossium Concern as IT executive. He has been a member of the Bank's Supervisory Board since December 2004.

Mr Eugene Kobozev:

Mr Kobozev was born in 1967. In 1991 he graduated from Moscow University of Communications and Informatics. Upon graduation, he worked in various private businesses. Since March 2003 he has been working as the General Director of SLL Akos Tex, which is a hoisery knitting factory controlled by the Rossium Concern. Since June 2006 he has been a member of the Supervisory Board of the Bank.

Mr Eugene Scherbakov:

Mr. Scherbakov was born in 1965. In 1983 he graduated from SGPTU No 149. Upon graduation, he worked in the aviation industry, in particular in the USSR Ministry of Aviation. From 1992 he was in private business as a security service manager. Since that time he has run a number of Rossium Concern companies, including a major supermarket chain and a ferroconcrete plant. Since February 2005 he has been working as General Director of OJSC Velskiy Les, which is a company within the Rossium Concern. Since June 2006 he has been a member of the Supervisory Board of the Bank.

Management Board (Executive Body)

The Management Board is the Bank's collective executive body, appointed by the Board of Directors. The Management Board meets as often as is necessary, which tends to be once a week. The Management Board is responsible for the Bank's day-to-day management and administration. The Chairman of the Management Board represents the Bank and acts as its Chief Executive Officer.

To maximise the efficiency of the Bank's decision-making process, the Management Board is split into the following committees, each of which is responsible for their own fields of practice:

- *Client Relationship Committee*: this committee is responsible for reviewing the Bank's tariff policy, as well as developing and promoting new products and services;
- *Credit Committee*: this committee focuses on the arrangement of loans and coordinating lending activities in order to enhance profitability and reduce associated risk; and
- *Asset and Liability Committee*: this committee is responsible for optimising the Bank's balance sheet structure by matching loan terms and borrowing transactions. This committee also oversees liquidity management.

The names, positions and certain other information relating to the members of the Management Board are set out below:

Mr Alexander Khrylev (Chairman of the Board) – President:

See “*Supervisory Board (Board of Directors)*”

Mr Timur Kastrov (First Deputy Chairman of the Board):

Mr Kastrov was born in 1969. In 1994 he graduated from the Moscow Technical University. Mr Kastrov has been working at the Bank since 1997. He is responsible for the financial and economic analysis of the Bank's activities, budgeting, liquidity and risk management. He also coordinates the Bank's relations with its international auditors and rating agencies.

Mr Alexander Nikolashin (Deputy Chairman of the Board):

Mr Nikolashin was born in 1966. In 1988 he graduated from the Saratov Higher Military Command School dedicated to F. Dzerzhinsky at the MIA USSR. In 2005, he graduated from Moscow State Social University of the Ministry of Labor and Social Development of the Russian Federation with a degree in Jurisprudence as well as in Finance and Credit. He has been working at the Bank since 1994. He is responsible for the Bank's Security Services, Analytical Services, Cash Collection Services and Legal Department.

Mr Sergey Gusarov (Deputy Chairman of the Board):

Mr Gusarov was born in 1965. In 1987, he graduated from the Kiev Higher Military Engineering Communication School dedicated to M. Kalinin. In 1995, he graduated from the Higher School of Economics, and in 1997, he graduated from the All-Russian Correspondence Financial and Economic Institute with a degree in Finance and Credit. He has been working at the Bank since 2001 and he is responsible for the Bank's retail business and overseeing operations of the Bank's branches.

Mr Andrey Ivanov (Vice President):

Mr Ivanov was born in 1957. In 1981, he graduated from the Moscow State Institute of International Relations (MGIMO-University) with a degree in International Law. He has been working at the Bank since 1999. His responsibilities include the development of the Bank's international business and smaller domestic affairs.

Ms Olga Melnikova (Chief Accountant):

Ms Melnikova was born in 1965. In 1987, Ms Melnikova graduated from the Moscow Chemical Engineering Institute. In 1997, Ms Melnikova graduated from the All-Russian Correspondence Financial and Economic Institute with a Finance and Credit degree. She has been working at the Bank since 1994 and is responsible for accounting, taxation and settlements.

The business address of each of the members of the Bank's Management and the Bank's Supervisory Board is the Bank's registered office.

No potential conflicts of interest exist between the members of the Board of Directors or the Management Board, their duties to the Bank and their private interests or other duties.

Employees

As at 30 June 2006, the Bank had 1,405 employees (compared to 1,319 as at 31 December 2005 and 1,193 as at 31 December 2004). The average age of the Bank's employees is 35 years and the majority of the Bank's employees (more than 65 per cent.) have a higher professional education. The Bank provides both internal and external training programmes for its employees. Internal seminars are conducted by employees of the Bank, whereas external training programmes are conducted by third-party service providers.

LENDING POLICIES AND PROCEDURE

General

The principal requirements that the Bank imposes on its borrowers are:

- the ability to provide data that is sufficient to assess the borrower's financial position;
- personal responsibility of the business owners; and
- the ability to provide collateral.

The Bank has established procedures for approving loans and monitoring loan quality and for the extension and refinancing of existing loans. These procedures are set out in the Bank's credit policy, established by the Bank's Credit Committee. The credit policy sets out the framework for the provision of loans and clearly defines the criteria for the evaluation of potential and existing customers. The Bank's credit policy also creates the framework for lending to large, medium-sized and small companies, requiring sufficient categories and values of security to be taken by the Bank in respect of the loans that it originates in order to satisfy certain liquidity thresholds.

Credit Committee

The Credit Committee is composed of 7 people and meets, on average, between 10 and 15 times a month. The composition of the Credit Committee is approved by the Management Board, includes 4 members of the Management Board, and is chaired by Mr. A. Khrilev, who is the Bank's President and Chairman of the Management Board. Its responsibilities include the following:

- establishing and ensuring the implementation of the Bank's credit policy;
- approving credit exposure limits for borrowers, sectors, and industries;
- monitoring credit performance;
- managing branch credit activities;
- authorising loans to the Bank's employees;
- approving the Bank's credit risk evaluation methodology; and
- dealing with problematic loans.

The Bank classifies a loan as being "problematic" when the financial position of the borrower significantly deteriorates or the loan is overdue for a period of more than 3 months.

Corporate and SME Loan Approval Process

The Bank's assessment procedure for corporate loans is ratings-based, using a ratings methodology similar to that used by international ratings agencies. The financial position of the borrower is estimated based on the financial information and application data which is provided by the borrower. The assessment procedure for new borrowers can take up to two weeks, however, for existing customers that are known to Bank, the procedure takes between one and three days. Heads of branches are authorised to provide overdrafts, loans secured by pledges over receivables, SME loans and working capital facilities on standard terms for amounts not exceeding RUB3,000,000 (approximately U.S.\$100,000). The Head of the Corporate Loans Department is authorised to take credit decisions in respect of corporate loans (including SME loans) on standard terms not exceeding RUB6,000,000 (approximately U.S.\$200,000). All other applications are considered by the Bank's Credit Committee.

The loan approval process for SME loans is mostly the same as for corporate loans, though the criteria considered during the potential borrower assessment procedure is different, accounting for the differences between SMEs and larger corporates.

Retail Loans

The Bank assesses retail banking applicants using a credit scoring methodology by which applicants are rated according to established criteria, including the applicant's age, income, place of employment and employment history. Each criterion has a certain weighting depending on its performance and the credit decision is taken on the basis of the applicant's resulting credit score.

Individual credit applications are initially considered by the Retail Banking Department at the Bank's branches, after which they are submitted to the Retail Banking Department at the Bank's Head Office. Concurrently, the Bank's internal security department conducts supplementary investigations into the applicant's background. The loan approval process generally takes approximately 3 to 5 days from the time when the customer applies until the time when the loan is approved and subsequently advanced. The Bank also conducts a business risk assessment.

Applicants who satisfy the Bank's requirements are entitled to apply for car loans up to U.S.\$100,000 (or its equivalent in Russian roubles) or a mortgage of up to U.S.\$150,000 (or its equivalent in Russian roubles). Applications for amounts in excess of these loans must be authorised by the Bank's Credit Committee.

Collateral

As noted above, the Bank generally requires all loans to be collateralised and the type of collateral that can be taken is one of the most important factors for the Bank when making a credit decision. The Bank only accepts collateral if it considers it to be sufficiently liquid (that is realisable within 150 days). Such collateral takes the form of property, equipment, goods and other liquid securities.

Collateral is required to cover the full amount of the loan together with the total interest payable thereunder. The value of such collateral is assessed at its realisable value, using conservative estimates based on a discount of approximately 20 to 50 per cent. of the current market price.

Guarantees and Letters of Credit

The approval process for the originating of guarantees and the issuing of letters of credit is mostly the same as the process employed in respect of both corporate and SME loans. As with loan approvals, the person or department that is responsible for approving though the guarantee or letter of credit will depend on the value of such guarantee or letter of credit as stated above in relation to corporate and SME loans.

Loan Portfolio Monitoring and Control

The Bank monitors its loan portfolio at two levels:

- *monthly macro-monitoring*: this process involves the overall assessment of the loan portfolio quality, including the total number of overdue loans and an assessment of the overall profitability; and
- *regular micro-monitoring*: this process comprises the analysis of specific loans, including the monitoring of borrower compliance with established rules and the reviewing of its repayment profile.

When a borrower defaults on a payment of interest or principal under a loan, the Bank's Credit Department initiates contact with the borrower through all appropriate means of communication to notify the borrower of its default on the loan. If the borrower is still defaulting on its payments after two months of such action, then the matter is transferred over to the Bank's Loan Recovery Department. The aim of the Loan Recovery Department is to liaise with the borrower, ascertain why it is unable to make such payments as are required and to help it to reach a solution that is acceptable to the Bank.

The Loan Recovery Department is also responsible for bringing the matter to court to recover the debt, if necessary. However, it will first consider a variety of ways with both the borrower and any other relevant party (such as a guarantor, or owner of any security that has been charged in favour of the Bank) to ameliorate the situation. For example, the Bank may agree to extend the loan for a further period or adjust the schedule of payments in order to provide the borrower with the flexibility that it requires to meet its obligations to the Bank under the respective loan agreement.

Loan Portfolio Quality

The Bank has regulations in place to restrict single borrower exposure to no more than 6 per cent. of interest earning assets or 20 per cent. of the Bank's equity. As at 30 June 2006, the Bank's

largest single borrower to which it was exposed accounted for 4.3 per cent. of the Bank's total loan portfolio (or 15.6 per cent. of the Bank's equity), compared to 2.7 per cent. of the Bank's total loan portfolio (or 11.6 per cent. of the Bank's equity) as at 31 December 2005.

The limits for related party transactions are 15 per cent. of interest earning assets or 25 per cent. of the Bank's equity. The Bank's largest related party exposure as a percentage of equity as at 30 June 2006 was 0.73 per cent. to CJSC "TVC" and 2.8 per cent. as at 31 December 2005.

Lending limits

To limit its credit risk exposure, the Bank has set limits in respect of credit risk by reference to product, borrower, type of collateral, geographical and industry concentrations.

With the aim of improving the quality of its loan portfolio, the Bank co-operates with a major Russian credit bureau, 'Experian Interfax'. The Bank anticipates that the exchange of information regarding the credit history and credit status of potential borrowers will allow the Bank to improve the quality of its loan portfolio. Also, the Bank plans to expand co-operation with debt collection agencies to optimise the process of loan recovery. The Bank has developed and updates and improves on a continuing basis a scoring system for potential borrowers which takes into account its experience in respect of problem borrowers.

SELECTED STATISTICAL AND OTHER INFORMATION

Certain information included in this section has been extracted or derived from the Bank's Audited Financial Statements and the Interim Financial Statements which are included in this Prospectus. Prospective investors should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Audited Financial Statements or the Interim Financial Statements (as the case may be) included elsewhere in this Prospectus.

Selected Statement of Operations Data

	30 June 2006	30 June 2005
	<i>(in U.S.\$ thousands)</i>	
Interest income	28,564	18,299
Interest expense.....	(15,699)	(7,336)
Net interest income	12,865	10,963
Reversal of provision/(provision) for credit impairment	(1,844)	(1,496)
Net interest income after provision for credit impairment	11,021	9,466
Fees and commissions income	8,890	5,495
Foreign exchange gains, net	2,611	405
Securities trading profits, net	299	—
Other operating income	641	373
Non interest income	12,441	6,273
Salaries and employment benefits	11,647	7,369
Administrative expenses	6,255	3,296
Fees and commissions expense	469	556
Depreciation and amortization	546	479
Contribution to the State deposit insurance system	255	98
Troubled debt restructuring	217	—
Other operating expenses	276	220
Non interest expense	19,665	12,018
Income before income taxes	3,797	3,721
Income taxes	(716)	(792)
Net income	3,081	2,929
Foreign currency transaction adjustments	6,629	(3,258)
Other comprehensive (loss)/income	6,629	(3,258)
Comprehensive income	9,710	329

Selected Balance Sheet Data

	30 June 2006	31 December 2005	31 December 2004
	<i>(in U.S.\$ thousands)</i>		
Assets			
Cash and due from Central Bank	50,430	78,546	48,363
Due from Credit institutions, net.....	32,696	52,078	37,053
Trading Securities.....	136,228	87,211	32,711
Loans to customers, net	516,715	426,226	274,517
Property and equipment.....	4,104	3,556	3,430
Other assets	6,982	6,490	3,470
Total assets	747,155	654,107	399,544
Liabilities			
Deposits by credit liabilities	110,713	144,854	49,604
Deposits by customers.....	288,143	229,160	125,564
Debt securities issued	191,604	164,195	119,810
Income tax liabilities	9,893	10,021	7,378
Provisions, accruals and other liabilities	4,654	3,157	1,738
Total liabilities	605,007	551,387	304,094
Stockholders' equity			
Common stock	93,658	63,940	23,340
Additional paid-in capital	6,612	6,612	47,212
Retained earnings.....	27,665	24,584	13,677
Other comprehensive income – cumulative translation adjustment.....	14,213	7,584	11,221
Total stockholders' equity	142,148	102,720	95,450
Total liabilities and stockholders' equity	747,155	654,107	399,544

Loan Portfolio

Loans to Customers

The Bank's loan portfolio consists of loans to private enterprises and individuals only. Loans are made principally to customers within Moscow and the Moscow region. The amounts of loans to customers and the respective provisions for loan losses to these customers as at the dates indicated are shown in the table below:

	30 June 2006			31 December 2005			31 December 2004		
	Loans	per cent. of loan	Loss provisions	Loans	per cent. of loan	Loss provisions	Loans	per cent. of loan	Loss provisions
<i>(in U.S.\$ thousands)</i>									
Customer loans									
Domestic car loans.....	50,825	9.8	(736)	42,739	9.7	(1,068)	18,395	6.3	(1,287)
Foreign car loans	45,312	8.7	(1,250)	33,956	7.7	(849)	23,796	8.2	(1,704)
Other consumer loans	4,851	0.9	(33)	4,070	0.9	(1,027)	11,731	4.0	(1,098)
Mortgage loans	5,711	1.1	(14)	1,431	0.3	(4)	1,286	0.4	(26)
	106,699		(2,033)	82,196		(2,948)	55,208		(4,115)
Corporate loans	400,427	77	(1,332)	346,817	79.1	(9,845)	231,853	79.8	(11,653)
Small business loans.....	13,223	2.5	(269)	10,315	2.3	(309)	3,696	1.3	(473)
Total.....	520,349	100	3,634	439,328	100	(13,102)	290,757	100	(16,241)

Financial commitments

Undrawn loan commitments and guarantees as at the dates indicated in the table below comprise:

	30 June 2006	31 December 2005	31 December 2004
<i>(in U.S.\$ thousands)</i>			
Commitments given			
Undrawn loan commitments.....	9,480	11,933	3,692
Letters of credit and guarantees.....	26,754	14,677	18,788
Total	36,234	26,610	22,480

Corporate and Small business loans by economic sector:

The following table sets out details of the Bank's corporate and SME loan portfolio by economic sector concentration:

	Corporate loans						SME loans					
	per cent. of loan	31 June	per cent. of loan	31 December	per cent. of loan	31 December	per cent. of loan	31 June	per cent. of loan	31 December	per cent. of loan	31 December
	30 June 2006	June 2006	December 2005	December 2005	December 2004	December 2004	30 June 2006	June 2006	December 2005	December 2005	December 2004	December 2004
<i>(in U.S.\$ thousands)</i>												
Consumer electronics and computers.....	87,684	21.9	82,671	23.8	34,204	14.8	537	4.1	457	4.4	—	—
Construction materials	40,639	10.1	47,854	13.8	31,517	13.6	1,334	10.1	808	7.8	220	6
Light industry.....	59,000	14.7	39,266	11.3	31,325	13.5	1,987	15.0	1,865	18.1	1,054	28.5
Food	32,555	8.1	34,757	10.0	43,644	18.8	775	5.9	536	5.2	440	11.9
Machinery.....	45,126	11.3	29,046	8.4	10,133	4.4	2,680	20.3	1,411	13.7	398	10.8
Sports goods.....	16,762	4.2	23,157	6.7	19,292	8.3	386	2.9	238	2.3	5	0.1
Services	27,991	7.0	19,860	5.7	16,296	7.0	1,142	8.6	970	9.4	306	8.3
Other consumer goods	23,863	6.0	18,787	5.4	10,749	4.6	1,885	14.3	1,344	13.0	838	22.7
Hygiene products and consumer chemicals.....	20,276	5.1	15,326	4.4	8,347	3.6	727	5.5	978	9.5	333	9.0
Paper and stationery	16,558	4.1	13,763	4.0	1,800	0.8	253	1.9	122	1.2	—	—
Furniture	12,800	3.2	12,715	3.7	14,222	6.1	492	3.7	690	6.7	35	0.9
Medical.....	3,143	0.8	4,469	1.3	2,160	0.9	60	0.5	58	0.6	27	0.7
Oil.....	866	0.2	893	0.3	1,298	0.6	—	—	—	—	40	1.1
Metallurgic	1,348	0.3	587	0.2	2,282	1.0	449	3.4	444	4.3	—	—
Other corporate.....	11,816	3.0	3,666	1.0	4,585	2.0	516	3.8	394	3.8	—	—
Total	400,427	100	346,817	100	231,853	100	13,223	100	10,315	100	3,696	100

Loans by currency:

The following table sets out details of the Bank's loan portfolio by currency concentration:

	30 June 2006				31 December 2005				31 December 2004			
	USD	RUB	Other currencies	Total	USD	RUB	Other currencies	Total	USD	RUB	Other currencies	Total
<i>(in thousands)</i>												
Loans to customer, gross	123,607	372,340	24,402	520,349	87,100	316,621	35,607	439,328	44,219	226,322	20,216	290,757

Loans by maturity:

As with most other Russian banks, the Bank's loan portfolio is predominantly short-term. The following table sets out the contractual maturity structure of the Bank's gross loans to customers, as at the dates indicated:

	Less than 1 month	per cent. of total	1-6 months	per cent. of total	6-12 months	per cent. of total	Over 1 year	per cent. of total	No maturity	per cent. of total	Overdue	per cent. of total	Total
<i>(in U.S.\$ thousands)</i>													
30 June 2006													
Loans to customers, gross	132,947	25.5	198,297	38.1	94,496	18.2	92,881	17.8	—	—	1,728	0.3	520,349
	<u>132,947</u>		<u>198,297</u>		<u>94,496</u>		<u>92,881</u>		<u>—</u>		<u>1,728</u>		<u>520,349</u>
31 December 2005													
Loans to customers, gross	143,867	37.7	174,824	39.8	44,426	10.1	66,651	15.2	—	—	9,560	2.2	439,328
	<u>143,867</u>		<u>174,824</u>		<u>44,426</u>		<u>66,651</u>		<u>—</u>		<u>9,560</u>		<u>439,328</u>
31 December 2004													
Loans to customers, gross	107,529	37.0	114,909	39.5	16,403	5.6	47,645	16.4	—	—	4,271	1.5	290,757
	<u>107,529</u>		<u>114,909</u>		<u>16,403</u>		<u>47,645</u>		<u>—</u>		<u>4,271</u>		<u>290,757</u>

Ten Largest Borrowers

The following table represents a list of the Bank's ten largest borrowers as at 30 June 2006.

Rank of loan by size	Borrower	Total loan balance	per cent. of total	Industry
<i>(US\$ thousands)</i>				
1	TD Evroset'	22,157	4.30	Consumer electronics and computers
2	Ul'tra Elektronik.....	12,000	2.30	Consumer electronics and computers
3	Britich'	11,732	2.20	Light industry
4	Evroplast.....	11,381	2.20	Construction materials
5	Byurokrat.....	9,413	1.80	Consumer electronics and computers
6	Maksus.....	8,593	1.70	Consumer electronics and computers
7	Banana-Mama	8,417	1.60	Other consumer goods
8	Tsifrovoy tsentr ION	7,999	1.50	Consumer electronics and computers
9	Al't Telekom	7,981	1.50	Consumer electronics and computers
10	Pirit	1,567	0.30	Consumer electronics and computers
Total		101,241	19.40	

Liabilities

The following tables set out an analysis of the Bank's liabilities by currency and maturity.

Liabilities by currency

The following table sets out the Bank's exposure to foreign currency exchange risk in respect of its liabilities as at the dates indicated:

	30 June 2006			31 December 2005			31 December 2004		
	USD	RUB	Other currencies	USD	RUB	Other currencies	USD	RUB	Other currencies
	<i>(in U.S.\$ thousands)</i>								
Liabilities									
Deposits by credit institutions	70,744	17,147	22,822	72,631	36,940	35,283	1,638	27,033	20,933
Deposits by customers	32,624	246,659	8,860	32,059	187,950	9,151	23,802	95,223	6,539
Debts securities issued	12,805	174,313	4,486	21,211	138,398	4,586	16,950	94,893	7,967
	116,173	438,119	36,168	125,901	363,288	49,020	42,390	217,149	35,439

Liabilities by maturity

The following table sets out the contractual maturity structure of the Bank's liabilities as at the dates indicated:

	Less than 1 month	1-6 months	6-12 months	Over 1 year	No maturity	Overdue	Total
	<i>(in U.S.\$ thousands)</i>						
30 June 2006							
Liabilities							
Deposits by credit institutions.....	18,312	72,454	3,560	16,387	—	—	110,713
Deposits by customers.....	183,005	63,562	36,916	4,660	—	—	288,143
Debts securities issued	30,349	79,439	44,887	36,929	—	—	191,604
	231,666	215,455	85,363	57,976	—	—	590,460
Net position.....	(18,546)	6,053	24,890	119,372	15,746	1,728	149,243
Accumulated gap	(18,546)	(12,493)	12,397	131,769	147,515	149,243	
31 December 2005							
Liabilities							
Deposits by credit institutions.....	46,593	34,280	47,309	16,672	—	—	144,854
Deposits by customers.....	147,409	53,169	27,339	1,243	—	—	229,160
Debts securities issued	35,755	97,673	27,614	3,153	—	—	164,195
	229,757	185,122	102,262	21,068	—	—	538,209
Net position.....	36,964	17,897	(36,633)	81,146	10,020	9,560	118,954
Accumulated gap	36,964	54,861	18,228	99,374	109,394	118,954	
31 December 2004							
Liabilities							
Deposits by credit institutions.....	35,908	446	70	13,181	—	—	49,604
Deposits by customers.....	81,350	28,757	14,438	1,020	—	—	125,564
Debt securities issued	21,501	88,103	10,206	—	—	—	119,810
	138,758	117,306	24,714	14,201	—	—	294,978
Net position.....	53,064	1,794	1,448	46,813	6,516	4,271	113,906
Accumulated gap	53,064	54,858	56,306	103,119	109,635	113,906	

RISK MANAGEMENT

Overview

Risk management is fundamental to the Bank's business and it is an essential element of its operations. Its primary purposes are to identify, manage and monitor the size and concentration of the risks arising from the Bank's business. These risks include:

- solvency risk;
- liquidity risk;
- credit risk;
- market risk (including foreign exchange and interest rate risk);
- operational risk; and
- reputational risk.

The Bank's risk management system is designed to identify and manage these risks by setting appropriate limits and by monitoring these risks with its advanced administrative and information systems. These systems can be modified to reflect changes in market conditions and product demand.

Organisation

The responsibility for the Bank's risk management rests with several banking departments, including the Credit Monitoring Department, the Analysis Department, the Finance Department, Internal Control Department and the Financial Risks Unit (the "**FRU**") Internal Control Department. These departments are supervised by the Credit Committee and the Asset and Liability Committee ("**ALCO**").

ALCO: The main functions of ALCO are as follows:

- defining the scope of the total assets and liabilities structure of the Bank, with the allocation of assets and liabilities categorised according to the risk, profitability and maturity of the particular asset or liability concerned;
- establishing the scope of the Bank's activities on the financial markets, and financial instruments held and traded by the Bank;
- defining the structure of the Bank's financial instruments' portfolio;
- managing the Bank's currency position;
- managing the Bank's interest rate risk; and
- managing the Bank's liquidity position.

FRU: The FRU is a sub-division of the Bank's Finance Department and its main objectives are:

- the identification and analysis of market, credit and liquidity risk to which the Bank is exposed;
- timely estimation of the Bank's financial risks;
- the creation and development of the Bank's financial risk management policy; and
- the general control and monitoring of risk.

The Bank's Management Information System ("**MIS**") generates daily reports which include details of the cost structure of the Bank's assets and liabilities, its liquidity position, its revenues and expenditure, loans to clients, the repayment dates in relation to the Bank's short term liquidity management and its exposure limits. It also provides a maturity report on a monthly basis. In addition, the Bank's Client Relationships Management System manages the process of attracting and retaining clients and the sale of products to them.

Solvency risk

As with any other bank, the Bank is exposed to solvency risk and it monitors its own solvency on a daily basis. The system in place to monitor solvency risk measures the Bank's market values by

applying discounts to the book value of assets, thus allowing the Bank to calculate its “net conventional capital” within strict guidelines. The Bank’s objective is to maintain its solvency at a very high level. The Bank’s adherence to maintaining solvency within pre-defined levels allows the Bank to avoid making investments in risky assets and to reduce the risk of losses on the impairment of existing assets by selling them at an appropriate time.

Liquidity risk

As with any other Bank, the Bank is exposed to liquidity risk, arising from mismatches between the maturities of its assets and liabilities.

Managing liquidity risk includes monitoring the Bank’s asset and liability structure and predicting future fluctuations in respect thereof. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw-downs and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all obligations as they become due. The Bank’s ALCO sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of Interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Liquidity risk is analysed by the Bank in the following manner:

- departmental projections are consolidated into cash-flow charts for each group of assets and liabilities;
- statistical analysis methods are employed in order to identify necessary levels of short- and long-term liquidity;
- liability predictions are counterbalanced by ensuring the availability of appropriately liquid asset reserves to meet payment obligations;
- liquidity surpluses/shortages are identified throughout the prediction period together with respective allocation/funding options; and
- final decisions with respect to setting limits are carried out by the ALCO, which ensures comprehensive liquidity risk control.

The methods set out above ensure the remittance of client deposits, minimise unplanned funding costs and enhance asset performance.

The following table shows the contractual maturities of assets and liabilities of the Bank as at 30 June 2006, 31 December 2005 and 31 December 2004:

	Less than 1 month	1-6 months	6-12 months	Over 1 year	No maturity	Overdue	Total
<i>(in U.S.\$ thousands)</i>							
30 June 2006							
Assets							
Cash and due from CBR.....	36,843	—	—	—	13,587	—	50,430
Due from credit institutions, gross.....	32,696	—	—	—	—	—	32,696
Trade securities.....	10,634	23,211	15,757	84,467	2,159	—	136,228
Loans to customers, gross.....	132,947	198,297	94,496	92,881	—	1,728	520,349
	213,120	221,508	110,253	177,348	15,746	1,728	739,703
Liabilities							
Deposits by credit institutions.....	18,312	72,454	3,560	16,387	—	—	110,713
Deposits by customers.....	183,005	63,562	36,916	4,660	—	—	288,143
Debits securities issued.....	30,349	79,439	44,887	36,929	—	—	191,604
	231,666	215,455	85,363	57,976	—	—	590,460
Net position	(18,546)	6,053	24,980	119,372	15,746	1,728	149,243
<i>Accumulated gap</i>	(18,546)	(12,493)	12,397	131,769	147,515	149,243	
31 December 2005							
Assets							
Cash and due from CBR.....	68,526	—	—	—	10,020	—	78,546
Due from credit institutions, gross.....	52,078	—	—	—	—	—	52,078
Trade securities.....	2,250	28,195	21,203	35,563	—	—	87,211
Loans to customers, gross.....	143,867	174,824	44,426	66,651	—	9,560	439,328
	266,721	203,019	65,629	102,214	10,020	9,560	657,163
Liabilities							
Deposits by credit institutions.....	46,593	34,280	47,309	16,672	—	—	144,854
Deposits by customers.....	147,409	53,169	27,339	1,243	—	—	229,160
Debits securities issued.....	35,755	97,673	27,614	3,153	—	—	164,195
	229,757	185,122	102,262	21,068	—	—	538,209
Net position	36,964	17,897	(36,633)	81,146	10,020	9,560	118,954
<i>Accumulated gap</i>	36,964	54,861	18,228	99,374	109,394	118,954	
31 December 2004							
Assets							
Cash and due from CBR.....	41,847	—	—	—	6,516	—	48,363
Due from credit institutions, gross.....	37,053	—	—	—	—	—	37,053
Trading securities.....	5,393	4,190	9,759	13,369	—	—	32,053
Loans to customers, gross.....	107,529	114,909	16,403	47,645	—	4,271	290,757
	191,822	119,099	26,162	61,014	6,516	4,271	408,884
Liabilities							
Deposits by credit institutions.....	35,908	446	70	13,181	—	—	49,604
Deposits by customers.....	81,350	28,757	14,438	1,020	—	—	125,564
Debt securities issued.....	21,501	88,103	10,206	—	—	—	119,810
	138,758	117,306	24,714	14,201	—	—	294,978
Net position	53,064	1,794	1,448	46,813	6,516	4,271	113,906
<i>Accumulated gap</i>	53,064	54,858	56,306	103,119	109,635	113,906	

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

Credit risk

As with any other bank, the Bank is exposed to credit risk. Credit risk is the risk that a counterparty will be unable to pay amounts to the Bank in full when they become due.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower (or group of borrowers), and to specific industry and geographical segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Current limits in relation to the Bank's loan portfolio, are as follows: single borrower exposure may not exceed 6 per cent. of the Bank's interest-earning assets or 20 per cent. of the Bank's equity; and related party exposure may not exceed 15 per cent. of the Bank's interest-earning assets or 25 per cent. of the Bank's equity. In order to mitigate sectoral risks, the Bank pursues a policy of sectoral diversification of its loan portfolio with certain sectors, such as trade, being further diversified into product specialisations. Although the Bank has not set a specific maximum threshold in relation to the concentration of any one industry sector in its loan portfolio, the Bank does actively monitor possible industry concentrations in its loan portfolio to avoid the Bank becoming subject to any significant exposures. In respect of geographical concentrations, the Bank's loan portfolio only comprises borrowers from Moscow and the Moscow region, in line with the Bank's geographical coverage.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing applicable lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and/or personal guarantees.

As well as performing monthly macro-monitoring, the Bank micro-monitors its loan portfolio by analysing specific loans, including the monitoring of the borrower's compliance with established rules and principles, and the reviewing of its repayment profile. The Bank classifies a loan as being a "problematic loan" when the financial position of the borrower significantly deteriorates or the loan is overdue for a period of more than 3 months. As at 30 June 2006, 3.7 per cent. of the Bank's total loan portfolio was considered to be non-performing. This compares to 2.2 per cent. and 1.5 per cent. as at 31 December 2005 and 31 December 2004, respectively. It is the Bank's policy to write off a loan only after it has been overdue for a period of at least one year.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore usually bear limited credit risk. The Bank had letters of credit and guarantees amounting to U.S.\$14.7 million as at 31 December 2005 and U.S.\$26.8 million as at 30 June 2006, representing 2.7 per cent. and 4.4 per cent., respectively, of the Bank's total liabilities at those dates.

With respect to undrawn loan commitments, the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in relevant the loan agreements. The Bank had undrawn loan commitments amounting to U.S.\$11.9 million as at 31 December 2005 and U.S.\$9.5 million as at 30 June 2006, representing 2.2 per cent. and 1.6 per cent., respectively, of the Bank's total liabilities at those dates.

Market Risk

The Bank is exposed to market risks (primarily currency risk and interest rate risk), which arise from losses caused by fluctuations in the market price of financial instruments. Certain limits, established by the Bank's Planning and Analysis Department, are imposed upon the Bank's trading

operations in order to minimise the Bank's exposure to such risk. Such limits, which include, for example, exposure limits for certain issuers of securities as well as interbank transactions, are regularly reviewed by the ALCO and are established for each individual issuer of securities and counterparty, in accordance with the Bank's policy.

Currency risk: The Bank is exposed to adverse fluctuations in the prevailing exchange rates of currencies in which it maintains its assets and liabilities. The Bank is also exposed to foreign currency exchange rate fluctuations on its cash flows. To minimise this risk, the Bank monitors Russia's macroeconomic situation and developments in the international financial markets. The Board of Directors of the Bank also set limits on the level of exposure of the Bank to certain currencies; such limits are in compliance with requirements imposed on Russian banks by the CBR. To further minimise the Bank's exposure to currency risk, the Treasury Department engages in foreign exchange forwards by hedging the Bank's foreign currency position with swap transactions, such transactions being executed with highly-rated domestic financial institutions.

The following table sets out the Bank's exposure to currency risk as at 30 June 2006, 31 December 2005 and 31 December 2004:

	30 June 2006			31 December 2005			31 December 2004		
	USD	RUB	Other currencies	USD	RUB	Other currencies	USD	RUB	Other currencies
	<i>(in U.S.\$ thousands)</i>								
Assets									
Cash and due from CBR.....	1,456	48,251	723	2,441	75,496	609	2,111	45,860	392
Due from credit institution, gross.....	7,870	22,869	1,957	11,231	37,631	3,216	6,975	27,800	2,278
Trading securities.....	54	136,174	—	57	87,154	—	52	32,659	—
Loans to customer, gross	123,607	372,340	24,402	87,100	316,621	35,607	44,219	226,322	20,216
	132,987	579,634	27,082	100,829	516,902	39,432	53,357	332,641	22,886
Liabilities									
Deposits by credit institutions...	70,744	17,147	22,822	72,631	36,940	35,283	1,638	27,033	20,933
Deposits by customers.....	32,624	246,659	8,860	32,059	187,950	9,151	23,802	95,223	6,539
Debts securities issued	12,805	174,313	4,486	21,211	138,398	4,586	16,950	94,893	7,967
	116,173	438,119	36,168	125,901	363,288	49,020	42,390	217,149	35,439
Net position.....	16,814	141,515	(9,086)	(25,072)	153,614	(9,558)	10,967	115,492	(12,553)

Interest rate risk: The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities. The Bank's interest rate policy is reviewed and approved by the Bank's ALCO.

To minimize the impact of adverse interest rate fluctuations on the Bank's financial results, the Bank performs statistical analyses to decide the optimal allocation of the Bank's assets and the composition of its liabilities.

The following table sets out the Bank's average effective interest rates as at 30 June 2006, 31 December 2005 and 31 December 2004 for interest-bearing financial instruments:

	30 June 2006			31 December 2005			31 December 2004		
	USD	RUB	Other currencies	USD	RUB	Other currencies	USD	RUB	Other currencies
	<i>(per cent.)</i>								
Interest earning assets									
Due from credit institutions	0.4	5.6	—	3.3	7.1	—	0.2	3.5	—
Government bonds	6.4	6.3	—	5.6	6.1	—	6.6	6.5	—
Corporate notes and municipal bonds	—	7.2	—	—	7.7	—	—	7.0	—
Loans to customers	10.8	11	5.9	10.5	10.0	4.1	13.0	9.1	7.5
Interest bearing liabilities									
Deposits by credit institutions...	8.2	5.1	1.7	7.1	7.0	3.8	2.6	3.8	3.1
Deposits by customers	6.0	3.7	5.7	6.1	3.2	5.2	5.2	3.0	6.3
Debt securities issued	7.6	9.8	3.4	6.7	6.2	3.5	3.6	12.4	5.8

Operational risk: The Bank views operational risk as being those risks that result from inadequate or ineffective management of the Bank's business and the functioning of its internal processes relating to both individuals, systems and external events. Such events include losses from fraud, computer system failures, settlement errors, model errors and natural disasters.

Operational risk is managed by using an internal control structure that complies with the CBR's requirements and the recommendations published by the Basel Committee on Banking Supervision. The Bank's internal control processes are based on the principle of the distribution and segregation of authorities and the prevention of conflicts of interest between the Bank and its clients. Compliance with the Bank's policies is monitored on a regular basis by the Bank's Internal Audit Department. Accordingly, the Internal Audit Department is responsible for preparing relevant proposals to further enhance the Bank's existing internal control processes, and subsequently ensuring that such proposals are implemented effectively.

Reputational Risk: The Bank takes account of possible reputational risk in its business. In this context, reputational risk is the risk of losses to the Bank's business due to negative perception regarding the Bank's creditworthiness, its quality of service and/or regarding the quality of its business in general.

The Bank conducts its evaluation of reputation risk by monitoring information from customers, partners and employees. The Bank also monitors information and forecasts concerning itself in the media. The Bank delegates appropriate management resources to review and react to any circumstances that may give rise to reputational risk.

RELATED PARTY TRANSACTIONS

According to U.S. GAAP, parties are considered to be related if one party is able to control the other and influence its decision-making processes in relation to financial and other operational matters. In considering each possible related party relationship, the substance of the relationship must be taken into account rather than the legal form. It is the Bank's policy to conduct transactions with related parties on the same terms and conditions as it applies to non-related party transactions. Furthermore, it is the Bank's policy (due to covenants imposed on it and enforced by the IFC and the EBRD) to ensure that related party exposure does not exceed 15 per cent. of interest earned assets or 25 per cent. of equity.

As at 30 June 2006 and 31 December 2005, the Bank's exposure to its related parties was as follows:

Name of the borrower	30 June 2006		31 December 2005	
	Loans	Guarantees	Loans	Guarantees
<i>(in U.S.\$ thousands)</i>				
Lipezksahar				
OOO Apg "Chernozem'e"	—	—	2,851	—
OOO "Lebedyanskii Semennoi Zavod"	—	—	1,542	—
Total Lipezksahar	—	—	4,393	—
MKB-Holding				
Rossium Concern	—	—	—	2,000
Total MKB-Holding	—	—	—	2,000
TVC Holding				
Total Investment Group	1,039	—	1,260	—
Total TVC Holding	1,039	—	1,260	—
Akos Tekstil Holding				
Akos Teks	518	—	556	—
Lanstream Corporation	202	—	382	—
Total Tekstil Holding	720	—	938	—
Yarmarka Akos Holding				
Akos	667	—	413	—
Total Yarmarka Akos Holding	667	—	413	—
Individuals	285	—	192	—
TOTAL	2,711	—	7,196	2,000
As percentage of total loan portfolio	0.52%	—	1.69%	0.47%

The Bank establishes borrowing limits to related parties (currently U.S.\$10,000,000, although in some instances the limit may be increased to U.S.\$12,000,000). These limits are based on the acceptable maximum credit risk exposure to one borrower or group of related borrowers as set by the CBR.

The average interest rate on loans granted to related parties was 13.1 per cent. as at 30 June 2006, 10.1 per cent. as at 31 December 2005, and 12.3 per cent. as at 31 December 2004.

THE ISSUER

General

The Issuer was incorporated in Ireland on 22 August 2006, with registered number 425241 as a public company with limited liability under the Companies Acts 1963-2005 of Ireland (the “**Companies Acts**”). The registered office of the Issuer is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland and its phone number is +353 1 680 6000.

Corporate Purpose of the Issuer

The principal objects of the Issuer are set forth in clause 3 of its Memorandum of Association (as currently in effect) and permit the Issuer, *inter alia*, to lend money and give credit, secured or unsecured, to issue debentures and otherwise to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of the Notes and to use an amount equal to the proceeds of such issuance to advance the Loan to the Bank on the terms of the Loan Agreement.

Business Activity

The Issuer has been established as a special purpose vehicle for the purpose of issuing the Notes. The Issuer has not previously carried on any business or activities other than those incidental to its incorporation, the authorisation and issue of the Notes, granting the Loan and activities incidental to the exercise of its rights and compliance with its obligations under the Notes, the Subscription Agreement, the Agency Agreement, the Trust Deed and the other documents and agreements entered into in connection with the issue of the Notes and the Loan.

Corporate Services Provider

Deutsche International Corporate Services (Ireland) Limited (the “**Corporate Services Provider**”), an Irish company, acts as the corporate services provider for the Issuer. The office of the Corporate Services Provider serves as the general business office of the Issuer. Through the office and pursuant to the terms of the corporate services agreement entered into on 12 October 2006 between the Issuer and the Corporate Services Provider (the “**Corporate Services Agreement**”), the Corporate Services Provider performs various management functions on behalf of the Issuer, including the provision of certain clerical, reporting, accounting, administrative and other services until termination of the Corporate Services Agreement. In consideration of the foregoing, the Corporate Services Provider receives various fees and other charges payable by the Issuer at rates agreed upon from time to time plus expenses. The terms of the Corporate Services Agreement provide that either party may terminate the Corporate Services Agreement upon the occurrence of certain stated events, including any material breach by the other party of its obligations under the Corporate Services Agreement which is either incapable of remedy or which is not cured within 30 days from the date on which it was notified of such breach. In addition, either party may terminate the Corporate Services Agreement at any time by giving at least 90 days written notice to the other party. The Corporate Services Agreement contains provisions for the appointment of a replacement corporate services provider if necessary.

The Corporate Services Provider’s principal office is 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

Recent Developments

Save as stated above, there has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation. Save for the issue of Notes described above and their related arrangements, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

Capital and Shareholders

The authorised share capital of the Issuer is EUR 40,000 divided into 40,000 ordinary shares of par value EUR 1 each (the “**Shares**”). The Issuer has issued 40,000 Shares, all of which are fully paid and are held on trust by or on behalf of Deutsche International Finance (Ireland) Limited (the “**Share Trustee**”) under the terms of a declaration of trust (the “**Declaration of Trust**”) dated 11 September 2006, under which the Share Trustee holds the Shares on trust for charity. The Share Trustee has no beneficial interest in and derives no benefit (other than any fees for acting as Share Trustee) from its holding of the Shares. The Share Trustee will apply any income derived from the Issuer solely for the above purposes.

Management

The Issuer’s Articles of Association provide that the Board of Directors of the Issuer will consist of at least two Directors.

The Directors of the Issuer and their business addresses are as follows:

Jennifer Coyne, 5 Harbourmaster Place, IFSC, Dublin 1, Ireland; and

Michael Whelan, 5 Harbourmaster Place, IFSC, Dublin 1, Ireland.

The Company Secretary is Deutsche International Corporate Services (Ireland) Limited.

The Directors do not hold any direct, indirect, beneficial or economic interest in any of the Shares. The directorship of the Directors is provided as part of the Corporate Services Provider’s overall corporate administration services provided to the Issuer pursuant to the Corporate Services Agreement.

The Directors are employees of Deutsche International Financial Services (Ireland) Limited, which is a related entity of the Corporate Services Provider.

Financial Statements

Since its date of incorporation, the Issuer has not commenced operations and no financial statements of the Issuer have been prepared as at the date of this Prospectus. The Issuer intends to publish its first financial statements in respect of the period ending on 31 December 2006. The Issuer will not prepare interim financial statements. The financial year of the Issuer ends on 31 December in each year.

Each year, a copy of the audited profit and loss account and balance sheet of the Issuer together with a report of the directors and the auditors thereon is required to be filed in the Irish Companies Registration Office within 28 days of the annual return date of the Issuer and is available for inspection. The profit and loss account and balance sheet can be obtained free of charge from the registered office of the Issuer. The Issuer must hold its first annual general meeting within 18 months of the date of its incorporation (and no more than 9 months after the financial year end) and thereafter the gap between its annual general meetings must not exceed 15 months. One annual general meeting must be held in each calendar year.

The auditors of the Issuer are KPMG of Earlsfort Terrace, Dublin 2, Ireland who are chartered accountants and are members of the Institute of Chartered Accountants and registered auditors qualified to practise in Ireland.

Litigation

There are no, and have not been, 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 since its incorporation, a significant effect on the financial position or profitability of the Issuer.

OVERVIEW OF THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION

Infrastructure

The current institutional framework of the Russian banking sector consists of the CBR, state owned banks and private commercial banks.

History and Development of the Russian Banking Sector

Under the Soviet regime, Gosbank allocated resources from the Government's budget according to the prevailing economic plan and the state-owned Sberbank monopoly offered retail banking services. In 1987, with the liberalisation of government controls over companies and interbank settlements, a small group of dependent specialised banks developed to attract savings deposits and finance foreign trade, construction, industry, agriculture and small enterprises.

During the second phase of reform from 1988 to 1989, many regional commercial banks emerged (primarily in the form of co-operatives or joint stock companies). After the collapse of the Soviet Union in November 1991, the CBR assumed all of Gosbank's functions, and the government liquidated Gosbank one month later. In 1991, three of the specialised state banks transformed into joint stock companies. Some regional branches of these banks became independent from head offices through management buy-outs.

Until the mid-1990s, the number of commercial banks in the Russian Federation was increasing (from approximately 358 in 1990 to 2,538 in 1996). Very few of these entities enjoyed sufficient economies of scale to be viable as stand-alone entities and most were dependent on support from their shareholders. The reluctance of Russian corporations to outsource their banking services was and continues to be one of the reasons for the industry's fragmented nature. Many Russian banks remain poorly managed, with inadequate or non-existent risk management systems. Corporate governance in the sector is weak, with creditor abuse still rife. Financial disclosure is poor and ownership structures lack transparency.

The weakness of the Russian banking system was exposed in 1998 during the Russian financial market crisis brought about by the Government's default on much of its short-term domestic debt.

Many banks went bankrupt or were placed under the administration of the Credit Organisations Restructuring Agency ("ARCO"), a state corporation established in 1999 to restructure defaulting banks and protect their creditors. In 2002, 14 banks were under the ARCO's administration and by 31 December 2002 11 of them had completed the financial restructuring process. Other defaulting banks were liquidated. Following the stabilisation of the banking sector in recent years, ARCO's role has decreased substantially. On 18 October 2003, the last credit organisation was withdrawn from ARCO's administration.

As at 1 August 2006, the number of credit organisations operating in the Russian Federation amounted to approximately 1,217. However, poor corporate governance, risk management, transparency and weak management remain widespread among many such institutions.

According to the CBR, as at 1 May 2006 the total assets of the Russian banking sector (credit organisations operating in Russia) were valued at approximately RUB 10,658.2 billion, with own assets valued at approximately RUB 1,241.8 billion. The total charter capital of Russian credit organisations were just RUB 472.9 billion as at 1 May 2006.

In 2002, 2003, 2004 and 2005 the Russian banking sector continued to restore its creditability in the eyes of creditors and retail depositors facilitating the increase of banks' resource base. The main source of growth of banks' financial resources is the increasing number of retail deposits. In May 2006 the amount of credit balances on Rouble and foreign currency accounts of individuals increased to approximately RUB 2,971.1 billion as compared to RUB 2,220.6 billion in May 2005. The second source of growth of financial resources is credit balances on accounts of corporate clients. The amount of credit balances on Rouble and foreign currency accounts of corporate clients increased from approximately RUB 1,738.4 billion in May 2005 to RUB 1,220.7 billion in May 2006. The remaining sources of growth of the banking sector's resource base are increasing volumes of issue of debt securities (primarily promissory notes) and interbank credit operations amounting to RUB 735.3

86 billion and RUB 1,037.0 billion in February 2006, respectively, as compared to RUB 644.2 billion and RUB 737.1 billion in February 2005, respectively.

As at 1 May 2006 of the Russian banking sector's total assets, 65.8 per cent. are represented by account receivables under credit operations, 17.1 per cent. are represented by investments into securities, 5.3 per cent. and 2.0 per cent. are represented by credit balances on accounts with the CBR and correspondent banks, respectively. Although the volume and amount of credit operations is increasing, Russian banks are focused mainly on short-term financing due to the insufficient creditworthiness and transparency of Russian entities. That, in turn, broadens the practice of tied loans and financing of affiliated parties.

In April-July 2004 the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of the revocation by the CBR of the Banking licences of several Russian banks (including former top 20 Russian bank, Guta Bank), lending in the Russian Interbank market constricted and the liquidity of some private Russian banks was adversely affected. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. According to the CBR, from 15 June until 1 August 2004 private depositors withdrew approximately RUB 30 billion from Russian banks, except for Sberbank.

The CBR took steps to combat the crisis. The rate of mandatory reserves that banks were required to deposit with the CBR was temporarily reduced from 7 per cent. to 3.5 per cent. To implement these measures, the CBR permitted banks to immediately reduce their mandatory reserves. Accordingly, banks' borrowing costs have been reduced. In addition, legislation has been passed to combat the crisis and to minimise potential losses of private depositors. In accordance with the recent amendments to the CBR Law the CBR will make payments to the private depositors of insolvent Russian banks if such banks have not been admitted to the system of the insurance of private deposits prior to their bankruptcy. The CBR will also be able to impose, for the term of one year, a limit on the interest rates on deposits paid by banks to private depositors. In addition, banks will be required to disclose certain information related to the interest rates on deposits, banks' liabilities in respect of deposits and amounts of cash withdrawals by private depositors. It is anticipated that the CBR will issue regulations with respect to particular disclosure requirements.

Banking industry sector

The Russian banking sector is characterised by a high level of concentration of capital. As at 1 May 2006, approximately 74.7 per cent. of the banking sector's total assets were held by 50 of the largest Russian banks. Sberbank remains the largest bank in Russia in terms of assets, volume of banking operations, client base and branch offices with a 62 per cent. share of overall deposits, 50 per cent. of retail lending and 29 per cent. of the aggregate assets in the Russian banking sector as at 5 July 2005.

State owned banks continue to play a key role in the development of the Russian banking sector. In 2002 Russia's 23 state owned banks (with a 50 per cent. +1 shares stake held by the state) had a 37.5 per cent. share in the total assets, 39.2 per cent. share in the total loan portfolio, 72.1 per cent. share in the total retail deposits of the Russian banking sector. State owned banks offering retail banking services include Sberbank and Vneshtorgbank. Other state owned banks focus primarily on operations with budgetary funds and participate in the realisation of governmental programmes (for example, Rosselkhozbank (Russian Agricultural Bank), Roseximbank (Russian Export Import Bank)).

Although it is not possible for foreign banks to directly conduct business on the Russian financial market, many major foreign banks have subsidiary banks in the Russian Federation. The aggregate level of participation of foreign capital within the Russian banking system is determined by federal law as proposed by the Government in conjunction with the CBR. At the moment, however, such law has not been yet adopted. As at 1 January 2006, 52 banks controlled by foreign groups through the holding of more than 50 per cent. of their shares were operating in the Russian Federation, of which three banks are ranked top 30 by the value of their assets. Foreign controlled banks focus primarily on cash and settlement services to non-residents and interbank operations. Although foreign controlled banks, such as Raiffeisenbank Austria, Citibank, Société Générale and

Delta Bank, are starting to offer retail banking services and increase loan portfolios in the real sectors of the economy, their role in the Russian banking sector remains insignificant.

Retail banking

Sberbank remains the leader in retail banking operations with approximately a 65 per cent. share of total retail deposits. The collapse of large privately owned banks with large distribution networks, such as SBS Agro, Incombank and Rossyisky Kredit in 1998, considerably undermined the credibility of consumer banking among retail depositors. State-owned Sberbank remains a dominant player in the sector benefiting from an indirect state guarantee for deposits placed with it and the size of its branch network, which is the largest in Russia.

The retail loan market remains underdeveloped and banks have only recently begun to develop mortgage and credit card products, whilst point-of-sale consumer finance has only been available since 2000.

Role of the CBR

The CBR is in many respects the successor to Gosbank, the former state bank of the Soviet Union, and operates under the Law “On the CBR of the Russian Federation (the Bank of Russia) No. 86-FZ dated 10 July 2002, as amended (the “**CBR Law**”).

According to the CBR Law, neither the state nor the CBR are liable for the other’s obligations, unless it has accepted such liability under an agreement or such liability is imposed by Russian legislation. The assets of the CBR are under federal ownership. According to the latest available data, as at 1 June 2006, the CBR assets amounted to RUB 7,083,420 million (approximately U.S.\$264,308 million at the then current exchange rate) and its gold and currency reserves as at 1 June 2006 (held together with the Ministry of Finance) amounted to U.S.\$247 billion.

The CBR is legally and financially independent of the Russian Government. The management of the CBR consists of the Chairman, the Board of Directors and the National Banking Council, a body executing primarily supervisory functions (for example, determining the CBR’s maximum capital expenditures, allocation of CBR’s profits, appointment of the CBR’s auditors and approval of the CBR’s accounting rules and procedures). The Chairman of the CBR is appointed for a four year term by the State Duma of the Russian Federation (lower chamber of the Russian Parliament) upon the nomination by the President of the Russian Federation. The same procedure applies to the Chairman’s removal. The Chairman of the CBR participates in meetings of the Russian Government. Of the 12 members of the National Banking Council, the Federation Council (upper chamber of the Russian Parliament) appoints two from among its members, the State Duma appoints three from among its members, the President of the Russian Federation and the Russian Government each appoint three members. The Chairman of the CBR is ex officio member of the National Banking Council.

Pursuant to the CBR Law and the Law “On Banks and Banking Activity” No. 395-I dated 2 December 1990, as amended (the “**Banking Law**”), and the New Currency Law the CBR is authorised to issue and implement binding regulations with respect to banking and currency operations.

Under current legislation, the CBR performs the following main functions:

Issue of Money and Regulation of its Circulation

The CBR has the exclusive authority to issue money in the Russian Federation and organises its circulation. The CBR established the procedure for conduction of settlements.

Financing/Monetary Policy

The CBR may re-finance banks by extending short-term loans at discount rates to private banks. The CBR also establishes reserve and capital adequacy and various ratio requirements for banks. The CBR implements monetary policy by determining refinance interest rates, conducting currency interventions and issuing securities. The CBR is prohibited from extending loans to the Russian government for the purpose of financing budget deficit.

Registration and Licensing

The CBR registers commercial banks and their issues of securities, issues and may suspend or revoke, banking licences.

Supervision and Control

The CBR oversees banks' compliance with ratio and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks' operations and transactions, appoints temporary administrations to banks, regulates the acquisition and/or trust management of shareholding in banks exceeding 5 per cent. and assess the financial standing of banks and that of their owners.

Transactions with Banks

The CBR extends loans to banks, maintains correspondent Rouble accounts with other banks, provides cash and settlement services to banks, issues guarantees to banks, trades sovereign debt securities and securities issued by the CBR, trades bullion and precious stones, purchases and sells foreign currency and foreign currency denominated payment documents issued by Russian and foreign banks. Save for limited instances provided in the CBR Law, the CBR is prohibited to participate in the charter capital of banks and other commercial entities.

Federal Budget Implementation and External Debt Servicing

The CBR acts as placement agent for sovereign debt issued by the Ministry of Finance, administers federal budget accounts and acts as service agent with respect to domestic treasury securities of the Russian Federation.

Exchange Control

In accordance with new currency legislation the CBR has retained its substantial powers with respect to regulation of foreign currency operations. In particular, until 1 January 2007 the CBR has powers to influence the foreign currency market by way of introducing reserve requirements in respect of certain currency operations specified in the new legislation.

Regulation of the Russian Banking Sector

Banking activity in the Russian Federation is broadly governed by the CBR Law, the Banking Law, CBR's regulations and, to a limited extent, by the New Currency Law. While the CBR is the primary regulator of the banking sector, other state authorities also exercise regulatory and supervisory functions over banks. The Federal Service on Financial Markets of the Russian Federation issues licences to banks to act as professional participants on the Russian securities market (for example, brokerage/dealer and custody activities). Tax authorities supervise tax assessments of banks.

Set out below are some of the principal features of the regulatory regime applicable to banks in the Russian Federation:

Licensing

A credit organisation must be licensed by the CBR in order to conduct "banking activities" as defined in the Banking Law. The credit organisation must be incorporated in the Russian Federation.

Licence applicants must submit to the CBR a feasibility report, detailed information on senior management and their compliance with qualification requirements, documents certifying the source of funds contributed to the charter capital of the credit organisation.

Under the Banking Law, credit organisations may be incorporated either as joint stock or limited liability companies or companies with additional liability. The latter form, however, is not common in Russian banking practice, as it envisages joint liability of the company's owners in respect of the company's obligations.

The CBR may refuse to issue a banking licence in the event of (i) non-compliance of application documents with Russian law requirements, (ii) unsatisfactory financial standing of owners of the credit organisation, (iii) non-compliance of chief executive officer and chief accountant of the credit

organisation with qualification requirements and (iv) unsatisfactory business reputation of members of the board of directors of the credit organisation.

Capital Requirements

The CBR establishes the minimal amount of charter capital for banks. Pursuant to the Directive of the CBR No. 1346-u dated 1 December 2003, the minimal amount of charter capital for both 89 newly established as well as foreign controlled banks shall amount to the Rouble equivalent of EUR 5 million.

Capital Adequacy

On 16 January 2004 the CBR adopted a new Regulation No. 110-I “On Mandatory Ratios of Banks” (“Regulation No. 110-I”) which superseded the CBR Instruction No. 1 “On the Procedure for Regulating the Activities of Credit Organisations”, approved by the Order of the CBR No. 02-430 dated 1 October 1997, as amended (“Instruction No. 1”). Whereas Regulation No. 110-I introduced a number of material changes into the system of mandatory ratios the value of the capital adequacy ratio, which is a relation of own capital to assets and certain off-balance-sheet items, determined on a risk-weighted basis, has remained unchanged at the rate of at least 10 per cent. for banks with amount of own capital no less than the Rouble equivalent of EUR 5 million and at least 11 per cent. for banks with amount of own capital less than the Rouble equivalent of EUR 5 million.

The own capital of a bank consists of core capital and additional capital. Core capital includes, among other items, charter capital, share premium, retained earnings and certain reserves funds. Additional capital includes, among other items, assets revaluation reserves, general loan loss reserves, subordinated debt. To assess the capital adequacy of banks under the risk-based capital guidelines, a bank’s own capital is related to the aggregate risk of its assets and off-balance sheet exposure, which are weighted according to five broad risk categories.

Russian banking legislation requires that banks with amount of charter capital exceeding the amount of own capital adjust their charter capital accordingly. Non-adjustment of the charter capital to amount of own funds may constitute grounds for the revocation of the bank’s licence.

Compulsory Reserve Requirements

Pursuant to the CBR Law, the Board of Directors of the CBR may establish compulsory reserve requirements for banks. Compulsory reserve requirements must not exceed 20 per cent. of the bank’s liabilities and may vary for different categories of banks.

Banks are currently required to post compulsory reserves to be held on non-interest bearing accounts with the CBR in the amount equal to 3.5 per cent. in respect of funds in Roubles and foreign currency attracted from legal entities and individuals and 2 per cent. in respect of short-term funds in Roubles and foreign currency attracted from non-resident banks.

Prior to July 2004, compulsory reserves of banks to be deposited with the CBR were required to be calculated under the CBR Order No. 02-77 of 30 March 1996 (the “**Old Reserves Regulation**”). Since July 2004, the mandatory reserves are required to be calculated by banks in accordance with the CBR Regulation No. 255-P of 29 March 2004 (the “**New Reserves Regulation**”), which changes the methods of reserves calculation. The New Reserves Regulation no longer requires creation of reserves for certain long-term borrowings.

However, it requires posting of reserves for short-term obligations to non-resident banks. In addition, credit organisations with good reserves and credit history will be offered a new mechanism that would allow posting of reserves in accordance with certain calculated averages.

In the event of non-compliance with the compulsory reserve requirements the CBR may impose a fine on the bank and directly debit the bank’s correspondent account with the CBR in respect of the insufficient reserve amounts. The CBR and its regional bodies have a right to conduct unscheduled audits on credit organisations to check their compliance with the reserve rules.

Amounts deposited with the CBR in compliance with compulsory reserve requirements are not subject to arrest or other legal process under a bank’s obligations. After revocation of the banking licence such amounts are included in the pool of assets available for distribution amongst a bank’s

creditors in the order established by Russian legislation. As of 1 October 2006, the Central Bank of Russia's compulsory reserve requirements are novated so that, *inter alia*, the compulsory reserve ratio applicable to Rouble and foreign currency denominated liabilities to non-resident banks will increase to 3.5 per cent. The Bank has reassessed the potential impact of this regulatory change and expect such compulsory reserves to grow by U.S.\$480,000.

Provisioning and Loss Allowances

The CBR put in place certain rules concerning creation of allowances for loan losses for loans extended by banks. The CBR's Regulation No. 254-P dated 26 March 2004 requires banks to adopt procedures for calculation and posting of allowances for loan losses and continuously monitor the financial position of their borrowers.

This new regulation has introduced a number of new provisioning rules. In particular, it requires credit organisations to rank their loans into five categories instead of four, as prescribed by the earlier regulation and the range of loans that must be provided for has been extended to include rights assigned under contracts, mortgages acquired in the secondary markets, claims relating to purchase of financial assets with deferred payment, rights under repo contracts (if such repo contracts are concluded in respect of unlisted securities) and some other operations. The new regulation established that loans classified as Category I loans (standard loans) need not be provided for. Additionally, credit organisations will be required to classify their loan security into two groups on the basis of its quality. The new regulation provides for a somewhat simplified procedure with respect to writing off bad debts, especially minor debts, as compared with the procedure that was previously in place.

Allowances for loan losses are calculated at the end of each calendar month in Roubles, and then adjusted each month. Such allowances are only used to cover losses relating to the principal amount of the loans made by banks and/or amounts of promissory notes that exclude the relevant interest and discount. The CBR and its regional units have the right to audit a banks' compliance with the requirements relating to allowances for loan losses and check the correct calculation of such allowances in order to balance the need to create allowances on the one hand and ensure the correct preparation of a banks' financial statements for tax purposes on the other.

The CBR also established rules concerning creation of allowances for possible losses, other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward and other transactions. The CBR Instruction No. 238 of 20 March 2006 requires banks to rank such assets and operations into five risk groups reflecting the following situations (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. 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 framework established by the CBR for each risk group indicated above, respectively: (i) 0 per cent.; (ii) 1 per cent. to 20 per cent.; (iii) 21 per cent. to 50 per cent.; (iv) 51 per cent. to 100 per cent.; and (v) 100 per cent.

Banks must report to the CBR on the amounts of created non-loan allowances monthly within ten days following the reporting month. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules.

Liquidity Ratios

The Regulation No. 110-I establishes liquidity ratios for banks which include the immediate liquidity ratio, current liquidity ratio, long-term liquidity ratio, general liquidity ratio and liquidity ratio in relation to operations with precious metals. The level of liquidity of different types of assets is established by the CBR.

The *immediate liquidity ratio* is calculated as a relation of the high liquid assets of a bank to its total obligations under accounts on demand and must be not less than 15 per cent.

The *current liquidity ratio* is calculated as a relation of the liquid assets of the bank to its total obligations under accounts on demand and with a term not exceeding 30 days and must be not less than 50 per cent.

The *long-term liquidity ratio* is calculated as a relation of the total indebtedness toward the bank over one year to its own capital and obligations of the bank under deposits, loans received and other debt obligations with maturity over one year and must not exceed 120 per cent.

The *general liquidity ratio* is calculated as a relation of the liquid assets of the bank to its aggregate assets and must be not less than 20 per cent.

Credit limits

Banks must comply with credit limits established by the CBR and other Russian banking legislation. Pursuant to Regulation No. 110-I, a bank is not permitted to have exposures exceeding the following:

- to any single borrower or a group of related borrowers, in excess of 25 per cent. of its own capital;
- to shareholders (participants) of the bank on an aggregate basis, in excess of 50 per cent. of its own capital; and
- to insiders (persons capable of influencing the decisions of the bank on granting a loan) on an aggregate basis in excess of 3 per cent. of its capital.

The Regulation No. 110-I had abolished the following ratios: maximum exposure to a creditor, maximum exposure to a shareholder, maximum exposure to an insider, maximum aggregate individuals' deposits, maximum aggregate liabilities in respect of non-resident bank and other non-resident financial institutions, credit limits in respect of financing of equity in other companies' capital, credit limit in respect of own promissory notes liabilities and liquidity ratio in respect of precious stones operations.

Regulation of Currency Exposure

In its Instruction No. 124-I of 15 July 2005, the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "currency exposure"), as well as controls over such 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. Open currency position is calculated as the sum of all 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 CBR's prices for precious metals.

The CBR established that at the end of each operational day the total amount of all long or short currency positions shall not exceed 20 per cent. of the bank's own funds. At the same time, at the end of each operational day the long or short position with respect to one particular currency or one particular precious metal shall not exceed 10 per cent. of the bank's own funds.

Banks with own funds not exceeding EUR 6 million are required to report to the CBR about their currency exposure once a week with breakdowns for each day. Banks with own funds equal to or exceeding EUR 6 million are required to report about their currency exposure daily on the day following the reporting day.

The CBR is authorised to impose sanctions on banks if the limits of open currency positions are exceeded on more than 6 operational days in each 30 consecutive days.

Reporting Requirements

Banks must regularly submit balance sheets and other financial statements that reflect their financial position to the CBR. Financial statements must be disclosed to public by the bank on a quarterly and yearly basis. Annual financial statements must be published only after their certification by an independent auditor.

Quarterly financial statements may be published without their certification by an independent auditor. Banking groups (i.e., alliances of banks in which one bank directly or indirectly controls

decisions of the management bodies of other banks within the alliance) and consolidated groups (i.e., alliances of legal entities in which one bank, directly or indirectly, controls decisions of the management bodies of other commercial non-banking companies within such alliances) must regularly submit to the CBR the groups consolidated accounts.

The CBR may at any time conduct full or selective audits of any banks filings and may inspect all of its books and records. The CBR, however, is prohibited to conduct a secondary audit of matters covered by the previous audit within a single reporting period, save for limited circumstance provided in the CBR Law.

Accounting Practices

The CBR establishes a standard format for presentation of financial and statistical data and recording banking transactions. Also the CBR establishes accounting rules and procedures for banks. The Banking Law requires that the annual balance sheets and other financial statements of banks be certified by an auditor licensed by the CBR.

Before 1 January 2006, all credit organisations in the Russian Federation prepared their financial statements according to both Russian accounting standards and IFRS. The Banking Law requires that an independent auditor certify a credit organisation's annual financial statements.

Banking Reform

The 1998 financial crisis revealed the lack of proper management controls and risk management systems in the Russian banking sector and strengthened public anxiety regarding the integrity of the banking system, with misleading advertisements, money laundering, corruption and criminal contacts all being major concerns.

At the end of 2001, the Russian Government and the CBR issued a joint declaration setting out the strategy for banking reform in the Russian Federation and calling for certain legislative steps and structural changes in the next five years.

Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the introduction of amendments to the Russian Civil Code allowing the early withdrawal of funds held on deposit accounts opened for a certain term, (iii) the acceptance of IFRS by all Russian banks and (iv) the gradual implementation of a mandatory system of securing private depositors' funds in banks.

The law "On Insurance of Retail Deposits Placed by Retail Individuals with Banks in the Russian Federation" No. 177-FZ dated 23 December 2003, as amended ("**Deposits Insurance Law**") introduced a system of insuring private deposits. Insurance of private deposits is now mandatory for all Russian banks that hold a CBR licence to attract deposits from individuals (the "**retail banking licence**"). The Deposits Insurance Law provides for the establishment of a new regulator, Agency for Insurance of Deposits (the "**Agency for Insurance of Deposits**"), that should assume responsibility for collecting deposits, managing the funds in the mandatory insurance pool, determining the insurance premiums and monitoring insurance payments.

From now on, banks issued with a retail banking licence will be entered into the register of the Agency for Insurance of Deposits. Banks that hold a valid retail banking licence must be registered as a participant in the mandatory deposits' insurance system if they wish to be able to accept deposits from individuals. There are a number of tests that such bank is expected to meet before it will be admitted: (i) the CBR must be comfortable that its financial accounts and reports are true; (ii) it is in full compliance with the CBR mandatory ratios (capital adequacy, liquidity etc.); (iii) the CBR considers its solvency position sufficient; and (iv) the CBR has not cancelled such bank's banking licence etc. If a bank fails to comply with the above tests and or chooses not to participate in the deposits' insurance system, it will not be able to attract deposits from and open accounts for, individuals.

In December 2004, the Federal Law "On Credit Histories" was passed. This law provides for the establishment, for the first time in Russia's recent history, of "credit bureaus" that will maintain a database of borrowers' credit histories. The law requires all credit organizations, starting from September 1, 2005, to provide at least one credit bureau with the credit histories of all borrowers that

have consented to the distribution of such credit histories. The borrower's credit history will consist both of public and confidential parts and must include, among other things, information on the borrower's outstanding debt and interest thereon, the terms of repayment and legal proceedings involving the borrower in respect of loans and credits. The CBR will oversee the credit bureaus and maintain a general catalogue of credit histories. The new law became effective on June 1, 2005 and is expected to decrease credit risk to lenders.

On April 5, 2005, the Government of Russia and the CBR published a new strategy for the development of the Russian banking sector during the period from 2005 to 2008 (the “**2005 Strategy**”), which replaces the 2001 joint declaration. Its main objective is to increase the stability and effectiveness of the banking system. Among other things, the 2005 Strategy analyzes current conditions in the Russian banking sector, outlines goals for the sector's reform and forecasts the results of such reform. Among the new strategy's main goals are:

- improving the legislative regulation of banking activities and increase the efficiency of bank regulation;
- developing banking infrastructure, including increasing the effectiveness of deposit taking and the lending activities of banks, and facilitating banks' roles as financial intermediaries;
- strengthening investors', depositors' and creditors' trust in the Russian banking sector and protecting the interests of banks' depositors and creditors;
- strengthening market discipline in the banking sector and ensure fair competitive conditions for all credit organisations;
- increasing the competitiveness of Russian credit organisations; and
- ensuring the transparency of, and appropriate corporate governance levels in connection with, banking activities and preventing the use of credit organisations for unlawful purposes, such as money laundering.

As part of improving legislative oversight of banking activities, the new strategy outlines, among other things, the following steps:

- improving the protection of creditors' rights (in particular, those secured by collateral);
- improving procedures for the liquidation of credit organisations whose banking licenses have been revoked;
- simplifying procedures for mergers between and acquisitions of credit organisations;
- facilitating an efficient system for collecting and using credit history data; and
- improving the regime for taxation of credit organisations.

The strategy envisions the following as among priority reforms:

- increasing the minimum amount of a bank's charter capital to €5 million starting in 2007;
- increasing the minimum amount of a bank's charter capital (mandatory economic ratio N1) to 10 per cent., regardless of the type of credit organisation and the value of its net worth, starting in 2007;
- easing procedures for the participation of non-residents in the capital of Russian banks, while maintaining existing restrictions on foreign banks' ability to open branches in Russia; and
- introducing a simplified procedure for the assignment of bank loans.

The implementation of the 2005 Strategy will take into account certain recommendations of the International Monetary Fund and the World Bank, as set forth in their 2002-2003 Russian Financial Sector Assessment Program. Upon achievement of the targets set forth in the 2005 Strategy, priority for the subsequent period from 2009-2015 will be the effective positioning of the Russian banking sector on the international financial market.

Insolvency Regime

Apart from the administrative proceedings which may be implemented by the CBR (as discussed below), banks are subject to special bank insolvency rules set out in the Law “On Bankruptcy (Insolvency) of Credit Organisations” No. 40-FZ dated 25 February 1999, as amended (the “**Bank Insolvency Law**”). Pursuant to the Bank Insolvency Law, bankruptcy proceedings against a bank may not be initiated prior to the revocation of its banking licence. If a bankruptcy petition is filed with a court and the banking licence of the allegedly insolvent bank is not revoked the court must request the CBR for an opinion on whether there are grounds for revocation of the bank’s banking licence. If the CBR issues a negative opinion or fails to respond, the bankruptcy petition must be dismissed. In the latter case, the CBR is liable for any losses a creditor will incur in the result of non-revocation of the banking licence.

Pursuant to the Banking Law, a licence of the credit organisation may be revoked, if (i) it is established that the information upon which the licence has been issued is untrue and misleading, (ii) the credit organisation delays its operation for one year from the issue of the banking licence, (iii) it is established that information that is subject to disclosure by the credit organisation is significantly untrue and misleading, (iv) the credit organisation fails to submit to the CBR the monthly report within 15 days, (v) the credit organisation conducts banking operations without an appropriate licence, (vi) the credit organisation’s activities do not comply with Russian legislation on banking activities, (vii) the credit organisation does not fulfil court decisions on the collection of funds from its client accounts, (viii) the revocation of the banking licence is requested by the temporary administration appointed to the credit organisation in cases provided by the Bank Insolvency Law, (ix) the credit organisation fails to submit updated information required to be reflected in the state register of legal entities and (x) the credit organisation managing the security under mortgage backed securities fails to comply with the requirements of Russian legislation on mortgage-backed securities.

Under the Banking Law the CBR must revoke a banking licence of a bank, if (i) its capital adequacy ratio falls below 2 per cent., (ii) if the amount of bank’s own capital is less than the bank’s minimal charter capital requirement established by the CBR, (iii) the bank fails to adjust its charter capital to own capital according to requirements of the CBR within 45 days of the CBR’s notification and (iv) the bank fails to satisfy the claims of its creditors or make mandatory payments (for example, taxes and duties) in the aggregate amount of RUB 100,000 within 14 days of their maturity.

Upon revocation of the banking licence, the CBR must appoint to the bank a temporary administration. A temporary administration oversees the operations, identifies debtors of the bank and collects its assets. A temporary administration performs its functions until appointment of the liquidator or the bankruptcy manager but no more than 6 months.

However, under the Bank Insolvency Law, a temporary administration may be appointed to the bank prior to the revocation of its banking licence if (i) the bank fails to satisfy claims of creditors or make mandatory payments (for example, taxes and duties) within seven days from the date of their maturity due to the absence or lack of funds on its correspondent accounts, (ii) the amount of own capital of the bank falls more than 30 per cent. below the maximum amount of own capital of the bank during the last 12 months with simultaneous violation of one of the capital adequacy or related requirements, (iii) the bank violates the current liquidity ratio on more than 20 per cent. during the last month; (iv) the bank does not fulfil the requirement of the CBR to change the management of the bank or to undertake financial recovery measures or a reorganisation in instances provided in the Bank Insolvency Law and (v) there are grounds for revocation of the banking licence of the bank as provided in the Banking Law. Upon appointment of a temporary administration the authority of the bank’s management may be limited or suspended. In the event the bank’s management authorities are suspended the temporary administration performs the bank’s management functions. During the term of its appointment, the temporary administration analyses the bank’s financial standing, establishes whether there are grounds for revocation of the banking licence of the bank, participates in the development of measures for the financial recovery of the bank, oversees the bank’s operations and issues approvals on the conduction of operations with assets valued at more than 1 per cent. of the total balance sheet value of the bank’s assets.

Pursuant to the Bank Insolvency Law, a temporary administration may request that the CBR imposes a moratorium on the performance of monetary obligations of the bank. Such moratorium

would cover all monetary obligations that arose prior to the appointment of the temporary administration regardless of the maturity date of such obligations.

A temporary administration may also repudiate contracts of the bank that has not been fulfilled and the fulfilment of which, in the opinion of the temporary administration, will lead to losses in comparison with performance of similar transactions or would impede the recovery of the bank's financial standing.

Furthermore, under the Bank Insolvency Law, a temporary administration may file claims for the invalidation of certain transactions of the bank.

Interested Party Transactions

For the purposes of the Bank Insolvency Law, an interested party transaction is a transaction with a person that is under common control with, controlled by or controlling the bank and in the result of performance of which the bank or any creditor sustained or may sustain damages.

Transactions at Under Value

For the purposes of the Bank Insolvency Law, a transaction at under value is a transaction the value or other terms and conditions of which are significantly worse than the value or terms and conditions of similar transaction entered into under comparable circumstances.

Where a temporary administration is appointed prior to revocation of the bank's licence, the authority of the temporary administration would terminate upon liquidation of the grounds for appointment of the temporary administration envisaged in the Bank Insolvency Law. Otherwise, the head of the temporary administration must request the CBR to revoke the bank's banking licence.

Upon revocation of the banking licence, performance of the bank's obligations in any form is prohibited. The bank must be liquidated either through general proceedings or bankruptcy proceedings. Bankruptcy proceedings may be initiated against a Russian Bank if the bank is unable to perform its obligation in the aggregate of RUB 100,000 within 14 days as they fall due or the assets of the bank are insufficient to satisfy claims of its creditors. A creditor's claim is admitted if it is established by a court decision and the creditor submits documents confirming that the debtor failed to fulfil the court decision within a month from submission of the court decision to the bailiff's office.

The court should consider the insolvency claims on the merits within 2 months from the date of admission the application and decide on whether to declare the bank insolvent and commence the liquidation proceedings.

Under Russian insolvency legislation, if the bank is declared bankrupt the claims of its creditors are satisfied in the following order of priority:

First order of priority – (i) claims in tort, (ii) claims of retail depositors and individuals holding current accounts with the bank, (iii) claims of the Agency for Insurance of Deposits in respect of bank deposits and bank accounts transferred to it pursuant to the Deposits Insurance Law and (iv) claims of the CBR transferred to it pursuant to applicable legislation in the event that the CBR was required to repay amounts of deposits by individuals with banks that were declared insolvent and did not participate in the Russian mandatory deposits' insurance system.

Second order of priority – claims under employment contracts and other social benefits and copyright claims;

Third order of priority – claims of other creditors including claims of retail depositors with respect to loss profits and financial penalties. Claims of creditors secured by pledge are satisfied from the sale proceeds of the pledged property prior to claims of all other creditors, save for claims of creditors of the first and second orders of priority.

Claims of creditors under loans, deposits and bonds are satisfied after the satisfaction of all other claims. Claims of each category of creditors must be satisfied in full before claims of the next category are considered.

THE LOAN AGREEMENT

The following is the text of the Loan Agreement:

LOAN AGREEMENT, dated 12 October 2006

BETWEEN:

- (1) **CREDIT BANK OF MOSCOW (OPEN JOINT-STOCK COMPANY)**, a commercial bank organised as an open joint-stock company established under the laws of the Russian Federation whose registered office is at 4 Marshala Rybalko Street, Moscow 123060, Russian Federation, as borrower (the “**Borrower**”); and
- (2) **CBOM FINANCE P.L.C.**, a public limited company incorporated under the laws of Ireland whose registered office is at 5 Harbourmaster Place, IFSC, Dublin 1, Ireland, as lender (the “**Lender**”, which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Trust Deed).

WHEREAS, the Lender has, at the request of the Borrower, agreed to make available to the Borrower a loan facility in the amount of U.S.\$100,000,000 on the terms and subject to the conditions of this Agreement.

NOW IT IS HEREBY AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

“**Account**” means the account with account number 34884401 of the Lender with the Principal Paying Agent;

“**Advance**” means the advance made or to be made by the Lender under Clause 3 (*Drawdown*) of the sum equal to the amount of the Facility, as from time to time reduced by prepayment;

“**Affiliate**” of any specified Person means (i) any other Person, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified Person or (ii) any other Person who is a director or officer (a) of such specified Person, (b) of any Subsidiary of such specified Person or (c) of any Person described in (i) or (ii) above. For the purposes of this definition, “**control**” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing;

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory Person (whether autonomous or not) of, or of the government of, any state or supra-national body;

“**Agency Agreement**” means the agency agreement to be dated 16 October 2006, as amended, varied or supplemented from time to time, relating to the Notes;

“**Agreed Form**” means that the form of the document in question has been agreed between the proposed parties thereto, subject to any amendments that the parties may agree upon prior to the Closing Date;

“**Agreement**” means this Agreement as originally executed or as it may be amended or supplemented from time to time;

“**Auditors**” means the auditors of the Borrower’s US GAAP consolidated financial statements for the time being or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be approved in writing by the Lender for this purpose;

“Authorised Signatory” means, in relation to the Borrower, any Person who is duly authorised (in such manner as may be reasonably acceptable to the Lender) and in respect of whom the Lender has received a certificate signed by a director or another Authorised Signatory of the Borrower setting out the name and signature of such Person and confirming such Person’s authority to act;

“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 July 1998 text of the Basle Capital Accord, published by the Basle Committee on Banking Supervision (as amended, updated or supplemented from time to time), without any amendment or other modification by any other Agency;

“Business Day” means a day (other than a Saturday or Sunday) on which commercial banks generally are open for business in Dublin, Moscow, New York City and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located;

“Capital” means the Borrower’s Capital as such term is defined in the BIS Guidelines;

“Capital Stock” means, with respect to any Person, any and all shares, interests, participations, rights to purchase, warrants, options, or other equivalents (however designated) of capital stock of a corporation and any and all equivalent ownership interests in a Person other than a corporation, in each case whether now outstanding or hereafter issued;

“Central Bank” means the Central Bank of the Russian Federation;

“Closing Date” means 16 October 2006;

“Conditions” means the terms and conditions of the Notes, as set out in Part 2 of Schedule 1 to the Trust Deed and all references to a numbered **“Condition”** are to the corresponding provision thereof;

“Event of Default” has the meaning assigned to such term in Clause 11.1 (*Events of Default*);

“Exposure” means:

- (a) the aggregate principal or nominal amount (net of specific provisions for losses) owed to the Borrower, whether direct or contingent, by a counterpart, or, in the case of a Single Party, by a group of counterparts, in respect of money borrowed, equity or debt raised, Guarantees, letters of credit or debt instruments issued or confirmed and other off-balance sheet engagements in the ordinary course of the Borrower’s commercial and consumer lending business; less
- (b) any such amount which is fully secured by rights of off-set against the Liquid Assets in equivalent amounts and comparable maturities placed with the Borrower;

“Facility” means the U.S.\$100,000,000 facility granted by the Lender to the Borrower, as specified in Clause 2 (*Facility*);

“Fee Side Letters” means the Upfront Fee Side Letter and the Ongoing Fee Side Letter;

“Fitch” means Fitch Inc.;

“Group” means the Borrower and its consolidated Subsidiaries taken as a whole;

“Guarantee” means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided*,

however, that the term “**Guarantee**” will not include endorsements for collection or deposit in the ordinary course of business. The term “**Guarantee**” used as a verb has a corresponding meaning;

“**incur**” means issue, assume, Guarantee, incur or otherwise become liable for; *provided, however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary;

“**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 either on a compulsory basis or at the option of the shareholder; any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing; and the amount of any liability in respect of any Guarantee or indemnity for any of the items referred to above;

“**Independent Appraiser**” means any third party expert in the matter to be determined of international standing appointed by the Borrower pursuant to Clause 10.4 (*Transactions with Affiliates*) and approved by the Lender and the Trustee, *provided, however*, that such Independent Appraiser is not an Affiliate of the Group;

“**Initial Interest Term**” means the period from (and including) the Closing Date to (but excluding) 21 October 2007;

“**Initial Rate of Interest**” means 9.5 per cent. per annum;

“**Interest Payment Date**” means 21 October and 21 April of each year, commencing on 21 April 2007 and ending on 21 October 2009;

“**Interest Period**” means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

“**Lien**” means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

“**Liquid Assets**” means the aggregate (as of the relevant date for calculation) of the Borrower’s cash, demand and overnight deposits and other deposits with a maturity of not more than thirty (30) calendar days, and marketable securities with a final maturity of less than one year issued or guaranteed by the Russian Federation, or an Agency or subdivision thereof and claims against the Central Bank with a final maturity of less than one year;

“**Loan**” means, at any time, an amount equal to the aggregate principal amount of the Facility granted by the Lender pursuant to this Agreement and outstanding at such time;

“**Material Adverse Effect**” means a material adverse effect on (a) the business, operations, property, condition (financial or otherwise) or immediate prospects of the Borrower or any of its Subsidiaries; (b) the Borrower’s ability to perform or comply with its obligations under this Agreement, the Agency Agreement and the Subscription Agreement or (c) the validity or enforceability of this Agreement, the Agency Agreement and the Subscription Agreement or the rights or remedies of the Lender thereunder;

“**Moody’s**” means Moody’s Investors Service, Inc.;

“**Net Asset Value**” means the amount by which the total value of the Group’s consolidated assets exceeds the amount of its total consolidated liabilities, as defined in accordance with US GAAP;

“Noteholder” means, in relation to a Note, the person in whose name such Note is for the time being registered in the register of Noteholders (or, in the case of joint holders, the first named holder thereof) and **“Noteholders”** shall be construed accordingly;

“Notes” means the U.S.\$100,000,000 9.5 per cent. loan participation notes due 2009 with interest rate step-up to 10.25 per cent. in 2007 proposed to be issued by the Lender in its capacity as issuer and constituted by the Trust Deed;

“Officers’ Certificate” means a certificate signed by two authorised officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower;

“Ongoing Fee Side Letter” means a side letter of even date herewith between, *inter alios*, the Borrower, the Lender and the Trustee;

“Opinion of Counsel” means a written opinion from international legal counsel who is acceptable to the Lender and the Trustee;

“Original Financial Statements” mean the most recent audited consolidated financial statements of the Borrower;

“Permitted Liens” means:

- (a) any Lien over or affecting any asset acquired by a member of the Group after the date hereof and subject to which such asset is acquired, if:
 - (i) such Lien was not created in contemplation of the acquisition of such asset by a member of the Group;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such asset by a member of the Group; and
 - (iii) such Lien is removed or discharged within four calendar months of the date of acquisition of such asset;
- (b) any Lien over or affecting any asset of any company which becomes a member of the Group after the date hereof, where such Lien is created prior to the date on which such company becomes a member of the Group, if:
 - (i) such Lien was not created in contemplation of the acquisition of such company;
 - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company; and
 - (iii) such Lien is removed or discharged within four calendar months of such company becoming a member of the Group;
- (c) any Lien comprising a netting or set-off arrangement entered into by any member of the Group in the normal course of its banking arrangements for the purpose of netting debit and credit balances;
- (d) any Lien upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any securitisation of receivables, asset-backed financing or similar financing structure and whereby all payment obligations secured by such Lien or having the benefit of such Lien, are to be discharged solely from such assets or revenues, *provided that* the aggregate value of assets or revenues subject to such Lien when added to the aggregate value of assets or revenues which are the subject of any securitisation of receivables, asset-backed financing or similar financing structure permitted pursuant to Clause 10.3 (*Disposals*), does not, at any such time, exceed 30 per cent. of the loans and advances to customers, as determined at any time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with US GAAP;
- (e) any title transfer or retention of title arrangement entered into by any member of the Group in the normal course of its trading activities on the counterparty’s standard or usual terms;

- (f) any Lien arising by operation of law and in the normal course of business, if such lien is discharged within 14 days of arising;
- (g) Liens incurred, or pledges and deposits in connection with workers' compensation, unemployment insurance and other social security benefits, and leases, appeal bonds and other obligations of like nature in the ordinary course of business;
- (h) Liens for *ad valorem*, income or property Taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Borrower has set aside in its books of account reserves to the extent required by US GAAP, as consistently applied;
- (i) any Lien granted by any Subsidiary of the Borrower in favour of the Borrower;
- (j) Liens upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to any Repo transaction;
- (k) Liens arising pursuant to any agreement (or other applicable terms and conditions) which is standard or customary in the relevant market relating to the establishment of margin deposits and similar arrangements in connection with interest rate and foreign currency hedging operations;
- (l) Liens upon or with respect to immovable property acquired by the Group after the date of this Agreement where the aggregate value of such immovable property subject to such Liens does not at any one time exceed U.S.\$15,000,000;
- (m) any liens existing on the date of this Agreement; and
- (n) any other Lien where the aggregate value of the assets or revenues subject to such Lien does not exceed U.S.\$5,000,000;

"Person" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or Agency of a state or other entity, whether or not having separate legal personality;

"Potential Event of Default" means any event which is, or after notice or passage of time or after making any determination under this Agreement (or any combination of the foregoing) would be, an Event of Default;

"Principal Paying Agent" means JPMorgan Chase Bank, N.A.;

"Prospectus" means the Prospectus dated 12 October 2006 relating to the Notes;

"Put Option" means the put option granted to Noteholders pursuant to the Conditions;

"Put Option Payment Date" means 21 October 2007, provided such day is a Business Day and, in the event that such day is not a Business Day, the next Business Day;

"Rate of Interest" means, during the Initial Interest Term, the Initial Rate of Interest and, during the Step-Up Interest Term, the Step-Up Rate of Interest;

"Related Party" means, with respect to any Person, (a) an Affiliate of such Person or (b) any of its Affiliates or (c) a group of its Affiliates;

"Repayment Date" means 21 October 2009;

"Repo" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "securities" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"Risk Weighted Assets" means the aggregate of the Group's consolidated balance sheet assets and off-balance sheet engagements, weighted for credit and market risk in accordance with the BIS Guidelines;

"Rouble" means the lawful currency from time to time of the Russian Federation;

“Same-Day Funds” means Dollar funds settled through the New York Clearing House Interbank Payments System or such other funds for payment in immediately available, freely transferable and cleared Dollars as the Lender may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby;

“Security” means the security granted by the Lender to the Trustee under the Trust Deed over the rights of the Lender under this Agreement, including an assignment of such rights in favour of the Trustee;

“Single Party” means, with respect to any counterparty, such counterparty and all Related Parties of such counterparty;

“Step-Up Interest Term” means the period from (and including) 21 October 2007 to (but excluding) the Repayment Date;

“Step-Up Rate of Interest” means 10.25 per cent. per annum;

“Subscription Agreement” means the subscription agreement dated the date hereof providing for the issuance and subscription of the Notes;

“Subsidiary” of any specified Person means any corporation, partnership, joint venture, association or other business or entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by such first-named Person and/or any of its Subsidiaries and such first-named Person or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business or entity, with respect to which such first-named Person or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract or otherwise if (in each case) in accordance with US GAAP, as consistently applied, such entity would be consolidated with the first-named Person for financial statement purposes;

“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, Ireland or any tax authority thereof or therein or any other jurisdiction through which the Borrower is directed by the Lender to effect payments, *provided, however*, that for the purposes of this definition references to Ireland shall, upon the occurrence of a Relevant Event (as defined in the Trust Deed), be deemed to be references to the jurisdiction in which the Trustee is resident for tax purposes; and the term **“Taxation”** shall be construed accordingly;

“Tier 1 Capital” means the Tier 1 capital of the Borrower, as such term is defined in the BIS Guidelines;

“Trust Deed” means the trust deed to constitute the Notes for the equal and rateable benefit of the Noteholders to be dated the Closing Date between the Lender and the Trustee, as amended, varied or supplemented from time to time;

“Trustee” means J.P. Morgan Corporate Trustee Services Limited, as trustee under the Trust Deed and any successor thereto as provided thereunder;

“Upfront Fee Side Letter” means a side letter of even date herewith between, *inter alios*, the Lender and the Borrower;

“U.S. dollars”, **“Dollars”**, and **“U.S.\$”** mean the lawful currency of the United States of America;

“US GAAP” means the accounting principles generally accepted in the United States of America; and

“Voting Stock” means, in relation to any Person, Capital Stock entitled (without the need for the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Trust Deed, the Notes, the Agency Agreement or the Subscription Agreement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

- 1.3.1 All references to “Clause” or “sub-Clause” are references to a Clause or sub-Clause of this Agreement.
- 1.3.2 The terms “hereof”, “herein” and “hereunder” and other words of similar import shall mean this Agreement as a whole and not any particular part hereof.
- 1.3.3 Words importing the singular number include the plural and vice versa.
- 1.3.4 All references to “taxes” include all present or future taxes, levies, imposts charges, withholdings and duties of any nature and the terms “tax” and “taxation” shall be construed accordingly.
- 1.3.5 The table of contents and the headings are for convenience only and shall not affect the construction hereof.

2. FACILITY

2.1 Facility

On the terms and subject to the conditions set forth herein and subject to the terms and conditions in the Subscription Agreement, the Lender hereby agrees to make available to the Borrower, and the Borrower hereby agrees to borrow from the Lender, a loan facility in the amount of U.S.\$100,000,000.

2.2 Purpose

The proceeds of the Advance will be used by the Borrower for general banking purposes but the Lender shall not be concerned with the application thereof.

2.3 Facility Fee

The Borrower shall pay (a) a fee of U.S.\$1,232,523.43 to the Lender in connection with the provision of the Facility (the “**Facility Fee**”) and (b) certain costs and expenses which may arise and which are referred to under the Upfront Fee Side Letter.

3. DRAWDOWN

3.1 Drawdown

On the terms and subject to the conditions set forth herein, on the Closing Date the Lender shall make the Advance to the Borrower and the Borrower shall make a single drawing in the full amount of the Facility (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Facility Fee*)).

3.2 Facility Fee

The Borrower agrees to pay (a) the Facility Fee to the Lender in Same-Day Funds by 10.00 a.m. (New York City time) two Business Days prior to the Closing Date and (b) certain costs and expenses set out in, and in the manner described in, the Upfront Fee Side Letter. In the event that the Lender has not received from the Borrower by 10.00 a.m. (New York City time) two Business Days prior to the Closing Date an amount in respect of the Facility Fee, the Borrower agrees that an amount equal to the Facility Fee shall be deducted from the amount of the Advance.

3.3 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the amount of the Advance (less any amount to be deducted (if any) in accordance with Clause 3.2 (*Facility Fee*) above) to the Borrower's account designated: Bank: Wachovia Bank, N.A., New York, NY International Branch, Swift: PNBP US 3N NYC, Account Number: 2000193001150, for further credit to: Credit Bank of Moscow (open joint-stock company), Swift: MCRB RU MM.

3.4 Ongoing Fees and Expenses

In consideration of the Lender agreeing to make the Loan to the Borrower, the Borrower shall pay on demand to the Lender each year all ongoing fees, commissions, costs and expenses as set forth in the Ongoing Fee Side Letter.

4. INTEREST

4.1 Rate of Interest

The Borrower will pay interest in Dollars to the Lender on the outstanding principal amount of the Loan from time to time hereunder at the Initial Rate of Interest during the Initial Interest Term and at the Step-Up Rate of Interest during the Step-Up Interest Term.

4.2 Payment

Interest at the Initial Rate of Interest shall accrue from day to day starting from (and including) the Closing Date to (but excluding) 21 October 2007 and interest at the Step-Up Interest Rate shall accrue from day to day starting from (and including) 21 October 2007 to (but excluding) the Repayment Date, and shall, in each case, be paid in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the Repayment Date (or any date upon which the Loan is prepaid in full pursuant to Clause 5.2 (*Special Prepayment*) or Clause 5.4 (*Illegality*) or repaid pursuant to Clause 11 (*Events of Default*)) and, in the case of a prepayment pursuant to Clause 5.3 (*Prepayment in the Event of Exercise of Put Option*), interest on the relevant portion of the Loan which is prepaid pursuant to such Clause will cease to accrue from the Put Option Payment Date, *provided that*, in each case, if payment of principal is withheld or refused by the Borrower in breach of its obligations under this Agreement, interest will continue to accrue (before or after any judgment) at the relevant Rate of Interest to, but excluding, the date on which payment in full of the whole or the relevant proportion (as applicable) of the principal amount of the Loan is made.

The amount of interest payable in respect of the Loan for any Interest Period (other than the Interest Period ending on 21 April 2007) shall be calculated by applying the applicable Rate of Interest to the amount of the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). In the case of the Interest Period ending on 21 April 2007 or if interest is otherwise required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

5. REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein, the Borrower shall repay the Loan, all accrued but unpaid interest and any additional amounts) not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date.

5.2 Special Prepayment

If, (a) as a result of the application of, or any amendments to or change in, the double tax treaty between the Russian Federation and Ireland or the laws or regulations of the Russian Federation or Ireland or of any constituent part or political sub-division thereof or any

authority having power to tax therein (including as a result of a judgment of a court of competent jurisdiction) or a change in, or clarification of, the application or official interpretation of such laws or regulations which change or amendment becomes effective on or after the date of this Agreement, (b) as a result of the enforcement of the Security, the Borrower would thereby be required to make or increase any payment due hereunder as provided in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*) (unless the increase in payment is in respect of any amounts due or paid pursuant to Clause 3 (*Drawdown*)), or (c) if (for whatever reason) the Borrower would have to or has been required to pay additional amounts pursuant to Clause 8 (*Change in Law or Banking Practices; Increase in Cost*) and, in any such case, such additional amounts cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 20 days' notice to the Lender (copied to the Trustee) specifying the date for prepayment of the Loan and attaching an Officer's Certificate confirming that the Borrower 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 Loan in whole (but not in part).

5.3 Prepayment in the Event of Exercise of Put Option

5.3.1 If any Noteholder has exercised its Put Option, the Borrower shall, not later than 10.00 a.m. (New York City time) one Business Day prior to the Put Option Payment Date, prepay the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes in relation to which the Put Option has been duly exercised in accordance with the Conditions.

5.3.2 The Issuer shall, provided it has received the notice from the Principal Paying Agent referred to in sub-Clause 9.11.4 of the Agency Agreement, notify the Borrower at least 14 Business Days prior to the Put Option Payment Date of the principal amount of the Loan to be repaid pursuant to sub-Clause 5.3.1 above.

5.4 Illegality

If, at any time, by reason of the introduction of any change after the date of this Agreement in any applicable law or regulation or regulatory requirement or directive of any Agency of any state or otherwise the Lender reasonably determines (such determination being supported, if so requested by the Borrower, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) 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 Loan or the Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement, the Security or the Notes and/or to charge or receive or to be paid interest at the rate then applicable to the Loan or the Notes, then upon notice by the Lender to the Borrower in writing (copied to the Trustee) (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a basis which eliminates the application of such circumstances; *provided, however*, that the Lender shall be under no obligation to continue such consultation if a basis has not been determined within 30 days of the date on which it so notified. If such a basis has not been determined within the 30 days, then upon notice by the Lender to the Borrower in writing, the Borrower shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender shall certify to be necessary to comply with such requirements.

5.5 Reduction of Loan Upon Redemption and Cancellation of Notes

The Borrower or any Subsidiary of the Borrower may from time to time, in accordance with the Conditions and to the extent permitted by applicable law, purchase Notes in the open market or by tender or by a private agreement at any price. In the event that an amount of Notes has been surrendered to the Lender for cancellation by the Borrower or any of the Borrower's Subsidiaries and cancelled, the Loan shall be deemed to have been prepaid by the

Borrower in an amount equal to the aggregate principal amount of the Notes surrendered to the Lender for cancellation, together with accrued interest (if any) thereon and no further payment shall be made or required to be made by the Borrower in respect of such amounts.

5.6 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clause 5.2 (*Special Prepayment*), Clause 5.3 (*Prepayment in the Event of Exercise of Put Option*) or Clause 5.4 (*Illegality*), the Borrower shall, simultaneously with such prepayment, pay to the Lender interest thereon accrued to the date of actual receipt by the Lender of payment of principal and all other sums payable by the Borrower pursuant to this Agreement with respect to the prepaid amount. For the avoidance of doubt, if the principal amount of the Loan is reduced pursuant to the provisions of Clause 5.5 (*Reduction of Loan upon Redemption and Cancellation of Notes*), then no interest shall accrue or be payable during the period from the preceding Interest Payment Date up to the date upon which such reduction takes place in respect of the amount by which the Loan is so reduced and the Borrower or the relevant Subsidiary of the Borrower, as the case may be, shall not be entitled to any interest in respect of the cancelled Notes.

5.7 Provisions Exclusive

The Borrower may not voluntarily prepay the Loan except in accordance with the express terms of this Agreement. Any amount prepaid may not be reborrowed.

6. PAYMENTS

6.1 Making of Payments

All payments to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the Account. The Lender agrees with the Borrower that the Lender will not deposit any other monies into the Account and that no withdrawals shall be made from such account other than for payments to be made in accordance with the Conditions.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Borrower under this 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 the Borrower shall be required by applicable law to make any deduction or withholding from any payment under this Agreement for or on account of any Taxes, it shall increase any payment due hereunder to such amount as may be necessary to ensure that the Lender receives and retains (free from any liability in respect of such withholding, deduction or increased payment) a net amount in Dollars equal to the full amount which it would have received and retained 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 satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in Dollars for such payment on demand. For the avoidance of doubt, this Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) is without prejudice to any obligations of the Lender contained in Clause 6.7 (*Tax Treaty Relief*).

6.3 Withholding on the Notes

If the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of the Notes in circumstances where the Lender is required to pay additional amounts pursuant to Condition 8 (*Taxation*), the Borrower agrees to pay to the Lender, not later than 10.00 a.m. (New York City time) one Business Day prior to

the date on which payment is due to the Noteholders in Same-Day Funds to the Lender, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to Condition 8 (*Taxation*); provided, however, that the Lender shall, immediately upon receipt from any Paying Agent of any sums paid in respect of the Lender's obligations under Condition 8 (*Taxation*) and to the extent that the Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of the Notes, repay such additional amounts to the Borrower (it being understood that neither the Lender, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder is entitled to any such additional amount).

6.4 Tax Indemnity

Without prejudice to, and without duplication of the provisions of Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*), if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the Noteholders) on account of any Taxes (other than any Taxes on income or capital gains payable by the Lender) in respect of the Loan or the Notes imposed by Ireland or any taxing authority of Ireland, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable after, and in any event within 30 calendar days of, a written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax) payable or incurred in connection therewith.

Any payment required to be made by the Borrower under this Clause 6.4 (*Tax Indemnity*) is a "**Tax Indemnity Amount**". For the avoidance of doubt, the provisions of this Clause 6.4 (*Tax Indemnity*) shall not apply to any withholding or deductions of Taxes with respect to the Loan or Notes in respect of which any additional amount is payable under Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) and 6.3 (*Withholding on the Notes*).

6.5 Reimbursement

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding or to any Tax Indemnity Amount with respect to which the Borrower has made a payment pursuant to this Clause 6 (*Payments*) in respect of amounts received by it, the Lender shall promptly pay to the Borrower so much of (but in any event no amount greater than) the benefit it received and retained as will leave the Lender in substantially the same position as it would have been in had no additional amount been required to be paid by the Borrower pursuant to this Clause 6 (*Payments*); provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to the Borrower, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender. Subject to Clause 6.6 (*Mitigation*) and 6.7 (*Tax Treaty Relief*) the Lender shall have the absolute discretion whether, and in what order and manner, it claims any credits or refunds available to it, and the Lender shall in no circumstances be obliged to disclose to the Borrower any information regarding its tax affairs or computations, provided that the Lender shall notify the Borrower of any tax credit or allowance or other reimbursement it receives in respect of any Tax Indemnity Amount with respect to which the Borrower has made a payment pursuant to Clause 6.4 (*Tax Indemnity*).

If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or Clause 6.3 (*Withholding on the Notes*): (a) such taxes are deducted or withheld by the Borrower and pursuant to Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or Clause 6.3 (*Withholding on the Notes*) an increased amount is paid by the Borrower to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of taxes as referred to above,

the Borrower applies on behalf of the Lender to the competent taxing authority for a withholding tax refund (the Borrower having notified the Lender of such application) and such withholding tax is refunded or repaid by the relevant taxing authority to the Lender, the Lender shall as soon as reasonably practicable notify the Borrower of the receipt of such withholding tax refund and promptly transfer the actually received and retained amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of the Borrower specified for that purpose by the Borrower.

6.6 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-up*) or 6.3 (*Withholding on the Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, and, thereupon the parties shall consider and consult with each other in good faith with a view to finding, agreeing upon and implementing a method or methods by which any such obligation may be avoided or mitigated and, to the extent that 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. The Borrower agrees to reimburse the Lender for all properly incurred costs and expenses (including but not limited to legal fees) incurred by the Lender in connection with this Clause 6.6 (*Mitigation*).

6.7 Tax Treaty Relief

The Lender shall, to the extent it is able to do so under applicable law including, without limitation, Russian laws, use its best endeavours to obtain and to deliver to the Borrower at the Borrower's expense:

6.7.1 a certificate issued by the competent Irish authorities confirming that the Lender is resident in Ireland for the purpose of the Agreement between the Government of Ireland and the Government of the Russian Federation for the Avoidance of Double Taxation with respect to Tax on Income dated 29 April 1994 (the "**Treaty**") no later than ten 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 ten Business Days prior to the first Interest Payment Date in that year); and

6.7.2 such other information or forms as may need to be duly completed and delivered by the Lender to enable the Borrower to obtain relief from deduction or withholding of Russian taxes 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 Irish authorities, but shall promptly notify the Borrower about any such failure or delay with a written description of the actions taken by the Lender to obtain such residency certificate. Such a certificate and any other information or forms (as applicable) shall be appropriately apostilled and a certified translation shall be supplied at the expense of the Borrower.

7. CONDITIONS PRECEDENT

7.1 Documents to be Delivered

The obligation of the Lender to make the Advance shall be subject to the receipt by the Lender on or prior to the Closing Date of a signed copy of each of the following documents in the Agreed Form:

7.1.1 an opinion of Lovells dated the Closing Date regarding issues of Russian law;

- 7.1.2 an opinion of Clifford Chance CIS Limited dated the Closing Date regarding issues of Russian law;
- 7.1.3 an opinion of Clifford Chance LLP dated the Closing Date regarding issues of English law;
- 7.1.4 an opinion of Arthur Cox dated the Closing Date regarding issues of Irish law and certain Irish tax matters;
- 7.1.5 letters from ZAO KPMG dated the Closing Date regarding certain Russian tax matters;
- 7.1.6 the Fee Side Letters;
- 7.1.7 evidence that the persons mentioned in Clause 15.3 (*Borrower's Process Agent*) have agreed to receive process in the manner specified herein;
- 7.1.8 the consolidated balance sheet and consolidated statements of income, cash flows and changes in shareholders' equity of the Borrower as at and for the six months ended 30 June 2006 prepared in accordance with US GAAP and reviewed by the Auditors and the consolidated balance sheet and consolidated statements of income, cash flows and changes in shareholders' equity of the Borrower as at and for the years ended 31 December 2005, 2004 and 2003 prepared in accordance with US GAAP and audited by the Auditors; and
- 7.1.9 evidence that the Borrower has been granted ratings from Fitch and Moody's.

7.2 Further Conditions

The obligation of the Lender to make the Advance (less any deduction (if any) in accordance with Clause 3.2 (*Facility Fee*)) shall be subject to the further conditions precedent that as of the Closing Date (a) the representations and warranties made and given by the Borrower in Clause 9.1 (*Borrower's Representation and Warranties*) shall be true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (b) no event shall have occurred and be continuing that constitutes a Potential Event of Default or an Event of Default, (c) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement, (d) the Subscription Agreement, the Trust Deed and the Agency Agreement shall have been executed and delivered and (e) the Lender shall have received in full the proceeds of the issue of the Notes pursuant to the Subscription Agreement and the amounts referred to in Clauses 2.3 (*Facility Fee*) and 3.2 (*Facility Fee*).

8. CHANGE IN LAW OR BANKING PRACTICES; INCREASE IN COST

8.1 Compensation

In the event that after the date of this Agreement there is any change in, or introduction of, any tax, law, regulation, regulatory requirement or official directive (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) or in the interpretation or application thereof by any person charged with the administration thereof and/or any compliance by the Lender in respect of the Loan or the Facility with any request, policy or guideline (whether or not having the force of law but, if not having the force of law, the observance of which is in accordance with the generally accepted financial practice of financial institutions in the country concerned) from or of any central bank or other fiscal, monetary or other authority, Agency or any official of any such authority, which:

- 8.1.1 subjects or will subject the Lender to any Taxes with respect to payments of principal of or interest on the Loan or any other amount payable under this Agreement (other than any Taxes payable by the Lender on its overall net income or any Taxes referred to in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*)); or
- 8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal of or interest on the Loan or any other amount payable under this Agreement (other than any such increase or change which arises by

reason of any increase in the rate of tax payable by the Lender on its overall net income or as a result of any Taxes referred to in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*)); or

- 8.1.3 imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement or to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement, against assets held by, or deposits in or for the amount of, or credit extended by an office of the Lender; *provided, however*, that the foregoing shall not include any increase in the rate of tax payable on the overall net income of the Lender as a result of any change in the manner in which the Lender is required to allocate resources to this Agreement; or
- 8.1.4 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan,

and if as a result of any of the foregoing:

- (i) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or
- (ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or
- (iii) the Lender makes any payment or foregoes any interest or other return on, or calculated by reference to, the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on, or calculated by reference to, the gross amount of the Loan,

then subject to the following, and in each such case:

- (A) the Lender shall, as soon as practicable after becoming aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such notes; and
- (B) the Borrower, in the case of clauses (i) and (iii) above, shall on demand by the Lender, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such increased cost, and, in the case of clause (ii) above, at the time the amount so reduced would otherwise have been payable, pay to the Lender such additional amount as shall be necessary to compensate the Lender for such reduction, payment or foregone interest or other return; *provided, however*, that in the case of sub-Clause 8.1.3 above (relating to a class of business or transaction which, in the reasonable opinion of the Lender, includes this Agreement), the amount of such increased cost shall be deemed not to exceed an amount equal to the proportion thereof which is directly attributable to this Agreement and *provided that* the Lender shall not be entitled to such additional amount where such increased cost arises as a result of the negligence or wilful default of the Lender,

provided that this Clause 8.1 (*Compensation*) will not apply to or in respect of any matter for which the Lender has already been compensated under Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on the Notes*) or 6.4 (*Tax Indemnity*).

8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to sub-Clause 8.1 (*Compensation*), the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any relevant tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in

part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 8.2 (*Mitigation*) shall obligate the Lender to incur any costs or expenses in taking any action which, in the reasonable opinion of the Lender, is prejudicial to its interests.

9. REPRESENTATIONS AND WARRANTIES

9.1 Borrower's Representations and Warranties

The Borrower represents and warrants to the Lender, with the intent that such shall form the basis of this Agreement and shall remain in full force and effect, at the date hereof and shall be deemed to be repeated by the Borrower on the Closing Date, that:

- 9.1.1 it and each of its Subsidiaries is duly organised and incorporated and validly existing under the laws of its respective jurisdiction of incorporation, is not in liquidation or Receivership and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case of the Borrower only, to enter into and to perform its obligations under this Agreement and to borrow the Advance; that it has taken all necessary corporate, legal and other action required to authorise the borrowing of the Advance on the terms and subject to the conditions of this Agreement and to authorise the execution and delivery of this Agreement and all other documents to be executed and/or delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms;
- 9.1.2 this Agreement has been duly executed and delivered by and constitutes a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms;
- 9.1.3 the execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of or default under (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Russian Federation, (ii) the constitutive documents, rules and regulations of the Borrower or any of its Subsidiaries or the terms of the banking licence granted to the Borrower by the Central Bank or (iii) any agreement or other undertaking or instrument to which the Borrower or any of its Subsidiaries is a party or which is binding upon the Borrower or any of its Subsidiaries or any of their respective assets, nor result in the creation or imposition of any Liens on any of their respective assets pursuant to the provisions of any such agreement or other undertaking or instrument;
- 9.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial and public bodies and authorities of the Russian Federation (including, without limitation, the Central Bank) required by the Borrower in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement have been obtained or effected and are and shall remain in full force and effect;
- 9.1.5 no Event of Default or Potential Event of Default or a default under any agreement or instrument evidencing any Indebtedness of the Borrower or any Subsidiary has occurred and is continuing, and no such event will occur upon the making of the Advance;
- 9.1.6 there are no judicial, arbitral or administrative actions, proceedings or claims (including, without limitation, with respect to Taxes) which have been commenced or are pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its Subsidiaries, the adverse determination of which could, singly or in the aggregate, have a Material Adverse Effect;
- 9.1.7 except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1 (*Definitions*), the Borrower and each of its Subsidiaries has good title to its property free and clear of all Liens and the Borrower's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness;

- 9.1.8 the consolidated financial statements of the Group as at and for the six months ended 30 June 2006 and the audited consolidated financial statements of the Group as at and for the years ended 31 December 2005, 2004 and 2003:
- (a) were prepared in accordance with US GAAP, as consistently applied;
 - (b) unless not required by US GAAP, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and
 - (c) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at that date and the results of operations of the Group during the relevant financial year;
- 9.1.9 since the date of the latest audited US GAAP consolidated financial statements of the Group, there has been no significant change in the financial or trading position of the Group and no material adverse change in the condition (financial or otherwise), results of business, operations or immediate prospects of the Group or in the Borrower's ability to perform its obligations under this Agreement;
- 9.1.10 the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any constituent part or political subdivision or taxing authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);
- 9.1.11 neither the Borrower nor any Subsidiary nor their respective property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement;
- 9.1.12 the Borrower and each Subsidiary is in compliance in all material respects with all provisions of applicable law;
- 9.1.13 there are no labour strikes, disturbances, lockouts, slowdowns, stoppages of employees or other employment disputes of or against the Borrower or any of its Subsidiaries which have been started or are pending or, to the Borrower's knowledge, threatened, except for those which would not have a Material Adverse Effect;
- 9.1.14 in any proceedings taken in the Russian Federation in relation to this Agreement, the choice of English law as the governing law of this Agreement and any arbitration award obtained in England in relation thereto will be recognised and enforced in the Russian Federation after compliance with the applicable procedures and rules and all other legal requirements in the Russian Federation;
- 9.1.15 subject to the performance by the relevant parties of the relevant established procedures in connection with the obtaining of an applicable withholding tax exemption for payments hereunder, no withholding in respect of any Taxes is required to be made from any payment by the Borrower under this Agreement;
- 9.1.16 all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable the Borrower or any of its Subsidiaries to own its assets and carry on its business are in full force and effect and the Borrower and its Subsidiaries are conducting such business in accordance with such licences, consents, examinations, clearances, filings, registrations and authorisations;
- 9.1.17 with respect to the offer and sale of the Notes pursuant to the Subscription Agreement, neither it nor any of its Affiliates nor any Person acting on its or their behalf (i) has engaged or will engage in any directed selling efforts (as defined in Regulations S under the U.S. Securities Act of 1933 ("**Regulation S**")) and (ii) the Borrower, its Affiliates and any Persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S;

- 9.1.18 it is subject, without reservation, to civil and commercial law with respect to its obligations under this Agreement, and its execution of this Agreement constitutes, and its exercise of its rights and performance of its obligations hereunder will constitute, private and commercial acts done and performed for private and commercial purposes;
- 9.1.19 except as disclosed in the Prospectus, neither the Borrower nor any of its Subsidiaries is materially overdue in the filing of any tax returns, reports and other information required to be filed by it with any appropriate taxing authority, and each such tax return, report or other information was, when filed, accurate and complete in all material respects; and each of the Borrower and its Subsidiaries has duly paid, or has made adequate reserves for, all Taxes required to be paid by it and any other assessment, fine or penalty levied against it (other than those it is contesting in good faith), and to the best of the knowledge of the Borrower, no Tax deficiency is currently asserted against it or any of its Subsidiaries except, in each case, where any failure to do so would not have a Material Adverse Effect; and
- 9.1.20 neither the Borrower nor any of its Subsidiaries has taken any corporate action nor have any other steps been taken or legal proceedings been started or threatened in writing against the Borrower or any of its Subsidiaries for its bankruptcy, winding-up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues.

9.2 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower at the date hereof and shall be deemed to be repeated by the Lender on the Closing Date that:

- 9.2.1 the Lender is duly incorporated under the laws of, and is a resident for Irish taxation purposes in, Ireland and has full power and capacity to execute this Agreement, to issue the Notes and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;
- 9.2.2 the execution of this Agreement, the issue of the Notes and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Ireland or any agreement or instrument to which the Lender is a party or by which it is bound or the constitutive documents of the Lender;
- 9.2.3 this Agreement and the Notes have been duly executed by and constitute legal, valid and binding obligations of, the Lender enforceable in accordance with their terms, subject, as to enforcement, to the laws of bankruptcy and other laws affecting the rights of creditors generally;
- 9.2.4 all authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement, and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect (other than, in relation to the security created in the Trust Deed, the filing of a form C1 containing particulars of the Trust Deed together with the prescribed fee within 21 days of the granting of the Security and the payment of any stamp duty pursuant to the Stamp Duties Consolidation Act 1999 of Ireland);
- 9.2.5 the Lender is resident in Ireland, is subject to taxation in Ireland on the basis of its registration as a legal entity, location of its management body or another similar criterion and it is not subject to taxation in Ireland merely on income from sources in Ireland or connected with property located in Ireland and it will be able to receive certification to this effect from the Irish tax authorities;
- 9.2.6 the Lender does not have a permanent establishment in the Russian Federation; and

9.2.7 the Lender does not have any current intentions to effect, during the term of the Loan, any corporate action or reorganisation or change of taxing jurisdiction that would result in the Lender ceasing to be a resident of Ireland and subject to taxation in Ireland.

10. COVENANTS BY THE BORROWER

So long as any amount remains outstanding hereunder:

10.1 Negative Pledge

The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its or their assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Loan is secured equally and rateably with such other Indebtedness.

10.2 Mergers

(i) the Borrower shall not enter into any reorganisation (by way of a merger, accession, division, separation or transformation, or other bases or procedures for reorganisation contemplated or as may be contemplated from time to time by Russian legislation, as these terms are construed by applicable Russian legislation), and (ii) the Borrower shall ensure that, without the prior written consent of the Lender and the Trustee, no Subsidiary (A) enters into any reorganisation (whether by way of a merger, accession, division, separation or transformation as these terms are construed by applicable Russian legislation), or (B) in the case of a Subsidiary incorporated in a jurisdiction other than Russia participates in any type of corporate reconstruction or other analogous event (as determined under the legislation of the relevant jurisdiction), if (in the case of either (i) or (ii) above) any such reorganisation or other type of corporate reconstruction could reasonably result in a Material Adverse Effect. For the avoidance of doubt, any such reorganisation or other type of corporate reconstruction contemplated by this Clause 10.2 (*Mergers*) will not be considered to be capable of having a Material Adverse Effect for the purposes of this Clause 10.2 (*Mergers*) in the event that it does not lead to a downgrading of either the senior unsecured issuer rating given to the Borrower by Fitch or the issuer rating of the Borrower given to the Borrower by Moody's or, in the circumstances under (i) above where the Borrower is not the surviving entity following such reorganisation or other type of corporate reconstruction, the ratings granted to such surviving entity immediately following such reorganisation by Moody's and Fitch are no less than the ratings granted to the Borrower by each of Moody's and Fitch immediately prior to such reorganisation or other type of corporate reconstruction.

10.3 Disposals

the Borrower shall not and shall ensure that its Subsidiaries do not (in each case disregarding sales or other disposals of stock in trade on an arm's length basis in the ordinary course of its trading and banking business) sell, lease, transfer or otherwise dispose of, by one or more transactions or series of transactions (whether related or not), the whole or any part (the book value of which is 10 per cent. or more of the book value of the whole) of its revenues or its assets unless, without prejudice to Clause 10.12 (*Ranking of Claims*), such transaction(s) is/are (a) on an arm's length basis and on commercially reasonable terms and (b) has/have been approved by a resolution of the appropriate decision making body of the Borrower resolving that the transaction complies with the requirements of this Clause 10.3 (*Disposals*) and such resolution has been adopted by a majority of the members of such appropriate decision making body disinterested with respect to such transaction or series of transactions or, if there are insufficient disinterested members, by an Independent Appraiser. For the avoidance of doubt, this Clause 10.3 (*Disposals*) shall not apply to any revenues or assets (or any part thereof) the subject of any securitisation of receivables, asset-backed financing or similar financing structure originated by the Borrower whereby all payment obligations are to be discharged solely from such assets or revenues, *provided that* the aggregate value of assets or revenues which are the subject of all such securitisations of receivables, asset-backed financing or similar financing

structures, when added to the aggregate value of assets or revenues subject to any Lien described under (d) in the definition of “**Permitted Liens**” and permitted under the terms of this Agreement, does not at any time exceed 30 per cent. of loans and advances to customers, as determined at any such time by reference to the most recent quarterly balance sheet of the Borrower prepared in accordance with US GAAP (or its equivalent in other currencies).

10.4 Transactions with Affiliates

the Borrower shall not, and shall ensure that none of its Subsidiaries shall, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including, without limitation, 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, without limitation, intercompany loans unless (a) the terms of such Affiliate Transaction are no less favourable to the Borrower or such Subsidiary, 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 the Borrower or such Subsidiary; or (b) such Affiliate Transaction is made pursuant to a contract existing on the Closing Date (excluding any amendments or modifications thereof).

With respect to an Affiliate Transaction which is not an Exempted Transaction involving aggregate payments or value in excess of U.S.\$10,000,000 (or its equivalent in other currencies), the Borrower shall deliver to the Lender and the Trustee, a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to the Borrower or the relevant Subsidiary, as the case may be.

For the purposes of this Clause 10.4 (*Transactions with Affiliates*), an “**Exempted Transaction**” means:

- (i) any transaction solely for the provision of credit scoring and/or information technology services;
- (ii) any transaction solely for the provision of hedging services; or
- (iii) any loan or deposit of an aggregate principal amount not exceeding U.S.\$20,000,000 (or its equivalent in other currencies).

This Clause 10.4 (*Transactions with Affiliates*) does not apply to (a) compensation or employee benefit arrangements with any officer or director of the Borrower or a Subsidiary, as the case may be, arising as a result of their employment contract, or (b) any Affiliate Transaction between the Borrower and any of its Subsidiaries or between any Subsidiaries of the Borrower.

10.5 Maintenance of Authorisations

the Borrower shall, and shall procure that each of its Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Borrower or the relevant Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Borrower shall take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Russian Federation for the execution, delivery or performance of this Agreement or for the validity or enforceability thereof, *provided that*, in any case where the Borrower and/or the relevant Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.5 (*Maintenance of Authorisations*) within 60 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

10.6 Maintenance of Property

the Borrower shall, and shall ensure that its Subsidiaries will, cause all property that is used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all

necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgement of the Borrower or such Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times.

10.7 Payment of Taxes and Other Claims

the Borrower shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged, before the same shall become overdue and without incurring penalties, (a) all Taxes levied or imposed upon the income, profits or property of the Borrower 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 the Borrower or any of its Subsidiaries; *provided, however, that* none of the Borrower nor any Subsidiary shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (a) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with US GAAP, as consistently applied or other appropriate provision has been made or (b) whose amount, together with all such other unpaid or undischarged Taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$5,000,000 (or its equivalent in other currencies).

10.8 Maintenance of Insurance

So long as any amount remains outstanding under this Agreement, the Borrower shall and shall ensure that each of its Subsidiaries will, keep those of their material properties which are of an insurable nature insured with insurers of good standing against loss or damage to the extent that property of similar character is usually so insured by corporations in the same jurisdictions similarly situated and owning like properties in the same jurisdictions.

10.9 Financial Information

- 10.9.1 the Borrower shall as soon as the same become available, but in any event within 150 days after the end of each of its financial years, deliver to the Lender and the Trustee the Group's consolidated financial statements for such financial year, in each case audited by the Auditors and prepared in accordance with US GAAP consistently applied with the corresponding financial statements for the preceding period.
- 10.9.2 the Borrower shall as soon as the same become available, but in any event within 90 days after the end of each half of each of its financial years, deliver to the Lender and the Trustee the Group's consolidated financial statements for such period.
- 10.9.3 the Borrower shall, so long as the Advance or any other sum owing under this Agreement remains outstanding, deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.
- 10.9.4 the Borrower shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 10.9 (*Financial Information*) is:
 - (a) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with US GAAP and consistently applied;
 - (b) in the case of the statements provided pursuant to sub-Clause 10.9.1 and sub-Clause 10.9.2, accompanied by a report thereon of the Auditors referred to in sub-Clause 10.9.1 (including opinions of such Auditors with accompanying notes and annexes) in each case, in a form satisfactory to the Lender; and
 - (c) in the case of the statements provided pursuant to sub-Clause 10.9.3, certified by an Authorised Signatory of the Borrower as giving a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.

10.9.5 the Borrower shall from time to time, on the request of the Lender, furnish the Lender with such information about the business and consolidated financial condition of the Borrower or the Group as the Lender or the Trustee may reasonably require.

10.10 Financial Covenants

The Borrower shall (except as otherwise specifically provided or agreed by the Lender and the Trustee) at all times (save in respect of sub-Clause 10.10.3 below, which will apply in respect of the time periods set out therein) maintain:

10.10.1 full compliance with prudential supervision ratios and other requirements of the Central Bank;

10.10.2 a ratio of Capital to Risk Weighted Assets of not less than 12 per cent.;

10.10.3 a ratio of Tier 1 Capital to Risk Weighted Assets of not less than 8 per cent.; and

10.10.4 a ratio of Exposure to any single borrower, which is not a Related Party, to Net Asset Value of not more than 25 per cent.

10.11 Change of Business

The Borrower shall procure that no material change is made to the general nature of the business of itself or any of its Subsidiaries from that carried on at the date of this Agreement.

10.12 Ranking of Claims

The Borrower shall ensure that at all times the claims of the Lender against it under this Agreement rank at least *pari passu* with the claims of all its other unsecured creditors save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

10.13 Officers' Certificates

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date), the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date) or promptly upon request by the Lender (and in any event within 15 Business Days after such request), the Borrower shall deliver to the Lender copied to the Trustee, written notice in the form of an Officers' Certificate listing its Subsidiaries.

10.14 Notes Held by the Borrower

Upon being so requested in writing by the Lender, the Borrower shall deliver to the Lender (copied to the Trustee) an Officers' Certificate of the Borrower setting out the total principal amount of Notes which, at the date of such certificate, are held by the Borrower (or any Subsidiary of the Borrower) and have not been cancelled and are retained by it for its own account or for the account of any other company.

10.15 Maintenance of Legal Validity

The Borrower shall obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents and make or cause to be made all registrations, recordings and filings required in or by the laws and regulations of the Russian Federation to enable it lawfully to enter into and perform its obligations under this Agreement and to ensure the legality, validity, enforceability or admissibility in evidence in the Russian Federation of this Agreement. the Borrower shall promptly pay all amounts payable in respect of fees, expenses and payments under indemnities as required by this Agreement ("Relevant Payments") provided that, in the event that the Borrower is prevented, hindered or limited from paying such amounts by virtue of any laws and regulations of the Russian

Federation or any requirement of the Central Bank or any other relevant authority, the Borrower undertakes to use its best endeavours to promptly take all actions necessary to comply with such laws and regulations or requirements of the Central Bank in order to enable it to make the Relevant Payments and shall, as soon as such compliance is achieved, make all Relevant Payments under this Agreement.

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*):

11.1.1 *Failure to pay*: the Borrower fails to pay any amount payable hereunder as and when such amount becomes payable in the currency and in the manner specified herein provided such failure to pay continues for more than five Business Days;

11.1.2 *Breach of obligations*: the Borrower fails to perform or observe or is otherwise in breach of any obligation, covenant or agreement contained herein to be performed or observed by it, provided such failure continues for more than 30 Business Days;

11.1.3 *Misrepresentation*: any representation or warranty by the Borrower or any statement deemed to be made by the Borrower in this Agreement or any other document, certificate or notice delivered by the Borrower in connection with this Agreement, the Subscription Agreement, the Trust Deed or the Agency Agreement or the issue of Notes proves to have been inaccurate, incomplete or misleading in any material respect in the opinion of the Lender and the Trustee at the time it was made or repeated or deemed to have been made or repeated;

11.1.4 *Cross-default*:

- (i) any Indebtedness of the Borrower or any of its Subsidiaries is not paid when due (after the expiry of any applicable grace period); or
- (ii) any such Indebtedness becomes capable of being declared due and payable prior to its stated maturity otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above, individually or in the aggregate, exceeds U.S.\$5,000,000 (or its equivalent in any other currency or currencies);

11.1.5 *Insolvency*: the occurrence of any of the following events: (i) any of the Borrower, or any of its Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation commissioner (*likvidatsionnaya komissiya*) or a similar officer of any of the Borrower, or any of its Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of the Borrower or its Subsidiaries in any court, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or its Subsidiaries, unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over the Borrower or any of its Subsidiaries, (iv) the entry by the Borrower or any of its Subsidiaries into, or the agreeing by the Borrower or any of its Subsidiaries to enter into, amicable settlement (*mirovoye soglasenie*) with its creditors, as such terms are defined in the Federal Law of Russia No. 127-FZ “On Insolvency (Bankruptcy)” dated 26 October 2002 (as amended or replaced from time to time); (v) the institution of the financial rehabilitation (*finansovoye ozdorovlenie*), pursuant to the request of the Central Bank, temporary administration (*vremennoye upravleniye*) or reorganisation (*reorganizatsiya*) with respect to the Borrower or any of its Subsidiaries 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); (vi) any judicial liquidation in respect of the Borrower or, if applicable, any of its Subsidiaries; and/or (vii) revocation of the general banking licence or the licence for taking deposits from individuals of the Borrower or, if applicable, of any of its Subsidiaries;

- 11.1.6 *Bankruptcy*: the Borrower or any of its Subsidiaries is unable, or admits inability to, pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Indebtedness; the value of the assets of any of the Borrower or its Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of the Borrower or its Subsidiaries.
- 11.1.7 *Expropriation of property*: any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part (in the opinion of the Lender and the Trustee) of, the property, undertaking, revenues or assets of the Borrower or any of its Subsidiaries;
- 11.1.8 *Authorisations*: any governmental authorisation necessary for the performance of any obligation of the Borrower under this Agreement fails to be in full force and effect;
- 11.1.9 *Governmental or court action*: any government, Agency or court takes any action that, in the opinion of the Lender and the Trustee, has a Material Adverse Effect on the Borrower or any of its Subsidiaries, including, without prejudice to the foregoing: (i) the management of any member of the Group is wholly or partially displaced or the authority of any member of the Group in the conduct of its business is wholly or partially curtailed; or (ii) all or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or (iii) the Borrower’s banking licence or its licence for taking deposits from individuals is revoked;
- 11.1.10 *Liquidation*: the shareholders of the Borrower shall have approved any plan of liquidation or dissolution of the Borrower other than by way of a reorganisation permitted pursuant to Clause 10.2 (*Mergers*);
- 11.1.11 *Unsatisfied judgements*: the aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Borrower and other Subsidiaries in the aggregate exceeds U.S.\$5,000,000, or the equivalent thereof in any other currency or currencies and there is a period of 60 days following the entry thereof during which such judgment, decree or order is not appealed, discharged, waived or the execution thereof stayed and such default continues for 10 days after the notice specified in Clause 11.2 (*Notice of Default*);
- 11.1.12 *Illegality*: at any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under this Agreement or any of such obligations (subject as provided in sub-Clause 9.1.2) are not, or cease to be, legal, valid, binding and enforceable;
- 11.1.13 *Change of business*: the Borrower or any of its Subsidiaries ceases to carry on the principal business it carried on at the date hereof;
- 11.1.14 *Repudiation*: the Borrower repudiates this Agreement, the Subscription Agreement or the Agency Agreement or evidences an intention to repudiate this Agreement, the Subscription Agreement or the Agency Agreement;
- 11.1.15 *Amendments to charter*: the charter of the Borrower is amended in a way which would contravene or result in the contravention of any material provision of this Agreement;
- 11.1.16 *Other events*: Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-Clauses.

11.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee, immediately upon becoming aware thereof, written notice in the form of an Officers' Certificate of any event which is a Potential Event of Default or an Event of Default, its status and what action the Borrower or the relevant Subsidiary, as the case may be, is taking or proposes to take with respect thereto.

11.3 Default Remedies

11.3.1 *Acceleration*: If any Event of Default shall occur and be continuing, the Lender and/or the Trustee as applicable in accordance with the Trust Deed may, by notice in writing to the Borrower, (a) declare the Facility and the obligations of the Lender hereunder to be immediately terminated, whereupon the Facility and such obligations shall terminate, and (b) declare all amounts payable hereunder by the Borrower 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 expressly waived by the Borrower; *provided, however*, that if any event of any kind referred to in sub-Clauses 11.1.5 (*Insolvency*) and 11.1.6 (*Bankruptcy*) occurs, the Facility and obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by the Borrower that would otherwise be due after the occurrence of such event shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

11.3.2 *Amounts due on demand*: If, pursuant to sub-Clause 11.3.1 (*Acceleration*), the Lender and/or the Trustee declares the outstanding principal amount of the Facility to be due and payable on demand of the Lender and/or the Trustee, then, and at any time thereafter, the Lender and/or the Trustee, may, by written notice to the Borrower, require repayment of the outstanding principal amount of the Facility on such date as it may specify in such notice (whereupon the same shall become due and payable on such date together with accrued interest thereon and any other sums then owed by the Borrower hereunder) or withdraw its declaration with effect from such date as it may specify in such notice.

11.4 Rights Not Exclusive

The rights provided for herein are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

12. INDEMNITY

12.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender or any of its Affiliates, each director, officer, employee or agent of the Lender and each Person controlling the Lender within the meaning of the United States securities laws (each an “**indemnified party**”) incurs any loss, liability, cost, claim, charge, expense (including without limitation Taxes, any value added tax, legal fees, costs and expenses), demand or damage (a “**Loss**”) as a result of or in connection with the Loan, this Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was caused either by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained in the Subscription Agreement. The Lender shall not have any duty or obligation, whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other Person for any amounts paid to it under this Clause 12.1 (*Indemnification*).

12.2 Independent Obligation

Clause 12.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

12.3 Evidence of Loss

A certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 12.1 (*Indemnification*) and specifying in full detail the basis therefor shall, in the absence of manifest error, be *prima facie* evidence of the amount of such losses, expenses and liabilities.

12.4 Survival

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 6.3 (*Withholding on the Notes*), 6.4 (*Tax Indemnity*), 6.5 (*Reimbursement*) and 12.1 (*Indemnification*) shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Loan by the Borrower.

12.5 Currency Indemnity

Each reference in this Agreement to Dollars is of the essence. To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any premium and costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due, the Borrower hereby agrees to indemnify the Lender against any such deficiency in Dollars. Any obligation of the Borrower not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect.

13. GOVERNING LAW

This Agreement is governed by and shall be construed in accordance with English law.

14. ARBITRATION

14.1 Arbitration

Subject to Clause 14.5 (*Lender's Option*) any dispute (a “**Dispute**”) arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement or the consequences of its nullity) shall be referred to arbitration under the Arbitration Rules of the London Court of International Arbitration (LCIA), which rules are deemed to be incorporated by reference into this Clause.

14.2 Formation of arbitral tribunal, seat and language of arbitration

14.2.1 *Formation of arbitration tribunal*: The arbitral tribunal shall consist of three arbitrators, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions. Each party shall nominate an arbitrator, who, in turn, shall nominate the Chairman of the Tribunal. If a dispute, claim controversy or cause of action shall involve more than two parties, the parties thereto shall attempt to align themselves in two sides (i.e. claimant and respondent) each of which shall appoint an arbitrator as if there were only two sides to such dispute, claim controversy or cause of action. If such alignment and appointment shall not have occurred within thirty (30) calendar days after the initiating party serves the arbitration demand or if a Chairman

has not been selected within thirty (30) calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall appoint the three arbitrators or the Chairman, as the case may be. The parties and the Arbitration Court may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The arbitrators shall have no authority to award punitive or other punitive type damages and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

14.2.2 *Seat of arbitration:* The seat of arbitration shall be London, England.

14.2.3 *Language of arbitration:* The language of the arbitration shall be English.

14.3 Fees

Fees of the arbitration (excluding each party's preparation, travel, attorneys' fees and similar costs) shall be borne in accordance with the decision of the arbitrators. The decision of the arbitrators shall be final, binding and enforceable upon the parties and judgment upon any award rendered by the arbitrators may be entered in any court having jurisdiction thereof. In the event that the failure of a party to comply with the decision of the arbitrators requires any other party to apply to any court for enforcement of such award, the non-complying party shall be liable to the other for all costs of such litigation, including reasonable attorneys' fees.

14.4 Recourse to Courts

For the purposes of arbitration pursuant to this Clause 14 (Arbitration), the parties hereto exclude the jurisdiction of the Courts under Sections 45 and 69 of the Arbitration Act 1996.

14.5 Lender's Option

The Lender may, at any time, by notice in writing to the Borrower require that all Disputes or a specific Dispute be heard by a court of law. If the Lender gives such notice, the Dispute to which such notice refers shall be determined in accordance with Clause 15 (*Jurisdiction of English Courts*).

15. JURISDICTION OF ENGLISH COURTS

15.1 Jurisdiction

In the event that the Lender issues a notice pursuant to Clause 14.5 (*Lender's Option*), the following provisions in this Clause 15.1 (*Jurisdiction*) and Clauses 15.2 (*Lender's Process Agent*) and 15.3 (*Borrower's Process Agent*) shall apply:

15.1.1 Subject to Clause 15.1.3, the Courts of England shall have exclusive jurisdiction to settle any such Dispute.

15.1.2 The parties agree that the Courts of England are the most appropriate and convenient courts to settle such Disputes and accordingly no party will argue to the contrary.

15.1.3 This Clause 15.1 (*Jurisdiction*) is for the benefit of the Lender only. As a result, and notwithstanding Clause 15.1.1, the Lender may take proceedings relating to a Dispute ("Proceedings") in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent Proceedings in any number of jurisdictions.

15.2 Lender's Process agent

The Lender agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Lender shall, on the written demand of the Borrower addressed and delivered to the Lender appoint a further person in England to accept

service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a person by written notice addressed to the Lender and delivered to the Lender. Nothing in this paragraph shall affect the right of the Borrower to serve process in any other manner permitted by law. This Clause applies to Proceedings in England and to Proceedings elsewhere.

15.3 Borrower's Process agent

the Borrower agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Borrower in Great Britain at which process may be served on it in accordance with Part XXIII of the Companies Act 1985. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Borrower, the Borrower shall, on the written demand of the Lender addressed and delivered to the Borrower appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a person by written notice addressed to the Borrower and delivered to the Borrower. Nothing in this paragraph shall affect the right of the Lender to serve process in any other manner permitted by law. This Clause applies to Proceedings in England and to Proceedings elsewhere.

16. NOTICES

16.1 Addresses for Notices

All notices and other communications hereunder shall be made in writing and in English (by letter or fax) and shall be sent as follows:

16.1.1 *Lender*: if to the Lender, to it at:

CBOM Finance p.l.c.
5 Harbourmaster Place
IFSC
Dublin 1
Ireland
Fax: +353 1 680 6050
Attention: The Directors

16.1.2 *Borrower*: if to the Borrower, to it at:

Credit Bank of Moscow (open joint-stock company)
4 Marshala Rybalko Street
Moscow 123060
Russian Federation
Fax: +7 495 795 0274
Attention: Mr. Andrey G. Ivanov, Vice President

16.2 Effectiveness

Every notice or other communication sent in accordance with Clause 16.1 (*Addresses for Notices*) shall be effective upon actual receipt by the addressee; provided, however, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the addressee.

17. ASSIGNMENT

17.1 This 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 this Agreement. Any reference in this Agreement to any party shall be

construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 17.3 below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any discussions between the Lender and the Borrower or any agreements of the Lender or the Borrower pursuant to Clause 6.5 (*Reimbursement*) or Clause 8 (*Change in Law or Banking Practices; Increase in Cost*).

- 17.2 The Borrower shall not assign, dispose of, novate or transfer all or any part of its rights or obligations hereunder to any other party.
- 17.3 Subject to Clause 15 (*Substitution*) of the Trust Deed, the Lender may not assign or transfer, in whole or in part, any of its rights (other than Reserved Rights (as defined in the Trust Deed)) and benefits or obligations under this Agreement except to the Trustee by granting the Security. In the event a successor Lender is appointed to act as lender, the Lender shall deliver to the successor Lender sufficient information to allow the successor Lender to perform its obligations under this Agreement and the successor Lender shall accede to this Agreement and at such time give the same representations, warranties and undertakings as set out herein.

18. GENERAL

18.1 Evidence of Debt

The entries made in the Account shall, in the absence of manifest error, constitute *prima facie* evidence of the existence and amounts of the Borrower's obligations recorded therein.

18.2 Stamp Duties

- 18.2.1 the Borrower shall pay all stamp, registration and documentary taxes, duties or similar charges (if any) imposed on the Borrower by any Person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents and shall indemnify the Lender against any and all costs, penalties and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges upon presentation by the Lender to the Borrower of documentary evidence of such costs and expenses.
- 18.2.2 the Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes, duties or similar charges (if any) imposed by any Person in the United Kingdom, the Russian Federation or Ireland which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of this Agreement and all related documents, the Borrower shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes, duties or similar charges and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such taxes, duties or similar charges.

18.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by applicable law.

18.4 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from the Borrower, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 11 (*Prescription*) of the Notes.

18.5 Contracts (Rights of Third Parties) Act 1999

A person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Agreement.

18.6 Counterparts

This 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.

18.7 Language

The language which governs the interpretation of this Agreement is the English language.

18.8 Amendments

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties.

18.9 Partial Invalidity

The illegality, invalidity or unenforceability to any extent of any provision of this 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.

19. LIMITED RECOURSE AND NON PETITION

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received by or for the account of the Lender pursuant to this Agreement (the “**Lender Assets**”), subject always (i) to the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Managers (as defined in the Subscription Agreement) under the Subscription Agreement shall rank in priority to any claims of the Borrower hereunder, and that any such claim by any and all such Managers or the Borrower shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, neither the Borrower nor any person acting on its behalf shall be entitled at any time to institute against the Lender, or join with any other person as instituting or joining, insolvency proceedings (or any proceedings mentioned in the paragraph above) against the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

TERMS AND CONDITIONS OF THE NOTES

The U.S.\$100,000,000 9.5 per cent. Loan Participation Notes due 2009 with interest rate step-up to 10.25 per cent. in 2007 (the “**Notes**” which expression includes, unless the context requires otherwise, any further Notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) of CBOM Finance p.l.c. (the “**Issuer**”, which expression shall include (unless the context requires otherwise) any entity substituted for the Issuer pursuant to Condition 10(C) (*Substitution*)) are constituted by, are subject to, and have the benefit of, a trust deed to be dated 16 October 2006 (the “**Trust Deed**”, which expression includes such trust deed as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) and made between the Issuer and J.P. Morgan Corporate Trustee Services Limited (the “**Trustee**”, which expression shall include any trustees or trustee for the time being under the Trust Deed) as trustee for the Noteholders (as defined below).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing a loan in an aggregate amount of U.S.\$100,000,000 (the “**Loan**”) to Credit Bank of Moscow (open joint-stock company) (the “**Bank**”). The terms of the Loan are recorded in a loan agreement dated 12 October 2006 between the Issuer and the Bank (the “**Loan Agreement**”).

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received and retained by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined in the Trust Deed). Noteholders must therefore rely solely and exclusively on the Bank’s covenant to pay under the Loan Agreement and the credit and financial standing of the Bank. Noteholders shall have no recourse (direct or indirect) to any other asset of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the Loan Agreement as security for its payment obligations in respect of the Notes and under the Trust Deed (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (the “**Assigned Rights**” and, together with the Charge, the “**Security Interests**”) in each case excluding the Reserved Rights (as defined in the Trust Deed).

In certain circumstances, the Trustee shall (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 in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Security Interests).

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from the Bank) pursuant to a paying agency agreement (the “**Agency Agreement**”) to be dated 16 October 2006 and made between the Bank, the Issuer, J.P. Morgan Bank Luxembourg S.A., as the registrar (the “**Registrar**”, which expressions shall include any successors), JPMorgan Chase Bank N.A., as the principal paying agent (the “**Principal Paying Agent**”, which expressions shall include any successors), and the transfer agents and paying agents named therein (the “**Transfer Agents**” and “**Paying Agents**” respectively together, the “**Agents**”, which expressions shall include any successors) and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the principal office of the Trustee being, at the date hereof, Trinity Tower, 9 Thomas More Street, London E1W 1YT and at the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent, the initial Specified Office of which is set out below.

Certain provisions of these terms and conditions (the “**Conditions**”) are summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. STATUS

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the secured, limited recourse 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 and retained (net of tax and any other deductions whatsoever) by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights (as defined in the Trust Deed).

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amount in respect of the Reserved Rights and subject to Condition 8 (*Taxation*), will be made *pro rata* among all Noteholders, on the 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, the Issuer shall be under no obligation to exercise in favour of the Noteholders any rights of set-off or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Bank.

Noteholders are deemed to have notice of, and to have accepted, these Conditions and the contents of the Trust Deed, the Agency Agreement and the Loan Agreement. It is hereby expressly provided that, and Noteholders are deemed to have accepted that:

- (a) neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, save as otherwise expressly provided in the Trust Deed or in paragraph (f) below, liability or obligation in respect of the performance and observance by the Bank of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest or any additional amounts (if any) due or to become due from the Bank under the Loan Agreement;
- (b) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial or otherwise), creditworthiness, affairs, status, nature or prospects of the Bank;
- (c) neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Bank under or in respect of the Loan Agreement;
- (d) the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent, the Paying Agent, the Registrar or the Transfer Agent of their respective obligations under the Agency Agreement;
- (e) the financial servicing and performance of the terms of the Notes depends solely and exclusively upon performance by the Bank of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing. The Bank has represented and warranted to the Issuer in the Loan Agreement that the Loan Agreement constitutes a legal, valid and binding obligation of the Bank;
- (f) the Issuer and (following the creation of the Security Interests) the Trustee shall be entitled to rely on certificates of the Bank (and, where applicable, certification by third parties) as a means of monitoring whether the Bank is complying with its obligations under the Loan

Agreement and shall not otherwise be responsible for investigating any aspect of the Bank's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a lender or a security holder (as applicable) in relation to the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security; and

- (g) the Issuer shall at no time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions until it has received from the Bank the funds that are necessary to cover the costs and expenses in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Bank to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

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 Bank except its rights against the Lender through action by the Trustee pursuant to the Charge and the assignment of the Assigned Rights granted to the Trustee in the Trust Deed. The Trustee shall not be required to take proceedings to enforce payment under the Trust Deed or, following the enforcement of the Security Interests created in the Trust Deed, the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

Notwithstanding any other provisions of these Conditions and the provisions in the Trust Deed, the Trustee and the Noteholders shall have recourse only to the Charged Property (as defined in the Trust Deed) in accordance with the provisions of the Trust Deed. After realisation of the security which has become enforceable and application of the proceeds in accordance with Clause 7 of the Trust Deed, the obligations of the Issuer with respect to the Trustee and the Noteholders in respect of the Notes shall be satisfied and none of the foregoing parties may take any further steps against the Issuer to recover any further sums in respect thereof and the right to receive any such sums shall be extinguished.

None of the Noteholders or other creditors (not any other person acting on behalf of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors for so long as the Notes are outstanding, save for lodging a claim in the liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgement as to the obligations of the Issuer.

No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes.

2. FORM AND DENOMINATION

The Notes are issued in registered form in the denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof (each a “**Specified Denomination**”).

3. REGISTER, TITLE AND TRANSFERS

(A) Register

The Registrar will maintain a register (the “**Register**”) in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the “holder” or “Noteholder” of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A certificate (each a “**Certificate**”) will be issued to each Noteholder in respect of its registered holding. Each Certificate will be serially numbered with an identifying number which will be recorded in the Register.

(B) Title

The holder of each Note as recorded in the Register, 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 Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such holder.

Notwithstanding anything to the contrary in this Condition 3(B), the Notes will be numbered serially with an identifying number which will be recorded in the Register and a copy of which in an all times up-to-date version is held at the registered office of the Issuer.

(C) Transfers

Subject to paragraphs (F) and (G) below, a Note may be transferred, subject to the transfer being duly recorded in the Register and upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or the Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer provided, however, that a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of Notes not transferred each amounts to a Specified Denomination or a multiple thereof. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

(D) Registration and Delivery of Certificates

Within five business days of the surrender of a Certificate in accordance with paragraph (C) above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Notes transferred to each relevant holder for collection at its Specified Office or (at the request and risk of such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder. In this paragraph, “business day” means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city where the Registrar or the Transfer Agent has its Specified Office.

(E) No Charge

The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Transfer Agent but against such indemnity as the Registrar or (as the case may be) the Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(F) **Closed Periods**

The Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(G) **Regulations Concerning Transfers and Registration**

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. RESTRICTIVE COVENANT

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (as defined in the Trust Deed), agree to any amendments to or any modification of, or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*, incur any other indebtedness for borrowed moneys, engage in any other business (other than acquiring and holding the Security Interests in respect of the Notes, making the Loan to the Bank pursuant to the Loan Agreement 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, the Trust Deed and the Loan Agreement), issue any shares, give any guarantee or assume any other liability, or, subject to the laws of Ireland, petition for any winding-up or bankruptcy.

5. INTEREST

On 21 October and 21 April of each year, commencing on 21 April 2007 and ending on 21 October 2009 (each an “**Interest Payment Date**”), or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement which interest under the Loan Agreement is equal to 9.5 per cent. per annum from, and including, the Issue Date to, but excluding, the Interest Payment Date falling in October 2007 and equal to 10.25 per cent. per annum from, and including, the Interest Payment Date falling in October 2007 to, but excluding, the Maturity Date.

In the case of the Interest Period ending on 21 April 2007 or if interest is otherwise required to be calculated for any period other than a full Interest Period, it will be calculated on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. REDEMPTION

(A) **Scheduled Redemption**

Unless previously prepaid or repaid pursuant to Clauses 5.2 (Special Prepayment), 5.3 (Prepayment in the Event of Exercise of Put Option), Clause 5.4 (Illegality) or Clause 11 (Events of Default) of the Loan Agreement, the Bank will be required to repay the Loan on the day which is one Business Day (as defined in the Loan Agreement) prior to the Repayment

Date (the “**Loan Repayment Date**”) and, subject to such repayment, as set forth in the Loan Agreement, all Notes then outstanding will, on the Repayment Date or as soon thereafter as such repayment of the Loan is actually received, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

(B) Early Redemption

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement prior to the Loan Repayment Date, as set forth in the Loan Agreement, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at par together with interest accrued to the date of redemption, and the Issuer will endeavour to give not less than 25 nor more than 60 days’ notice thereof to the Trustee and the Noteholders in accordance with Condition 14 (*Notices*).

Under the Loan Agreement:

- (i) the Bank may prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.2 (*Special Prepayment*) of the Loan Agreement; and
- (ii) the Issuer may require the Bank to prepay the Loan in whole (but not in part) in the circumstances set out in Clause 5.3 (*Illegality*) of the Loan Agreement.

To the extent that the Issuer receives amounts of principal, interest or other amounts (other than amounts in respect of the Reserved Rights (as defined in the Trust Deed)) from the Bank following acceleration of the Loan, the Issuer shall pay an amount equal to such amounts on the business day (as defined in Condition 7 (*Payments*)) following receipt of such amounts, subject as provided in Condition 7 (*Payments*).

(C) Redemption at Option of the Noteholder

The holder of any Note outstanding on the Interest Payment Date falling in October 2007 (for the purposes of this Condition 6(C), the “**Put Option Payment Date**”) will have the option to require the Issuer to redeem that Note on the Put Option Payment Date at 100 per cent. of its principal amount together with accrued interest (if any) to the Put Option Payment Date.

In order to exercise the option contained in this Condition 6(C), the holder of a Note must deliver no later than 30 days prior to the Put Option Repayment Date (the “**Early Redemption Period**”), to any Paying Agent evidence satisfactory to the Paying Agent of such holder’s entitlement to such Note and a duly completed put option notice (a “**Put Option Notice**”) specifying the principal amount of the Notes in respect of which such option is exercised, in the form obtainable from any Paying Agent. For so long as all of the Notes are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Noteholders provided for in this Condition 6(C) may be exercised by an accountholder shown in the records of Euroclear and/or Clearstream, Luxembourg as the holder of Notes giving notice prior to expiration of the Early Redemption Period to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on their instructions by Euroclear or Clearstream, Luxembourg or any common depositary for them to the Principal Paying Agent by electronic means) of the principal amount of the Notes in respect of which such option is exercised and the Issuer shall (subject as provided in Condition 7 (*Payments*)) redeem all or the relevant proportion of the Global Certificate on the Put Option Payment Date. No Put Option Notice or such notice to the Principal Paying Agent contemplated by the preceding sentence, once delivered in accordance with this Condition 6(C), may be withdrawn.

7. PAYMENTS

(A) Principal

Payments of principal shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account

maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(B) Interest

Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(C) Payments Subject to Fiscal Laws

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*), no commissions or expenses shall be charged to the Noteholders in respect of such payments.

(D) Payments on Business Days

If the due date for payments of interest or principal is not a business day, the holder of a Note 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 Condition, “business day” means a day on which (a) the London Interbank Market is open for dealings between banks generally, and (b) if on that day a payment is to be made hereunder, commercial banks generally are open for business in Dublin, New York City, Moscow and in the city where the Specified Office of the Principal Paying Agent is located.

(E) Record Date

Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the Registrar’s Specified Office) on the fifteenth day before the due date for such payment (the “**Record Date**”). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the holder in the Register at the opening of business on the relevant Record Date.

(F) Accrued Interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

(G) Payments by the Bank

Save as directed by the Trustee at any time after the security created in the Trust Deed becomes enforceable, the Issuer will require the Bank to make all payments of principal, interest and any additional amounts to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer. Pursuant to the Charge, the Issuer will charge by way of first fixed charge all its rights, title and interest in and to all sums of money then or in the future deposited in such account in favour of the Trustee for the benefit of the Noteholders.

(H) Currency Other Than U.S. Dollars

In respect of the Issuer’s obligations under Conditions 5 (*Interest*), 6 (*Redemption*) and 8 (*Taxation*), and subject to the following sentence, if the Issuer receives any amount under the Loan Agreement in a currency other than U.S. Dollars, the Issuer’s obligation under the relevant Condition shall be fully satisfied by paying such sum (after deducting any costs of

exchange) as the Issuer receives upon conversion of such sum into U.S. Dollars in accordance with customary banking practice in the spot market on the business day immediately following the day on which such sum is received by the Issuer. If the Issuer receives any payment from the Bank pursuant to Clause 12.5 (*Currency Indemnity*) of the Loan Agreement with respect to amounts due under the Notes, the Issuer shall pay such sum to the Noteholders in accordance with this Condition 7 (*Payments*).

8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without deduction or withholding for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Ireland, the Russian Federation or any political subdivision 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 make such additional payments 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. However, the Issuer shall only make such additional payments to the extent and at such time as it shall receive and retain (net of tax and any other deductions whatsoever) equivalent sums from the Bank under the Loan Agreement. To the extent that the Issuer does not receive any such equivalent sum, the Issuer shall account to the relevant Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received and retained (net of tax and any other deductions whatsoever) by, or for the account of, the Issuer pursuant to the provisions of the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable:

- (i) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; or (ii) is liable for such taxes or duties by reason of his having some connection with Ireland other than the mere holding of such Notes or the receipt of payments in respect thereof;
- (ii) in respect of a Certificate 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 Certificate had been presented for payment on such thirtieth day;
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union 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
- (iv) in respect of a Note held by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a Member State of the European Union.

As used herein, "Relevant Date" means (i) the date on which the equivalent payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Bank has not been received by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, means the date on which such full amount shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 14 (*Notices*).

Any reference 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 Loan Agreement or the Trust Deed.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies unless the Trustee (having become bound to do so in accordance with the terms of the Trust Deed) fails or neglects to do so within a reasonable period and such failure or neglect is continuing.

At any time after the occurrence of an Event of Default (as defined in the Loan Agreement), or a Relevant Event (as defined in the Trust Deed), the Trustee may, at its discretion, and shall, if requested to do so by Noteholders whose Notes constitute at least 25 per cent. in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction, take the action permitted to be taken by the Issuer as lender under the Loan Agreement (in the case of an Event of Default), or exercise any rights under the Security Interests created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event). Upon the repayment of the Loan or the receipt in full of all principal and interest accrued under the Loan pursuant to a winding-up or liquidation of the Bank following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION; WAIVER; SUBSTITUTION OF THE LENDER

(A) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the modification or abrogation by Extraordinary Resolution of any provision of the Loan Agreement, these Conditions or the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee, subject to its being indemnified and/or secured to its satisfaction, upon the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be at least two persons present holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, at least two persons present being or representing Noteholders whatever the outstanding principal amount of the Notes held or represented; provided, however, that Reserved Matters (as defined in the Trust Deed) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which at least two persons present holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(B) Modification and Waiver

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions and the Trust Deed or, following the creation of the Security Interests, the Loan Agreement which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or (other than, in each case, in respect of the Reserved Matters) is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions, or the Trust Deed or, following the creation of the Security Interests, by the Bank of the terms of the 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 sole opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders (other than, in each case, in respect of the Reserved Matters) and provided always that the Trustee may not exercise such power of waiver in contravention of a request given by the holders of one quarter in aggregate principal amount of the Notes then outstanding or of any express direction by an Extraordinary Resolution or written Resolution of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

(C) Substitution

The Trust Deed and the Loan Agreement contain provisions to the effect that the Issuer may, having obtained the consent of the Bank and the Trustee (which latter consent may be given without the consent of the Noteholders) and subject to having complied with certain requirements as set out therein including the substitute obligor's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes and its rights as Lender under the Loan Agreement, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as obligor under the Trust Deed. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*) or the Issuer shall use its best endeavours to ensure that the substitute obligor does so.

(D) Exercise of Powers

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Bank or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

11. PRESCRIPTION

Notes will become void unless presented for payment within ten years (in the case of principal) or five years (in the case of interest) from the Relevant Date in respect thereof.

12. TRUSTEE AND AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and the Bank and any entity relating to the Issuer and the Bank without accounting for any profit.

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 by the Bank in respect of the Loan Agreement.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or registrar and additional or successor paying agents and transfer agents; provided, however, that the Issuer shall at all times maintain (a) a principal paying agent and a registrar, (b) a paying agent and transfer agent having Specified Offices in at least two major European cities approved by the Trustee (including London, so long as the Notes are admitted to listing on the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the Gilt-Edged and Fixed Interest Market of the London Stock Exchange plc), and (c), a paying agent in a member state of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union 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 to conform to, such Directive.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. REPLACEMENT OF CERTIFICATES

If a Certificate shall become mutilated, defaced, lost, stolen or destroyed it may, subject to all applicable laws and regulations and requirements of the Stock Exchange (as defined in the Trust Deed), be replaced at the Specified Office of the Registrar or the Transfer Agent having its Specified Office in London 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 Certificates must be surrendered before replacements will be issued.

14. NOTICES

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) or if such publication shall not be practicable, in an English language newspaper of general circulation in Europe or as otherwise required by any exchange on which the Notes are listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

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 in accordance with the rules of the Stock Exchange 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 first payment of interest) so as to form a single series with the Notes. In relation to any further issue which is to form a single series with the Notes (i) the Issuer will enter into a loan agreement with the Bank on the same terms as the Loan Agreement (or on the same terms except for the first payment of interest) subject to any modifications which, in the sole opinion of the Trustee, only relate to the Reserved Rights and would not materially prejudice the interests of the Noteholders and (ii) the Security Interests granted in respect of the Notes will be amended or supplemented so as to secure amounts due in respect of such further Notes also and/or new security will be granted over any further loan agreement or the Loan Agreement as so amended or supplemented to secure amounts due on the Notes and such

further Notes and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders. Such further Notes shall be issued under a deed supplemental to the Trust Deed.

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 and the Trust Deed are governed by and shall be construed in accordance with, English law. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of the courts of England and has appointed an agent for the service of process in England.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Certificate which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Certificate.

The Notes will be represented by a Global Note Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg.

Subject to receipt of funds from the Bank, the Global Certificate will become exchangeable in whole but not in part (free of charge to the holder), for Definitive Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reasons of legal holidays) or announces an intention permanently to cease business or (b) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 8 (*Taxation*) of the Terms and Conditions of the Notes which would not be suffered were the Notes in the form of Definitive Certificates and a certificate to such effect signed by two members of the management board of the Issuer is given to the Trustee.

Whenever the Global Certificate is to be exchanged for Definitive Certificates, such Definitive Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate following delivery, by or on behalf of the registered holder of Notes represented by the Global Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as required to complete and deliver such Definitive Certificates (including, but without limitation to, the names and addresses of the persons in whose names the Definitive Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Certificate at the Specified Office (as defined in the Agency Agreement) of the Registrar or the Transfer Agent. Such exchange will be effected in accordance with the provisions of the Agency Agreement, the Trust Deed and the Global Certificate.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of these provisions:

Notices

Notwithstanding Condition 14 (*Notices*), so long as the Global Certificate is held by or on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”), notices to holders of the Notes represented by the Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

Meetings

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of holders of the Notes and, in any such meeting as having one vote in respect of each U.S.\$1,000 in principal amount of Notes for which the Global Certificate is exchangeable.

TAXATION

The following is a general description of certain Russian and Irish tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of the Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Prospectus. The information and analysis contained within this section are limited to taxation issues, and prospective investors should not apply any information or analysis set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

Russian Federation

Taxation of the Notes

General

The following is a general summary of certain Russian tax considerations relevant to the purchase, ownership and disposition of the Notes as well as the taxation of interest on the Loan. The summary is based on the laws of Russia, in effect at the date of this Prospectus which are subject to change (possibly with retroactive effect). The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia. Similarly, the summary does not seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming such double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

The provisions of the Russian Tax Code applicable to holders, and transactions with the Notes are uncertain and lack interpretive guidance. Both the substantive provisions of the Russian Tax Code applicable to financial instruments and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets or more developed taxation systems. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates.

In practice, interpretation by different tax inspectorates may be inconsistent or contradictory and may constitute the imposition of conditions, requirements or restrictions not stated by the law. Similarly, in the absence of binding precedents court rulings on tax or related matters by different courts relating to the same or similar circumstances may also be inconsistent or contradictory.

For the purposes of this summary, a “non-resident Noteholder” means: (i) under current Russian legislation effective until 31 December 2006, an individual person actually present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia); as of 1 January 2007 a new definition of residency for personal income tax purposes will apply, under which a “non-resident Noteholder” means an individual person actually present in Russia for an aggregate period of less than 183 days within 12 successive months (excluding days of arrival into Russia, but including days of departure from Russia). This period is not interrupted by short-term (less than 6 months) departures from Russia for medical treatment or training; or (ii) a legal entity or organisation in each case not organised under Russian law that holds and disposes of the Notes otherwise than through a permanent establishment in Russia.

The Russian tax treatment of interest payments made by the Bank to the Issuer under the Loan Agreement may affect the holders of the Notes. See “Taxation of Interest on the Loan” below.

Non-Resident Holders

A non-resident Noteholder of a Note should not be subject to any Russian taxes on receipt from the Issuer of amounts payable in respect of principal, premium or interest on the Notes subject to what is stated in “Taxation of Interest on the Loan” below.

A non-resident Noteholder generally should not be subject to any Russian taxes in respect of gains or other income realised on redemption, sale or other disposal of the Notes outside Russia, provided that the proceeds from such sale, redemption or other disposal of the Notes are not received from a source within Russia.

In the event that proceeds from a sale, redemption or disposal of Notes are received from a source within Russia, a non-resident holder that is a legal entity or organisation should not be subject to Russian tax in respect of such proceeds, provided that no portion thereof is attributable to accrued interest. Any portion of such sales proceeds attributable to accrued interest may be subject to Russian withholding tax on income at the rate of 20 per cent., subject to any available double tax treaty relief, even if the disposal itself results in a capital loss. In order to enjoy the benefits of an applicable double tax treaty, documentary evidence is required prior to payment being made to confirm the applicability of the double tax treaty under which benefits are claimed. Non-resident Noteholders that are legal entities and organisations should consult their own tax advisers with respect to this possibility.

If proceeds from a disposal of the Notes are received from a Russian source, a non-resident Noteholder who is an individual will generally be subject to tax at a rate of 30 per cent., subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available cost deduction (which includes the purchase price of the Notes) and in respect of interest income. In this regard, if the Notes are disposed of in Russia, for Russian personal income tax purposes, the proceeds of such disposition are likely to be regarded as received from a Russian source. In certain circumstances, if the disposal proceeds are payable by a Russian legal entity, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax or the non-resident individual may be liable to pay the tax. In such a situation, there is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale of the Notes and Roubles. Non-resident holders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

Where proceeds from the disposition of the Notes are received from a Russian source, in order for the non-resident holder, whether an individual, legal entity or organisation, to enjoy the benefits of an applicable double tax treaty, documentary evidence is required to confirm the applicability of the double tax treaty for which benefits are claimed

Resident Holders

A Noteholder who is an individual resident or a legal entity resident in Russia for tax purposes is subject to all applicable Russian taxes including any documentation requirements that may be required by law or practice in respect of gains from disposal of the Note, and interest received on the Notes. Resident Noteholders should consult their own tax advisers with respect to their tax position regarding the Notes.

Refund of Tax Withheld

For a Noteholder which is not an individual and for which double tax treaty relief is available, if Russian withholding tax on income was withheld by the source of payment, a refund of such tax is possible within three years from the end of the tax period in which the tax was withheld. In order to obtain a refund, the tax documentation confirming the right of the non-resident recipient of the income to double tax treaty relief is required.

For an individual Noteholder for which double tax treaty relief is available, if Russian withholding tax on income was withheld by the source of payment, a refund of such tax may be filed within one year after the end of the year in which the tax was withheld.

The Russian tax authorities may, in practice, require a wide variety of documentation confirming the right to benefits under a double tax treaty. Such documentation, in practice, may not be explicitly required by the Russian Tax Code.

Obtaining a refund of Russian tax withheld may be a time consuming process and can involve considerable practicable difficulties.

Taxation of Interest on the Loan

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal person are subject to Russian withholding income tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received, the Bank believes that payments of interest on the Loan made by the Bank to the Issuer should not be subject to withholding taxes under the terms of the double taxation treaty between Russia and Ireland (and the current interpretation of the Treaty language by the Russian tax authorities), provided the Russian tax documentation requirements (annual advance confirmation of the Lender's tax residency) are satisfied. However, there can be no assurance that such double tax treaty relief will continue to be available as a result of changes in tax legislation or in the prevailing interpretation of existing tax legislation by the Russian tax authorities. In addition, the Bank cannot assure prospective investors that they will obtain such exemption from withholding tax under the treaty under the enforcement of the security. If, as a result of the enforcement by the Trustee of the security granted to it by the Issuer by way of the security interests in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and Ireland may cease and payments of interest may be subject to Russian withholding tax at a rate of 20 per cent. (or, potentially, 30 per cent. in respect of non-resident individual Noteholders).

If payments under the Loan Agreement are subject to any withholding taxes (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), the Bank is obliged to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. It should be noted that gross-up provisions in contracts may not be enforceable under Russian law. In the event that the Bank fails to increase the payments, such failure would constitute an Event of Default under the Loan Agreement. However, if the Bank is obliged to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Russian VAT is not applied to the rendering of financial services involving the provision of a loan in monetary form. Therefore, no VAT will be payable in Russia on any payment of interest or principal in respect of the Loan.

Ireland

The following is a summary based on the laws and published practices currently in force in Ireland of certain matters regarding the tax position of investors who are the absolute beneficial owners of their Notes and should be treated with appropriate caution. Particular rules may apply to certain classes of taxpayers holding Notes, including trustees or dealers in shares. The summary does not constitute tax or legal advice and the comments below are of a general nature only. Prospective investors in the Notes should consult their professional advisers on the tax implications of the purchase, holding, redemption or sale of the Notes and the receipt of interest thereon under the laws of their country of residence, citizenship or domicile.

Withholding Tax

In general, tax at the standard rate of income tax (currently 20 per cent.), is required to be withheld from payments of Irish source interest. However, an exemption from withholding on interest payments exists for certain securities (quoted Eurobonds) issued by a body corporate (such as the Issuer) which are interest bearing and quoted on a recognised stock exchange (which would include the London Stock Exchange).

Any interest paid on such quoted Eurobonds can be paid free of withholding tax provided:

- (a) the person by or through whom the payment is made is not in Ireland; or

- (b) the payment is made by or through a person in Ireland, and either:
 - (i) the quoted Eurobond is held in a clearing system recognised by the Irish Revenue Commissioners (DTC, Euroclear and Clearstream, Luxembourg are so recognised), or
 - (ii) the person who is the beneficial owner of the quoted Eurobond and who is beneficially entitled to the interest is not resident in Ireland and has made a declaration to a relevant person (such as an Irish Paying Agent) in the prescribed form.

So long as the Notes continue to be quoted on a recognised stock exchange and are held in DTC, Euroclear and/or Clearstream, Luxembourg, interest on the Notes can be paid by the Issuer and any Paying Agent acting on behalf of the Issuer without any withholding or deduction for or on account of Irish income tax.

If, for any reason, the quoted Eurobond exemption referred to above does not or ceases to apply, the Issuer can still pay interest on the Notes in the ordinary course of its business or trade free of withholding tax provided it is a “qualifying company” (within the meaning of Section 110 of the Taxes Consolidation Act 1997) and provided the interest is paid to a person resident in a “relevant territory” (i.e. a member state of the European Union (other than Ireland) or a country with which Ireland has a double taxation agreement). For this purpose, residence is determined by reference to the law of the country in which the recipient claims to be resident. This exemption from withholding tax will not apply, however, if the interest is paid to a company in connection with a trade or business carried on by it through a permanent establishment, branch or agency located in Ireland.

If neither of the above apply for any reason, interest may be paid free of withholding tax if the Noteholder is resident in a double taxation treaty country if, under the provisions of the relevant treaty with Ireland, such Noteholder is exempt from Irish tax on the interest and clearance in the prescribed form has been received by the Issuer before the interest is paid.

Encashment Tax

In certain circumstances, Irish tax will be required to be withheld at the standard rate of income tax (currently 20 per cent.) from interest on any quoted Eurobond, where such interest is collected or realised by a bank or encashment agent in Ireland on behalf of any Noteholder who is Irish resident.

Encashment tax does not apply where the Noteholder is not resident in Ireland and has made a declaration in the prescribed form to the encashment agent or bank.

Taxation of Noteholders

Notwithstanding that a Noteholder may receive interest on the Notes free of withholding tax, the Noteholder may still be liable to pay Irish income tax with respect to such interest. Interest paid on the Notes may have an Irish source and may therefore be within the charge to Irish income tax and levies. Ireland operates a self-assessment system in respect of income tax, and any person, including a person who is neither resident nor ordinarily resident in Ireland, with Irish source income comes within its scope.

There is an exemption from Irish income tax on interest payments made by a qualifying company (as described above) provided the recipient of the interest is a person resident in a Member State of the European Union (other than Ireland) or in a country with which Ireland has a double tax treaty. For this purpose, residence is determined under the terms of the relevant double taxation agreement or in any other case, the laws of the country in which the recipient claims to be resident.

In addition, any interest which can be paid free of withholding tax under the quoted Eurobond exemption (discussed above) is exempt from income tax where the payment is made to a person resident in a Member State of the European Union (other than Ireland) or in a country with which Ireland has a double taxation agreement.

Notwithstanding these exemptions from income tax, a corporate recipient that carries on a trade in Ireland through a branch or agency in respect of which the Notes are held or attributable, may have a liability to Irish corporation tax on the interest.

Relief from Irish income tax may also be available under the specific provisions of a double taxation agreement between Ireland and the country of residence of the recipient.

Interest on the Notes which does not fall within the above exemptions may be within the charge to Irish income tax. However, it is understood that there is an unpublished practice of the Irish Revenue Commissioners whereby no action will be taken to pursue any liability to Irish tax in respect of persons who are regarded as not being resident in Ireland, except where such persons have a taxable presence in Ireland or claim any repayment, credit or relief in respect of Irish tax, or use an Irish Paying Agent. There can be no assurance that the Irish Revenue Commissioners will apply this practice in the case of the Noteholders.

Capital Gains Tax

A holder of Notes will be subject to Irish tax on capital gains on a disposal of Notes unless such holder is neither resident nor ordinarily resident in Ireland and does not carry on a trade or business in Ireland through a permanent establishment, branch or agency in respect of which the Notes are or were held.

Capital Acquisitions Tax

A gift or inheritance comprising of Notes will be within the charge to capital acquisitions tax (which subject to available exemptions and reliefs is currently levied at 20 per cent.) if either (i) the donor or the donee/successor in relation to the gift or inheritance is resident or ordinarily resident in Ireland or (ii) if the Notes are regarded as property situate in Ireland. A foreign domiciled individual will not be regarded as being resident or ordinarily resident in Ireland at the date of the gift or inheritance unless that individual (i) has been resident in Ireland for the five consecutive tax years preceding that date, and (ii) is either resident or ordinarily resident in Ireland on that date.

Bearer notes are generally regarded as situated where they are physically located at any particular time, but the Notes may be regarded as situated in Ireland regardless of their physical location as they secure a debt due by an Irish resident debtor and they may be secured over Irish property. Notes in registered form are property situate in Ireland if the register is in Ireland. Accordingly, if such Notes are comprised in a gift or inheritance, the gift or inheritance may be within the charge to tax regardless of the residence status of the donor or the donee/successor.

Stamp Duty

For as long as the Issuer is a qualifying company within the meaning of Section 110 of the Taxes Consolidation Act 1997, no stamp duty or similar tax is imposed in Ireland on the issue, transfer or redemption of the Notes (on the basis of an exemption provided for in Section 85(2)(c) of the Stamp Duties Consolidation Act 1999 provided the money raised on the issue of the Notes is used in the course of the Issuer's business).

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State. For a transitional period, however, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over the course of the transitional period to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU Countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their jurisdictions to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one or those territories.

SUBSCRIPTION AND SALE

Summary of Subscription Agreement

Merrill Lynch International (the “**Lead Manager**”), Alpha Bank A.E. and CIT Finance Investment Bank (together with the Lead Manager, the “**Managers**”), have, pursuant to the terms and conditions set forth in a subscription agreement dated 12 October 2006 (the “**Subscription Agreement**”), agreed with the Issuer, subject to the satisfaction of certain conditions set forth therein, to subscribe and pay for the Notes at the issue price of 100 per cent. of the principal amount of the Notes. The Bank has agreed to pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes (including a management and underwriting commission of 0.65 per cent. of the aggregate principal amount of the Notes) and to reimburse the Lead Manager, the Issuer and the Trustee for certain of their expenses in connection with the offering of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to payment being made to the Issuer. For investors in the Notes, the yield to maturity is 9.972 per cent. per annum and the yield to the Put Option Redemption Date is 9.497 per cent. per annum. This calculation is based on the coupon rate, length of time to maturity and market price. It assumes that the interest paid over the life of the Notes is reinvested at the same rate.

Selling Restrictions

United States

The Notes and the Loan 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 the registration requirements of the Securities Act.

Each Manager has agreed that it will not offer or sell the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the “**Distribution Compliance Period**”), within the United States or to, or for the account or benefit of, U.S. persons, and they will have sent to each other dealer to which it sells Notes 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.

Terms used on this paragraph have the meanings given to them by Regulation S. The Notes are being offered and sold only outside of the United States to non-U.S. persons in reliance upon Regulation S.

United Kingdom

Each Manager has represented, warranted and agreed that:

- (i) *Financial promotion*: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) *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.

Russian Federation

Each Manager has represented, and agreed that it has not offered or sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes 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 except in compliance with Russian law. The Notes may not be sold or offered to or for the benefit of any person (including legal entities) that are

resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation except in compliance with Russian law.

Ireland

Each Manager has represented, warranted and agreed that to the extent applicable it has complied with and will comply with all applicable provisions of the Irish Companies Acts 1963-2005 (as amended); and the Investment Intermediaries Act, 1995 (as amended) including, without limitation, Sections 9 and 50 and will conduct itself in accordance with any Codes of Conduct drawn up pursuant to Section 37 thereof or, in the case of a credit institution exercising its rights under the Banking Consolidation Directive (2000/12/EC of 20th March 2000) in conformity with the codes of conduct or practice made under Section 117(1) of the Central Bank Act 1989, of Ireland, as amended, with respect to anything done by it in relation to the Notes.

Switzerland

Each Manager has represented, warranted and undertaken to the Issuer and the Bank that the Notes will not be offered, directly or indirectly, to the public in Switzerland and that the Prospectus does not constitute a public offering prospectus as that term is understood pursuant to article 652a or art. 1156 of the Swiss Federal Code of Obligations. The Issuer has not applied for a listing of the Notes pursuant to this Prospectus on the SWX Swiss Exchange or any other regulated securities market and consequently, the information presented in the Prospectus does not necessarily comply with the information standards set out in the listing rules of the SWX Swiss Exchange.

Hong Kong

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

Singapore

Each Manager has represented, warranted and undertaken to the Issuer and the Bank that this Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager represents, warrants and undertakes to the Issuer and the Bank that it has not circulated or distributed nor will it circulate or distribute this Prospectus and any other document or material in connection with the offer or sale or invitation for subscription or purchase, of any Notes, nor has it offered or sold or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**Securities and Futures Act**”), (ii) to a sophisticated investor and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the Securities and Futures Act.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

Each Manager has represented that it will not offer, sell or deliver any Notes or distribute copies of the Prospectus or any other document relating to the Notes in the Republic of Italy except to “**professional investors**”, as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998 (“**Regulation No. 11522**”), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998 (“**Decree No. 58**”), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14 May 1999 applies.

Any such offer, sale or delivery of Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- (a) 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 (“**Decree No. 385**”), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
- (b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue and offer of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption applies, depending *inter alia*, on the aggregate amount of securities issued or offered and the characteristics of the securities; and
- (c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

In any event, and notwithstanding any exemption available under Italian law from the restrictions on the offer of securities to the public, the Notes will not be sold, either on the primary market or on the secondary market, to individuals residing in the Republic of Italy.

General

Each Manager has agreed that it has (to the best of its knowledge and belief) complied and will comply with all applicable laws and regulations in each jurisdiction in which it offers, sells or delivers Notes or distributes this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes, the Issuer or the Bank.

No action has been taken or will be taken in any jurisdiction by the Issuer, the Bank or any of the Managers 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 has undertaken to the Issuer and the Bank 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.

The Managers and their affiliates may engage in transactions with the Bank 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 Managers have performed various investment banking, financial advisory, and other services for the Bank and other members of the Group, for which they received customary fees, and the Managers and their affiliates may provide such services in the future.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 026912172. The ISIN for the Notes is XS0269121728.

2. The listing of the Notes on the Official List will be expressed as a percentage of their principal amount. It is expected that listing of the Notes on the Official List and the admission of the Notes to trading on the Regulated Market will take effect on or about 17 October 2006, subject in each case to the issue of the Notes. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

3. The issue of the Notes and the execution and performance of the Loan Agreement and the other documents to be entered into by the Issuer in relation to the issue of the Notes have been authorised by the Board of Directors of the Issuer on 11 October 2006.

4. No consents, approvals or orders of any regulatory authorities are required by the Issuer under the laws of the Ireland for the maintenance of and performance of its obligations under the Loan and for the issue of and performance of its obligations under the Notes.

5. Since 30 June 2006, there has been no significant change in the financial or trading position of the Bank or the Group and no material adverse change in the prospects of the Bank or the Group.

6. There are no, and have not been, any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) which may have or have had during the 12 months prior to the date of this Prospectus a significant effect on the financial position or profitability of the Bank or the Group.

7. Since its incorporation, there has been no material adverse change in the financial position or prospects of the Issuer.

8. There are no, and have not been, 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 since its incorporation, a significant effect on the financial position or profitability of the Issuer.

9. KPMG have audited, and rendered unqualified audit reports on, the Audited Financial Statements of the Group and have reviewed and rendered a review report on the Interim Financial Statements.

10. Neither the Bank nor the Issuer has entered into contracts outside the ordinary course of business and which could result in any member of the Group or the Issuer becoming subject to an obligation or entitlement that would be material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes or the Bank's ability to meet its obligations under the Loan Agreement.

11. For the life of this document, copies (and certified English translations where documents at issue are not in English) of the following documents may be inspected at the offices of the Principal Paying Agent in London during usual business hours on any weekday (Saturdays and public holidays excepted):

- (a) a copy of this Prospectus along with any supplement to this Prospectus;
- (b) the Memorandum and Articles of Association of the Issuer;
- (c) the charter of the Bank;
- (d) the 2005 Consolidated Financial Statements, the 2004 Consolidated Financial Statements and the Interim Financial Statements;
- (e) the reports of KPMG in respect of the Audited Financial Statements and the Interim Financial Statements;
- (f) the Subscription Agreement and the Loan Agreement; and
- (g) the Trust Deed and the Agency Agreement.

12. J.P. Morgan Bank Luxembourg S.A. will act as Registrar in relation to the Notes. A register of the Notes will be kept at the Issuer's registered office.

13. The loan to value ratio is 100 per cent.

AUDITED AND REVIEWED FINANCIAL STATEMENTS AND AUDITORS' REPORTS

CONTENTS

AUDITORS' REVIEW REPORT AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2006 AND 2005	F-2
AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004.....	F-29
AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS AT AND FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003.....	F-57



KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Accountants' Review Report

To the Council of JSC "Credit Bank of Moscow"

We have reviewed the accompanying consolidated balance sheet of JSC "Credit Bank of Moscow" ("the Bank") and its subsidiaries ("the Group") as of June 30, 2006 and the related consolidated statements of income and other comprehensive income, changes in stockholders' equity and other comprehensive income, and cash flows for the six month periods ended June 30, 2006 and 2005. These consolidated financial statements are the responsibility of the management of the Group.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited
August 29, 2006

Credit Bank of Moscow
Consolidated balance sheets
As at June 30, 2006 and December 31, 2005
(thousands of US Dollars)

	Notes	June 30, 2006	December 31, 2005
Assets			
Cash and due from Central Bank	4	50,430	78,546
Due from credit institutions, net	5	32,696	52,078
Trading securities	6	136,228	87,211
Loans to customers, net	7	516,715	426,226
Property and equipment	8	4,104	3,556
Other assets	9	6,982	6,490
Total assets		747,155	654,107
Liabilities			
Deposits by credit institutions	10	110,713	144,854
Deposits by customers	11	288,143	229,160
Debt securities issued	12	191,604	164,195
Income tax liability	21	9,893	10,021
Provisions, accruals and other liabilities		4,654	3,157
Total liabilities		605,007	551,387
Stockholders' equity			
Common stock	13	93,658	63,940
Additional paid-in capital		6,612	6,612
Retained earnings		27,665	24,584
Other comprehensive income - cumulative translation adjustment		14,213	7,584
Total stockholders' equity		142,148	102,720
Total liabilities and stockholders' equity		747,155	654,107
Commitments and contingencies	22		

Signed on behalf of the Executive Management Board

Timur N. Kastrov



First Deputy Chairman of the Board - President

Olga I. Melnikova

Chief Accountant

The accompanying notes are an integral part of these consolidated financial statements.

Credit Bank of Moscow
Consolidated statements of income and other comprehensive income/(loss)
For the 6 months ended June 30, 2006 and 2005
(thousands of US Dollars)

	Notes	June 30, 2006	June 30, 2005
Interest income	15	28,564	18,299
Interest expense	15	(15,699)	(7,337)
Net interest income		12,865	10,962
Provision for credit impairment	16	(1,844)	(1,496)
Net interest income after provision for credit impairment		11,021	9,466
Fees and commissions income	17	8,890	5,495
Foreign exchange gains, net		2,611	405
Equity securities trading profits, net	18	299	-
Other operating income		641	373
Non interest income		12,441	6,273
Salaries and employment benefits	19	11,647	7,369
Administrative expenses	19	6,255	3,296
Fees and commissions expense		469	556
Depreciation and amortization		546	479
Contribution to the state deposit insurance system		255	98
Troubled debt restructuring		217	-
Other operating expenses		276	220
Non interest expense		19,665	12,018
Income before income taxes		3,797	3,721
Income taxes	21	(716)	(792)
Net income		3,081	2,929
Foreign currency translation adjustments		6,629	(3,258)
Other comprehensive income /(loss)		6,629	(3,258)
Comprehensive income		9,710	(329)

The accompanying notes are an integral part of these consolidated financial statements.

Credit Bank of Moscow
Consolidated statements of changes in stockholders' equity and other
comprehensive income
For the 6 months ended June 30, 2006 and 2005
(thousands of US Dollars)

	Common stock	Additional paid-in capital	Retained earnings	Other comprehensive income - cumulative translation adjustment	Total stockholders' equity
December 31, 2004	23,340	47,212	13,677	11,221	95,450
Net income	-	-	2,929	-	2,929
Translation adjustment	-	-	-	(3,258)	(3,258)
June 30, 2005	23,340	47,212	16,606	7,963	95,121
December 31, 2005	63,940	6,612	24,584	7,584	102,720
Shares issued	29,718	-	-	-	29,718
Net income	-	-	3,081	-	3,081
Translation adjustment	-	-	-	6,629	6,629
June 30, 2006	93,658	6,612	27,665	14,213	142,148

The accompanying notes are an integral part of these consolidated financial statements.

Credit Bank of Moscow
Consolidated statements of cash flows
For the 6 months ended June 30, 2006 and 2005
(thousands of US Dollars)

	Notes	June 30, 2006	June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		3,081	2,929
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Provision for credit impairment		1,844	1,496
Depreciation and amortization		546	479
Deferred taxes		271	329
Revaluation of securities		(992)	(409)
Accrued interest income		(522)	-
Accrued interest expense		1,253	1,035
Operating cash flow before changes in operating assets and liabilities		5,481	5,859
(Increase)/decrease in operating assets			
Reserve deposits with the Central Bank of the Russian Federation		(3,567)	(1,040)
Trading securities		(48,024)	9,498
Loans to customers		(92,303)	(108,026)
Other assets		30	157
Increase/(decrease) in operating liabilities			
Deposits by credit institutions		(34,141)	59,101
Deposits by customers		58,982	13,975
Debt securities issued		27,410	25,690
Other liabilities		(186)	4
Unrealised translation adjustment		6,629	(3,258)
Net cash from operations		(79,689)	1,960
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of property and equipment and intangible assets		(1,094)	(206)
Net cash from investing activities		(1,094)	(206)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of common stock		29,718	-
Net cash from financing activities		29,718	-
Change in cash and cash equivalents		(51,065)	1,754
Cash and cash equivalents, beginning of the year		120,604	78,900
Cash and cash equivalents, end of the year	20	69,539	80,655
<i>Supplemental information:</i>			
Interest paid during the period		(14,446)	(6,302)
Income taxes paid during the period		843	382

The accompanying notes are an integral part of these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 1 – BACKGROUND**(a) Organization and operations**

These consolidated financial statements include the financial statements of Credit Bank of Moscow (the “Bank”) and its subsidiaries (together referred to as the “Group”).

Credit Bank of Moscow was formed on August 5, 1992 as an open joint stock company, then re-registered as a closed joint stock company under the laws of the Russian Federation. On August 18, 1999 the Bank was reorganized as an open joint stock company. The Bank’s registered legal address is 4, Marshala Rybalko Str., Moscow, Russia. The Bank operates under a general banking license from the Central Bank of Russia (the “CBR”), granted on January 20, 2000. The Bank is among the 60 largest banks in Russia by assets. The Bank’s main office is in Moscow and it has 14 full scope service branches in Moscow. The Bank was admitted to the Central Bank of Russia program for individual deposit insurance in December 2004.

The principal subsidiaries of the Banking Group are as follows:

Name	Country of incorporation	Principal Activities	Ownership %	
			June 30, 2006	December 31, 2005
Relax Enterprise	United Kingdom	Business Introduction	100%	100%
MKB-leasing	Russian Federation	Leasing	100%	100%

The Group does not have any direct or indirect shareholdings in the subsidiaries noted above. However, these enterprises are established under the terms that impose strict limits on the decision-making powers of their management. In addition, the benefits related to their operations and net assets are presently attributable to the Group via a number of agreements.

The financial statements of the subsidiary company MKB-leasing listed above have not been consolidated in these financial statements, as the effect on the Group’s financial statements would be immaterial.

Shareholders

The Group is wholly-owned by members of the Rossium Group (the “Shareholder Group”). The majority of the Group’s funding is from unrelated sources, and majority of credit exposures are to unrelated borrowers. Related party transactions are detailed in Note 23.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

(b) Operating environment

The Russian Federation has been experiencing political and economic instability change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

NOTE 2 – BASIS OF PREPARATION

(a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Reporting currency and translation into US dollars

Prior to December 31, 2003 Russian economy was considered to be hyperinflationary and the Bank used US Dollar as its functional and reporting currency. Starting January 1, 2003 the Russian economy is no longer considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*. Accordingly the Bank has conducted an assessment of its operations and determined the Russian Rouble to be its functional currency. Management of the Bank has elected to use US Dollar as the reporting currency in these consolidated financial statements.

The carrying values of all non-monetary assets, liabilities and equity items were translated and fixed in Russian Rubles at the rates effective at the date of transition to the Russian Ruble as the functional currency, January 1, 2003. Translation from functional to reporting currency was conducted as follows:

- all assets and liabilities are translated from the functional to the reporting currency at the exchange rate, effective at the reporting date;
- equity items are translated from functional to reporting currency at the historical exchange rates. Translation adjustments arising from translation of equity are included in Other Comprehensive Income in accordance with SFAS 52;
- income statement transactions are translated from the functional to the reporting currency at the approximate rates ruling at the dates of the transactions. Translation adjustments arising from translation of income and expenses are included in Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at June 30, 2006 and December 31, 2005 was 1 USD to 27.08 Rubles and 1 USD to 28.78 Rubles, respectively. The average exchange rate for the period ended June 30, 2006 and 2005 was 27.93 and 28.21, respectively.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

(c) Convertibility of the Ruble

The Russian Ruble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian Ruble amounts to US dollars should not be construed as a representation that Russian Ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(d) Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying consolidated financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these consolidated financial statements. These accounting policies have been consistently applied.

Basis of consolidation***Subsidiaries***

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Use of estimates

Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, in particular in respect of loan loss provisions. Actual results could differ from those estimates.

Loans to customers

The carrying amounts of the Bank's loans are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the loans' recoverable amounts are estimated.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

An impairment loss is recognized whenever the carrying amount of a loan exceeds its recoverable amount.

The recoverable amount of loans is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the loan.

The Bank has established collective assessment of impairment loss for its loan portfolios with similar credit risk characteristics. This assessment is based on determination of historical pattern of overdue loans and expected losses separately for each kind of the loan portfolio. The Bank makes reassessments of loan loss provisions at each balance sheet date.

Due from credit institutions

In the normal course of business, the Bank lends or deposits funds for various periods with other credit institutions. Impairment losses for placements with banks and other credit institutions are calculated in accordance with the policy similar to the one applied to loans to customers.

Trading securities

Trading securities are carried at market value with the gains and losses recognized in the statement of income.

Included in securities trading profits are realized gains and losses from recording the results of sales and unrealized gains and losses resulting from market value adjustments of trading equity securities.

Included in interest income is coupon income, amortization of premiums and discounts and realized and unrealized gains and losses related to trading debt securities.

Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. Repurchase agreements are accounted for as financing transactions. As financing transactions, the related securities are recorded in the Bank's accounts and the related payable is included as an amount due to credit institutions or customers, respectively. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense.

Reverse repurchase agreements are accounted for as loans and advances to banks or customers, respectively. Any related income arising from the pricing spreads for the underlying securities is recognized as interest income.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	Years
Buildings	50
Furniture and equipment	6
Computers	4
Vehicles	5
Other	5

Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization and impairment losses. Amortization is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The majority of intangible assets is represented by accounting software.

Impairment of property and equipment

The Bank accounts for long lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Under this standard the carrying value of the asset is considered to be impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable, and is less than the carrying value.

In that event, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognized in the income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

Interest bearing liabilities

Interest-bearing liabilities are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings.

Income and expense recognition

Income and expenses are recognized on an accrual basis.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

Taxes

Income taxes are accounted for under the asset and liability method in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Russia also has various other operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of non-interest expense.

Statement of cash flows

The Bank considers cash on hand, the correspondent account with the CBR and due from credit institutions with original maturities of three months or less to be cash equivalents.

NOTE 4 – CASH AND DUE FROM CENTRAL BANK

Cash and due from Central Bank comprise:

	June 30, 2006	December 31, 2005
Correspondent account with the CBR	22,075	34,522
Obligatory reserve deposits with the CBR	13,587	10,020
Cash on hand	14,768	34,004
Cash and due from Central Bank	50,430	78,546

The obligatory reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the CBR, the withdrawal of which is restricted, based on either a reduction in the Bank’s deposit base or a reduction in the required level of reserves. The correspondent account with CBR represents balances held with the CBR related to settlement activity, and was available for withdrawal at period end.

Information about the currency breakdown and maturity profile of cash and due from Central Bank is presented in note 26 to these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 5 – DUE FROM CREDIT INSTITUTIONS, NET

Due from credit institutions comprise:

	June 30, 2006	December 31, 2005
Current accounts	10,677	5,840
Time deposits	22,019	46,238
Due from credit institutions	32,696	52,078

Information about the currency breakdown, maturity profile and effective interest rates on amounts due from credit institutions is presented in note 26 to these consolidated financial statements.

Concentration of balances due from credit institutions

As at 30 June 2006 there were no banks (31 December 2005: 2 banks) whose balances exceeded 10% of Bank's equity. The gross value of these balances as of December 31, 2005 was USD 31,200 thousand.

NOTE 6 – TRADING SECURITIES

Trading securities, at fair value, consist of the following:

	June 30, 2006	December 31, 2005
Debt instruments		
Russian corporate promissory notes and bonds	97,037	71,507
Russian Government debt securities	12,644	9,669
Municipal bonds	24,388	6,035
Equity securities	2,159	-
Trading securities	136,228	87,211

Information about the currency breakdown, maturity profile and effective interest rates on Bank's trading securities is presented in note 26 to these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 7 – LOANS TO CUSTOMERS, NET

The Bank's loan portfolio has been extended to private enterprises and individuals which are principally located within the Russian Federation. Loans to customers and respective provisions for loan losses are presented below:

	June 30, 2006		December 31, 2005	
	Loans	Loss provisions	Loans	Loss provisions
Consumer loans				
Domestic car loans	50,825	(736)	42,739	(1,068)
Foreign car loans	45,312	(1,250)	33,956	(849)
Other consumer loans	4,851	(33)	4,070	(1,027)
Mortgage loans	5,711	(14)	1,431	(4)
	106,699	(2,033)	82,196	(2,948)
Corporate loans				
Standard loans	373,941	(1,256)	316,503	(9,749)
Letters of credit	17,392	(50)	27,932	(70)
Factoring	9,094	(26)	2,382	(6)
	400,427	(1,332)	346,817	(9,845)
Small business loans	13,223	(269)	10,315	(309)
Total	520,349	(3,634)	439,328	(13,102)

Corporate and Small business loans by economic sector are as follows:

	Corporate loans		Small business loans	
	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005
Consumer electronics and computers	87,684	82,671	537	457
Light industry	59,000	39,266	1,987	1,865
Foods	32,555	34,757	775	536
Machinery	45,126	29,046	2,680	1,411
Construction materials	40,639	47,854	1,334	808
Services	27,991	19,860	1,142	970
Hygiene products and consumer chemicals	20,276	15,326	727	978
Sports goods	16,762	23,157	386	238
Furniture	12,800	12,715	492	690
Other consumer goods	23,863	18,787	1,885	1,344
Paper and stationery	16,558	13,763	253	122
Medical	3,143	4,469	60	58
Metallurgic	1,348	587	449	444
Oil	866	893	-	-
Other corporate	11,816	3,666	516	394
	400,427	346,817	13,223	10,315

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

The numbers of contracts and clients within the consumer loan portfolio are as follows:

	Number of contracts		Number of clients	
	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005
Domestic car loans	8,109	7,187	8,096	7,179
Foreign car loans	4,388	3,700	4,057	3,179
Other consumer loans	1,077	774	752	598
Mortgage loans	72	28	72	28

Overdue loans

Overdue loans are as follows:

	June 30, 2006		December 31, 2005	
	Overdue loans	Loss provisions	Overdue loans	Loss provisions
Corporate loans	171	171	7,677	7,677
Retail loans	4,449	1,279	2,044	840
SME loans	1,026	151	203	158

Information about the currency breakdown, maturity profile and effective interest rates on Bank's loan portfolio is presented in note 26 to these consolidated financial statements.

In 2006 the management of the Bank performed a review of overdue loans and assessed that loans in the amount of USD 11,282 thousand should be written off. Such loans were written-off against previously created provisions for loan impairment.

Significant credit exposures

As at June 30, 2006 the Bank had one group of borrowers (December 31, 2005: two) whose loans balances exceeded 10% of equity. The gross value of these loans as of June 30, 2006 was USD 22,157 thousand (December 31, 2005: USD 27,970 thousand).

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment comprise:

	June 30, 2006	December 31, 2005
Land and buildings	943	887
Fixtures and fittings	7,892	6,731
	8,835	7,618
Less - accumulated depreciation	(4,731)	(4,062)
Property and equipment	4,104	3,556

NOTE 9 – OTHER ASSETS

Other assets comprise:

	June 30, 2006	December 31, 2005
Accrued interest receivable	2,496	2,087
Commissions receivable	1,897	1,784
Trade debtors	1,022	807
Prepaid expenses	619	1,003
Intangibles	190	190
Other	758	619
Other assets	6,982	6,490

NOTE 10 – DEPOSITS BY CREDIT INSTITUTIONS

Deposits by credit institutions comprise:

	June 30, 2006	December 31, 2005
Demand deposits	853	1,461
Time deposits	109,860	143,393
Deposits by credit institutions	110,713	144,854

Information about the currency breakdown, maturity profile and effective interest rates on deposits by credit institutions is presented in note 26 to these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

Concentration of deposits from credit institutions

As at June 30, 2006 there were no banks (December 31, 2005: 2 banks) whose deposits' balances exceeded 10% of equity. The gross value of these balances as of December 31, 2005 was USD 30,403 thousand – all in respect of time deposits.

NOTE 11 – DEPOSITS BY CUSTOMERS

Deposits by customers comprise:

		June 30, 2006	December 31, 2005
Corporate customers	Demand	152,002	126,127
	Time	15,994	17,431
Total corporate customers		167,996	143,558
Individuals	Demand	15,142	13,936
	Time	105,005	71,666
Total individuals		120,147	85,602
Total deposits by customers		288,143	229,160

Information about the currency breakdown, maturity profile and effective interest rates on deposits by customers is presented in note 26 to these consolidated financial statements.

Concentrations of current accounts and customer deposits

As at June 30, 2006 and December 31, 2005, there were no demand or time deposits from customers, which individually exceeded 10% of equity.

NOTE 12 – DEBT SECURITIES ISSUED

Debt securities issued comprise:

	June 30, 2006	December 31, 2005
Promissory notes issued – nominal value	142,589	150,543
Unamortized discount on promissory notes	(5,755)	(3,734)
	136,834	146,809
Bonds issued	54,770	17,372
Certificates of deposit	-	14
	191,604	164,195

Information about the currency breakdown, maturity profile and effective interest rates on promissory notes and certificates of deposit is presented in note 26 to these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 13 – COMMON STOCK

Issued, outstanding and paid stock comprised 2,376,158,008 shares (December 31, 2005: 1,573,158,008 shares) with par value of 1 RUR per share. For the purposes of these consolidated financial statements stockholders' equity was translated into US dollars using the exchange rates ruling at the dates of its contribution.

NOTE 14 – EARNINGS PER SHARE

The following table presents the computation of earnings per share based on the provisions of SFAS No. 128 as at June 30, 2006 and June 30, 2005:

Basic and fully diluted earnings per share (thousands of US Dollars except for weighted-average shares and net income per share data)	June 30, 2006	June 30, 2005
Net income applicable to common shares	3,081	2,929
Weighted-average basic shares outstanding	1,768,362,428	393,289,502
Net income per share	\$0.002	\$0.007

NOTE 15 – NET INTEREST INCOME

Net interest income comprises:

	June 30, 2006	June 30, 2005
Interest income		
Loans to customers	23,083	16,339
Debt securities	4,796	1,787
Due from credit institutions	685	173
	28,564	18,299
Interest expense		
Debt securities issued	6,818	3,147
Deposits by customers	4,997	2,245
Deposits by credit institutions	3,884	1,945
	15,699	7,337
Net interest income	12,865	10,962

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 16 – PROVISION FOR CREDIT IMPAIRMENT

Provisions for impairment in the income statement represents the charge required in the current year to establish the total provision for impairment.

The breakdown of the credit loss provisions by type is presented in the following table:

	Loans to customers	Off balance sheet items	Total provision for impairment
December 31, 2004	16,241	700	16,941
Provisions charged / (recovered)	1,804	(308)	1,496
June 30, 2005	18,045	392	18,437
December 31, 2005	13,102	37	13,139
Provisions charged	1,814	30	1,844
Loans written off	(11,282)	-	(11,282)
June 30, 2006	3,634	67	3,701

NOTE 17 – FEES AND COMMISSIONS INCOME

	June 30, 2006	June 30, 2005
Cash collection/delivery	3,268	1,667
Guarantees and LCs issued	1,972	1,207
Settlements and wire transfers	1,840	1,483
Loans	630	606
Factoring	480	30
Plastic cards	356	276
Other cash operations	316	212
Other settlements	28	14
Fees and commissions income	8,890	5,495

NOTE 18 – EQUITY SECURITIES TRADING PROFITS, NET

	June 30, 2006	June 30, 2005
Net gains from operations with equity securities	299	-
Equity securities trading profits, net	299	-

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 19 – SALARIES, EMPLOYMENT BENEFITS AND ADMINISTRATIVE EXPENSES

	June 30, 2006	June 30, 2005
Salaries	9,845	6,697
Social security costs	1,791	672
Other	11	-
Salaries and employment benefits	11,647	7,369
Occupancy	1,915	1,372
Operating taxes	1,029	588
Advertising and business development	855	347
Communications	409	317
Transport	519	245
Security	606	102
Other	922	325
Administrative expenses	6,255	3,296

The Bank does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the income statement in the period the related compensation is earned by the employee. The Bank does not have any stock option plans.

NOTE 20 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	June 30, 2006	December 31, 2005
Correspondent account with the CBR	22,075	34,522
Due from credit institutions with an original maturity of less than 3 months	32,696	52,078
Cash on hand	14,768	34,004
Cash and cash equivalents	69,539	120,604

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 21 – INCOME TAXES

The provision for income taxes comprises:

	June 30, 2006	June 30, 2005
Current tax charge	445	463
Deferred taxation	271	329
Taxation	716	792

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The current year income tax rate for the Bank is 24%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the provision for income taxes based on statutory rates with the actual provision for income taxes follows:

	June 30, 2006	June 30, 2005
Income before tax	3,797	3,721
Applicable statutory tax rate	24%	24%
Income tax using the applicable tax rate	911	893
Income taxed at lower rate	(127)	(50)
Net non-deductible costs/(non-taxable income), net	(68)	(51)
Taxation	716	792

Income tax liabilities comprise:

	June 30, 2006	December 31, 2005
Current tax liability	20	419
Deferred tax liability	9,873	9,602
Income tax liability	9,893	10,021

A current tax liability is recognized for the estimated taxes payable or refundable on tax returns for the reporting year. A deferred tax liability is recognized for the estimated future tax effects attributable to temporary differences.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

Accumulated temporary differences between the carrying amounts of assets and liabilities reflected in these consolidated financial statements and their bases for local taxation purposes give rise to a net deferred tax liability of USD 9,873 thousand as of June 30, 2006 (December 31, 2005: USD 9,602 thousand). This deferred tax liability is attributable to the following items, listed below at their tax effected values:

	June 30, 2006	December 31, 2005
Property and equipment	(232)	(201)
Other	(124)	-
Deferred tax assets	(356)	(201)
Provisions	10,178	9,168
Accrued income	51	635
Deferred tax liabilities	10,229	9,803
Net deferred tax liability	9,873	9,602

The applicable deferred tax rate for the Bank is 24% (2005: 24%).

NOTE 22 – COMMITMENTS AND CONTINGENCIES*a) Financial commitments*

Undrawn loan commitments, letters of credit and guarantees at June 30, 2006 and December 31, 2005 comprise:

	June 30, 2006	December 31, 2005
Commitments given		
Undrawn loan commitments	9,480	11,933
Letters of credit	20,207	7,358
Guarantees	6,547	7,319
	36,234	26,610

At June 30, 2006 the Bank provided for potential losses on guarantees and letters of credit in the amount of USD 67 thousand (December 31, 2005: USD 37 thousand).

b) Legal

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

c) Insurance

The Bank has arranged comprehensive crime, computer crime, property and liability insurance.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

d) Tax

The taxation system in the Russian Federation is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. In addition certain transactions could be treated as inappropriately reducing taxes by the tax authorities. Management believes that it has provided adequately for tax liabilities. However, the relevant tax authorities could take a different position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their position, could be significant.

NOTE 23 – RELATED PARTIES

The outstanding balances and related average interest rates as of June 30, 2006 and December 31, 2005 with related parties are as follows:

	June 30, 2006		December 31, 2005	
	Amount	Average effective interest rate	Amount	Average effective interest rate
<i>Assets</i>				
Loans to customers, gross	2,711	13.1%	7,196	10.1%
Other assets	1,897	-	1,784	-
<i>Liabilities</i>				
Deposits by customers	41,028	0.3%	735	1.5%

Amounts included in the income statements as of June 30, 2006 and 2005 in relation to transactions with related parties are as follows:

	June 30, 2006	June 30, 2005
Interest income on loans to customers	423	1,378

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

NOTE 24 – CAPITAL ADEQUACY

The Bank's risk based capital adequacy ratio was 21% for June 30, 2006 and 19% for December 31, 2005, which exceeds the minimum ratio of 8% recommended by the Basle Accord.

NOTE 25 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No.107.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for are as follows:

	June 30, 2006		December 31, 2005	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Cash and correspondent account with CBR	36,843	36,843	68,526	68,526
Due from credit institutions, net	32,696	32,696	52,078	52,078
Trading securities	136,228	136,228	87,211	87,211
Loans to customers, net	516,715	516,715	426,226	426,226
Financial Liabilities				
Deposits by credit institutions	110,713	110,713	144,854	144,854
Deposits by customers	288,143	288,143	229,160	229,160
Debt securities issued	191,604	191,604	164,195	164,195

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and correspondent account with CBR, due from credit institutions: the carrying amounts approximate fair value because of the short maturity of these instruments.

Loans to customers, net, deposits by credit institutions, deposits by customers, debt securities issued: the estimated fair values of all other financial assets and liabilities is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date.

Trading securities: the fair values are based on quoted market prices for these or similar instruments.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate settlement of the instruments.

NOTE 26 – RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows:

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore usually bear limited credit risk.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

The geographical concentration of monetary assets and liabilities follows:

	June 30, 2006				December 31, 2005			
	Russia	OECD	Other non-OECD	Total	Russia	OECD	Other non-OECD	Total
Assets								
Cash and due from CBR	48,251	2,179	-	50,430	75,496	3,050	-	78,546
Due from credit institutions, gross	23,840	8,833	23	32,696	38,560	13,503	15	52,078
Trading securities	136,228	-	-	136,228	87,211	-	-	87,211
Loans to customers, gross	507,546	9,854	2,949	520,349	415,342	18,237	5,749	439,328
	715,865	20,866	2,972	739,703	616,609	34,790	5,764	657,163
Liabilities								
Deposits by credit institutions	23,828	77,042	9,843	110,713	43,708	92,696	8,450	144,854
Deposits by customers	250,016	1,127	37,000	288,143	217,550	910	10,700	229,160
Debt securities issued	177,687	10,617	3,300	191,604	150,833	10,152	3,210	164,195
	451,531	88,786	50,143	590,460	412,091	103,758	22,360	538,209
Net position	264,334	(67,920)	(47,171)	149,243	204,518	(68,968)	(16,596)	118,954

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of Russia.

The Bank's exposure to foreign currency exchange rate risk is as follows:

	June 30, 2006				December 31, 2005			
	USD	Rubles	Other currencies	Total	USD	Rubles	Other currencies	Total
Assets								
Cash and due from CBR	1,456	48,251	723	50,430	2,441	75,496	609	78,546
Due from credit institutions, gross	7,870	22,869	1,957	32,696	11,231	37,631	3,216	52,078
Trading securities	54	136,174	-	136,228	57	87,154	-	87,211
Loans to customers, gross	123,607	372,340	24,402	520,349	87,100	316,621	35,607	439,328
	132,987	579,634	27,082	739,703	100,829	516,902	39,432	657,163
Liabilities								
Deposits by credit institutions	70,744	17,147	22,822	110,713	72,631	36,940	35,283	144,854
Deposits by customers	32,624	246,659	8,860	288,143	32,059	187,950	9,151	229,160
Debt securities issued	12,805	174,313	4,486	191,604	21,211	138,398	4,586	164,195
	116,173	438,119	36,168	590,460	125,901	363,288	49,020	538,209
Net position	16,814	141,515	(9,086)	149,243	(25,072)	153,614	(9,588)	118,954
Off-balance (spot) position	(12,510)	3,583	8,927	-	26,100	(34,976)	8,876	-
Total position	4,304	145,098	(159)	149,243	1,028	118,638	(712)	118,954

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's Asset and Liability Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The contractual maturities of monetary assets and liabilities as of June 30, 2006 and December 31, 2005 are as follows:

June 30, 2006							
	Less than 1 month	1 – 6 months	6 months to 1 year	Over 1 year	No maturity	Overdue	Total
Assets							
Cash and due from CBR	36,843	-	-	-	13,587	-	50,430
Due from credit institutions, gross	32,696	-	-	-	-	-	32,696
Trading securities	10,634	23,211	15,757	84,467	2,159	-	136,228
Loans to customers, gross	132,947	198,297	94,496	92,881	-	1,728	520,349
	213,120	221,508	110,253	177,348	15,746	1,728	739,703
Liabilities							
Deposits by credit institutions	18,312	72,454	3,560	16,387	-	-	110,713
Deposits by customers	183,005	63,562	36,916	4,660	-	-	288,143
Debt securities issued	30,349	79,439	44,887	36,929	-	-	191,604
	231,666	215,455	85,363	57,976	-	-	590,460
Net position	(18,546)	6,053	24,890	119,372	15,746	1,728	149,243
Accumulated gap	(18,546)	(12,493)	12,397	131,769	147,515	149,243	-
December 31, 2005							
	Less than 1 month	1 – 6 months	6 months to 1 year	Over 1 year	No maturity	Overdue	Total
Assets							
Cash and due from CBR	68,526	-	-	-	10,020	-	78,546
Due from credit institutions, gross	52,078	-	-	-	-	-	52,078
Trading securities	2,250	28,195	21,203	35,563	-	-	87,211
Loans to customers, gross	143,867	174,824	44,426	66,651	-	9,560	439,328
	266,721	203,019	65,629	102,214	10,020	9,560	657,163
Liabilities							
Deposits by credit institutions	46,593	34,280	47,309	16,672	-	-	144,854
Deposits by customers	147,409	53,169	27,339	1,243	-	-	229,160
Debt securities issued	35,755	97,673	27,614	3,153	-	-	164,195
	229,757	185,122	102,262	21,068	-	-	538,209
Net position	36,964	17,897	(36,633)	81,146	10,020	9,560	118,954
Accumulated gap	36,964	54,861	18,228	99,374	109,394	118,954	-

Credit Bank of Moscow

Notes to consolidated financial statements June 30, 2006

(All amounts in thousands of US Dollars)

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's average effective interest rates as at June 30, 2006 and December 31, 2005 for interest bearing financial instruments are as follows:

	June 30, 2006			December 31, 2005		
	US Dollars	Rubles	Other foreign currencies	US Dollars	Rubles	Other foreign currencies
Interest earning assets						
Due from credit institutions	0.4%	5.6%	-	3.3%	7.1%	-
Trading securities – government bonds	6.4%	6.3%	-	5.6%	6.1%	-
Trading securities – corporate notes and municipal bonds	-	7.2%	-	-	7.7%	-
Loans to customers	10.8%	11%	5.9%	10.5%	10.0%	4.1%
Interest bearing liabilities						
Deposits by credit institutions	8.2%	5.1%	1.7%	7.1%	7.0%	3.8%
Deposits by customers	6.0%	3.7%	5.7%	6.1%	3.2%	5.2%
Debt securities issued	7.6%	9.8%	3.4%	6.7%	6.2%	3.5%



KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone	+7 (495) 937 4477
Fax	+7 (495) 937 4400/99
Internet	www.kpmg.ru

Independent Auditors' Report

To the Council of JSC "Credit Bank of Moscow"

We have audited the accompanying consolidated balance sheets of JSC "Credit Bank of Moscow" and its subsidiary ("the Group") as of December 31, 2005 and 2004, and the related consolidated statements of income and other comprehensive (loss)/income, stockholders' equity and other comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited
April 7, 2006

Credit Bank of Moscow
Consolidated balance sheets
December 31, 2005 and 2004
(thousands of US Dollars)

	Notes	December 31, 2005	December 31, 2004
Assets			
Cash and due from Central Bank	4	78,546	48,363
Due from credit institutions, net	5	52,078	37,053
Trading securities	6	87,211	32,711
Loans to customers, net	7	426,226	274,517
Property and equipment	8	3,556	3,430
Other assets	9	6,490	3,470
Total assets		654,107	399,544
Liabilities			
Deposits by credit institutions	10	144,854	49,604
Deposits by customers	11	229,160	125,564
Debt securities issued	12	164,195	119,810
Income tax liability	21	10,021	7,378
Provisions, accruals and other liabilities		3,157	1,738
Total liabilities		551,387	304,094
Stockholders' equity			
Common stock	13	63,940	23,340
Additional paid-in capital		6,612	47,212
Retained earnings		24,584	13,677
Other comprehensive income - cumulative translation adjustment		7,584	11,221
Total stockholders' equity		102,720	95,450
Total liabilities and stockholders' equity		654,107	399,544
Commitments and contingencies	22		

Signed on behalf of the Executive Management Board

Aleksandr L. Khrilev



Chairman of the Board - President

Olga I. Melnikova



Chief Accountant



The accompanying notes are an integral part of these consolidated financial statements.

Credit Bank of Moscow
Consolidated statements of income and other comprehensive (loss)/income
For the years ended December 31, 2005 and 2004
(thousands of US Dollars)

	Notes	2005	2004
Interest income	15	42,470	34,831
Interest expense	15	(19,915)	(10,590)
Net interest income		<u>22,555</u>	<u>24,241</u>
Reversal of provision/(provision) for credit impairment	16	<u>3,802</u>	<u>(2,506)</u>
Net interest income after provision for credit impairment		<u>26,357</u>	<u>21,735</u>
Fees and commissions income	17	17,113	10,332
Foreign exchange gains, net		726	1,524
Securities trading profits, net	18	-	609
Other operating income		<u>1,026</u>	<u>950</u>
Non interest income		<u>18,865</u>	<u>13,415</u>
Salaries and employment benefits	19	18,858	12,943
Administrative expenses	19	8,839	7,580
Fees and commissions expense		1,272	2,202
Depreciation and amortization		1,037	1,116
Other operating expenses		<u>990</u>	<u>3,446</u>
Non interest expense		<u>30,996</u>	<u>27,287</u>
Income before income taxes		<u>14,226</u>	<u>7,863</u>
Income taxes	21	(3,319)	(2,473)
Net income		<u>10,907</u>	<u>5,390</u>
Foreign currency translation adjustments		<u>(3,637)</u>	<u>5,587</u>
Other comprehensive (loss)/income		<u>(3,637)</u>	<u>5,587</u>
Comprehensive income		<u>7,270</u>	<u>10,977</u>

The accompanying notes are an integral part of these consolidated financial statements.

Credit Bank of Moscow
Consolidated statements of changes in stockholders' equity and other
comprehensive income
For the years ended December 31, 2005 and 2004
(thousands of US Dollars)

	Common stock	Additional paid- in capital	Retained earnings	Other comprehensive income - cumulative translation adjustment	Total stockholders' equity
December 31, 2003	23,340	47,212	8,287	5,634	84,473
Net income	-	-	5,390	-	5,390
Translation adjustment	-	-	-	5,587	5,587
December 31, 2004	23,340	47,212	13,677	11,221	95,450
Capitalization of share premium	40,600	(40,600)	-	-	-
Net income	-	-	10,907	-	10,907
Translation adjustment	-	-	-	(3,637)	(3,637)
December 31, 2005	63,940	6,612	24,584	7,584	102,720

The total amount of net income and other comprehensive income for 2005 was USD 7,270 thousand (2004: USD 10,977 thousand).

The accompanying notes are an integral part of these consolidated financial statements.

Credit Bank of Moscow
Consolidated statements of cash flows
For the years ended December 31, 2005 and 2004
(thousands of US Dollars)

	Notes	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		10,907	5,390
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Provision for credit impairment		(3,802)	2,506
Depreciation and amortization		1,037	1,116
Deferred taxes		2,223	1,723
Accrued interest income		(760)	(453)
Accrued interest expense		1,872	86
Accrued commissions		(1,784)	-
Operating cash flow before changes in operating assets and liabilities		9,693	10,368
(Increase)/decrease in operating assets			
Reserve deposits with the Central Bank of the Russian Federation		(3,504)	5,123
Trading securities		(54,500)	(10,357)
Loans to customers		(148,570)	(21,089)
Other assets		(84)	(567)
Increase/(decrease) in operating liabilities			
Deposits by credit institutions		95,250	(10,675)
Deposits by customers		103,596	(7,604)
Debt securities issued		44,384	26,481
Provisions, accruals and other liabilities		212	(79)
Unrealised translation adjustment		(3,637)	5,587
Net cash from operations		42,841	(2,812)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of property and equipment and intangible assets		(1,137)	(1,615)
Net cash from investing activities		(1,137)	(1,615)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of common stock		-	-
Net cash from financing activities		-	-
Change in cash and cash equivalents		41,704	(4,427)
Cash and cash equivalents, beginning of the year		78,900	83,327
Cash and cash equivalents, end of the year	20	120,604	78,900
<i>Supplemental information:</i>			
Interest paid during the period		(18,043)	(12,627)
Income taxes paid during the period		(676)	(750)

The accompanying notes are an integral part of these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 1 – BACKGROUND**(a) Organization and operations**

These consolidated financial statements include the financial statements of Credit Bank of Moscow (the “Bank”) and its subsidiaries (together referred to as the “Banking Group”). Along with the Bank the Group also includes a business introduction company.

Credit Bank of Moscow (the “Bank”) was formed on August 5, 1992 as an open joint stock company, then re-registered as a closed joint stock company under the laws of the Russian Federation. On August 18, 1999 the Bank was reorganized as an open joint stock company. The Bank’s registered legal address is 4, Marshala Rybalko Str., Moscow, Russia. The Bank possesses a general banking license from the Central Bank of Russia (the “CBR”), granted on January 20, 2000. The Bank is among the 60 largest banks in Russia by assets. The Bank’s main office is in Moscow and it has 14 full service branches in Moscow. The Bank was admitted to the Central Bank of Russia program for individual deposit insurance in December 2004.

The principal subsidiaries of the Banking Group are as follows:

Name	Country of incorporation	Principal Activities	Ownership %	
			2005	2004
Relax Enterprise	United Kingdom	Business Introduction	100%	0%

The Group does not have any direct or indirect shareholdings in this enterprise. However, this enterprise is established under the terms that impose strict limits on the decision-making powers of its management. In addition, the benefits related to its operations and net assets are presently attributable to the Group via a number of agreements.

Shareholders

The Banking Group is wholly-owned by members of the Rossium Group (the “Shareholder Group”). The majority of the Banking Group’s funding is from unrelated sources, and majority of credit exposures are to unrelated lenders. The ultimate beneficial owner of the Banking Group and the Rossium Group is Avdeev Roman Ivanovich. Related party transactions are detailed in Note 23.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

At December 31, 2005 the shareholders of the Bank were as follows:

	2005 (voting and ownership rights)
Centre Garant	39,42%
Yuriditcheskoye agentstvo	29,76%
MKB Group	18,65%
Rossinform	11,03%
Concern Rossium	1,14%
Total	100%

(b) Operating environment

The Russian Federation has been experiencing political and economic instability change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

NOTE 2 – BASIS OF PREPARATION**(a) Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Reporting currency and translation into US dollars

Prior to December 31, 2003 Russian economy was considered to be hyperinflationary and the Bank used US Dollar as its functional and reporting currency. Starting January 1, 2003 the Russian economy is no longer considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*. Accordingly the Bank has conducted an assessment of its operations and determined the Russian Rouble to be its functional currency. Management of the Bank have elected to use US Dollar as the reporting currency in these consolidated financial statements.

The carrying values of all non-monetary assets, liabilities and equity items were translated and fixed in Russian Rubles at the rates effective at the date of transition to the Russian Ruble as the functional currency, January 1, 2003. Translation from functional to reporting currency was conducted as follows:

- all assets and liabilities are translated from the functional to the reporting currency at the exchange rate, effective at the reporting date;
- equity items are translated from functional to reporting currency at the historical exchange rates. Translation adjustments arising from translation of equity are included in Other Comprehensive Income in accordance with SFAS 52;

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

- income statement transactions are translated from functional to reporting currency at the approximate rates ruling at the dates of the transactions. Translation adjustments arising from translation of income and expenses are included in Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at December 31, 2005 and 2004 was 1 USD to 28.78 Rubles and 1 USD to 27.75 Rubles, respectively.

(c) Convertibility of the Ruble

The Russian Ruble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian Ruble amounts to US dollars should not be construed as a representation that Russian Ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(d) Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying consolidated financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of these consolidated financial statements. These accounting policies have been consistently applied.

Basis of consolidation***Subsidiaries***

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled enterprises are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

Use of estimates

Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, in particular in respect of loan loss provisions. Actual results could differ from those estimates.

Loans to customers

The carrying amounts of the Bank's loans are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the loans' recoverable amounts are estimated.

An impairment loss is recognized whenever the carrying amount of a loan exceeds its recoverable amount.

The recoverable amount of loans is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the loan.

The Bank has established collective assessment of impairment loss for retail loans portfolios and for Small loans portfolio. This assessment is based on determination of historical pattern of overdue loans and expected losses separately for each kind of the loan portfolios. The Bank makes reassessments of loan loss provisions on each balance sheet date.

Due from credit institutions

In the normal course of business, the Bank lends or deposits funds for various periods with other credit institutions. Impairment losses for placements with banks and other credit institutions is calculated in accordance with the policy similar to the one applied to loans to customers.

Trading securities

Trading securities are carried at market value with the gains and losses recognized in the statement of income.

Included in securities trading profits are realized gains and losses from recording the results of sales and unrealized gains and losses resulting from market value adjustments of trading equity securities.

Included in interest income is coupon income, amortization of premiums and discounts and realized and unrealized gains and losses related to trading debt securities.

Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. Repurchase agreements are accounted for as financing transactions. As financing transactions, the related securities are recorded in the Bank's accounts and the related payable is included as an amount due to credit institutions or customers, respectively. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

Reverse repurchase agreements are accounted for as loans and advances to banks or customers, respectively. Any related income arising from the pricing spreads for the underlying securities is recognized as interest income.

Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	Years
Buildings	50
Furniture and equipment	6
Computers	4
Vehicles	5
Other	5

Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization and impairment losses. Amortization is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The majority of intangible assets is represented by accounting software.

Impairment of property and equipment

The Bank accounts for long lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Under this standard the carrying value of the asset is considered to be impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable, and is less than the carrying value.

In that event, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognized in the income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

Interest bearing liabilities

Interest-bearing liabilities are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings.

Income and expense recognition

Income and expenses are recognized on an accrual basis.

Dividends

Dividends are recognized as a liability in the period in which they are declared.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

Taxes

Income taxes are accounted for under the asset and liability method in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Russia also has various other operating taxes, which are assessed on the Bank’s activities. These taxes are included as a component of non-interest expense.

Statement of cash flows

The Bank considers cash on hand, correspondent account with the CBR and due from credit institutions with original maturities of three months or less to be cash equivalents.

NOTE 4 – CASH AND DUE FROM CENTRAL BANK

Cash and due from Central Bank comprise:

	December 31,2005	December 31,2004
Correspondent account with CBR	34,522	30,142
Obligatory reserve deposits with CBR	10,020	6,516
Cash on hand	34,004	11,705
Cash and due from Central Bank	78,546	48,363

The obligatory reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the CBR, the withdrawal of which is restricted, based on either a reduction in the Bank’s deposit base or a reduction in the required level of reserves. The correspondent account with CBR represents balances held with the CBR related to settlement activity, and was available for withdrawal at period end.

Information about the currency breakdown and maturity profile of cash and due from Central Bank is presented in note 26 to these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 5 – DUE FROM CREDIT INSTITUTIONS, NET

Due from credit institutions comprise:

	December 31, 2005	December 31, 2004
Current accounts	5,840	9,245
Time deposits	46,238	27,808
Due from credit institutions	52,078	37,053

Information about the currency breakdown, maturity profile and effective interest rates on amounts due from credit institutions is presented in note 26 to these consolidated financial statements.

Concentration of balances due from credit institutions

As at 31 December 2005 the Bank had 2 banks (31 December 2004: 2 banks) whose balances exceeded 10% of Bank's equity. The gross value of these balances as of 31 December 2005 was USD 31,200 thousand (2004 - USD 21,622 thousand).

NOTE 6 – TRADING SECURITIES

Trading securities, at fair value, consist of the following:

	December 31, 2005	December 31, 2004
Debt instruments		
Corporate promissory notes and bonds	71,507	21,513
Fixed income Russian Government debt securities	9,669	5,627
Municipal bonds	6,035	5,571
Trading securities	87,211	32,711

Information about the currency breakdown, maturity profile and effective interest rates on Bank's trading securities is presented in note 26 to these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 7 – LOANS TO CUSTOMERS

The Bank's loan portfolio has been extended to private enterprises and individuals only. Loans to customers are made principally within the Russian Federation. Loans to customers and respective provisions for loan losses are presented below:

	December 31, 2005		December 31, 2004	
	Loans	Loss provisions	Loans	Loss provisions
Consumer loans				
Domestic car loans	42,739	(1,068)	18,395	(1,287)
Foreign car loans	33,956	(849)	23,796	(1,704)
Other consumer loans	4,070	(1,027)	11,731	(1,098)
Mortgage loans	1,431	(4)	1,286	(26)
	82,196	(2,948)	55,208	(4,115)
Corporate loans	346,817	(9,845)	231,853	(11,653)
Small business loans	10,315	(309)	3,696	(473)
Total	439,328	(13,102)	290,757	(16,241)

Corporate and Small business loans by economic sector are as follows:

	Corporate loans		Small business loans	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Consumer electronics and computers	82,671	34,204	457	-
Construction materials	47,854	31,517	808	220
Light industry	39,266	31,325	1,865	1,054
Foods	34,757	43,644	536	440
Machinery	29,046	10,133	1,411	398
Sports goods	23,157	19,292	238	5
Services	19,860	16,295	970	306
Other consumer goods	18,787	10,749	1,344	838
Hygiene products and consumer chemicals	15,326	8,347	978	333
Paper and stationery	13,763	1,800	122	-
Furniture	12,715	14,222	690	35
Medical	4,469	2,160	58	27
Oil	893	1,298	-	40
Metallurgic	587	2,282	444	-
Other corporate	3,666	4,585	394	-
	346,817	231,853	10,315	3,696

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

The numbers of contracts and clients within the consumer loan portfolio are as follows:

	Number of contracts		Number of clients	
	December 31, 2005	December 31, 2004	December 31, 2005	December 31, 2004
Domestic car loans	7,187	2,933	7,179	2,930
Foreign car loans	3,700	2,704	3,179	1,950
Other consumer loans	774	8,316	598	4,154
Mortgage loans	28	25	28	25

Overdue corporate loans

Overdue corporate loans are as follows:

	December 31, 2005		December 31, 2004	
	Overdue loans	Loss provisions	Overdue loans	Loss provisions
Corporate loans	8,141	7,839	5,724	4,420

Information about the currency breakdown, maturity profile and effective interest rates on Bank's loan portfolio is presented in note 26 to these consolidated financial statements.

Significant credit exposures

As at December 31, 2005 the Bank had 2 groups of borrowers (December 31, 2004: one) whose loans balances exceeded 10% of equity. The gross value of these loans as of December 31, 2005 was USD 27,970 thousand (December 31, 2004: USD 21,179 thousand).

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment comprise:

	December 31, 2005	December 31, 2004
Land and buildings	887	883
Fixtures and fittings	6,731	6,162
	7,618	7,045
Less - accumulated depreciation	(4,062)	(3,615)
Property and equipment	3,556	3,430

NOTE 9 – OTHER ASSETS

Other assets comprise:

	December 31, 2005	December 31, 2004
Accrued interest receivable	2,087	1,327
Comissions receivable	1,784	-
Prepaid expenses	1,003	639
Trade debtors and prepayments	807	351
Intangibles	190	216
Other	619	937
Other assets	6,490	3,470

NOTE 10 – DEPOSITS BY CREDIT INSTITUTIONS

Deposits by credit institutions comprise:

	December 31, 2005	December 31, 2004
Demand deposits	1,461	1,351
Time deposits	143,393	48,253
Deposits by credit institutions	144,854	49,604

Information about the currency breakdown, maturity profile and effective interest rates on deposits by credit institutions is presented in note 26 to these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

Concentration of deposits from credit institutions

As at December 31, 2005 the Bank had balances of 2 banks (December 31, 2004: 3 banks) whose deposits' balances exceeded 10% of equity. The gross value of these balances as of December 31, 2005 was USD 30,403 thousand – all in respect of time deposits (December 31, 2004: USD 38,898 thousand – all in respect of time deposits).

NOTE 11 – DEPOSITS BY CUSTOMERS

Deposits by customers comprise:

		December 31, 2005	December 31, 2004
Corporate customers	Demand	126,127	67,076
	Time	17,431	8,110
Total corporate customers		143,558	75,186
Individuals	Demand	13,936	8,497
	Time	71,666	41,881
Total individuals		85,602	50,378
Total deposits by customers		229,160	125,564

Information about the currency breakdown, maturity profile and effective interest rates on deposits by customers is presented in note 26 to these consolidated financial statements.

Concentrations of current accounts and customer deposits

As at December 31, 2005 and 2004, there were no demand or time deposits from customers, which individually exceeded 10% of equity.

NOTE 12 – DEBT SECURITIES ISSUED

Debt securities issued comprise:

	December 31, 2005	December 31, 2004
Promissory notes issued–nominal value	150,543	123,047
Unamortized discount on promissory notes	(3,734)	(3,237)
	146,809	119,810
Bonds issued	17,372	
Certificates of deposit	14	-
	164,195	119,810

Information about the currency breakdown, maturity profile and effective interest rates on promissory notes and certificates of deposit is presented in note 26 to these consolidated financial statements.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 13 – COMMON STOCK

The stockholders' equity of the Bank has been contributed by stockholders in Rubles. Stockholders are entitled to dividends and capital distributions.

Issued, outstanding and paid stock comprised 393,289,502 shares (December 31, 2004: 393,289,502 shares) with par value of 1 RUR per share. For the purposes of these consolidated financial statements stockholders' equity was translated into US dollars using the exchange rates ruling at the dates of its contribution.

NOTE 14 – EARNINGS PER SHARE

The following table presents the computation of earnings per share based on the provisions of SFAS No. 128 for the year ended December 31, 2005 and 2004:

Basic and fully diluted earnings per share (thousands of US Dollars except for weighted-average shares and net income per share data)	December 31, 2005	December 31, 2004
Net income applicable to common shares	10,907	5,390
Weighted-average basic shares outstanding	393,289,502	393,289,502
Net income per share	\$0.028	\$0.014

NOTE 15 – NET INTEREST INCOME

Net interest income comprises:

	December 31, 2005	December 31, 2004
Interest income		
Loans to customers	33,950	32,659
Debt securities	7,779	1,943
Due from credit institutions	741	229
	42,470	34,831
Interest expense		
Deposits by customers	9,623	4,412
Debt securities issued	5,540	4,842
Deposits by credit institutions	4,752	1,336
	19,915	10,590
Net interest income	22,555	24,241

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 16 – PROVISION FOR CREDIT IMPAIRMENT

Provisions for impairment in the income statement represents the charge required in the current year to establish the total provision for impairment.

The breakdown of the credit loss provisions by type is presented in the following table:

	Loans to customers	Due from credit institutions	Off balance sheet items	Total allowance
December 31, 2003	12,313	2	2,120	14,435
Provisions charged / (recovered)	3,928	(2)	(1,420)	2,506
December 31, 2004	16,241	0	700	16,941
Provisions charged / (recovered)	(3,139)	0	(663)	(3,802)
December 31, 2005	13,102	0	37	13,139

NOTE 17 – FEES AND COMMISSIONS INCOME

	2005	2004
Settlements and wire transfers	5,280	3,858
Cash operations	2,938	2,474
Business introduction	1,784	-
Guarantees and LCs issued	993	2,040
Other	6,118	1,960
Fees and commissions income	17,113	10,332

NOTE 18 – SECURITIES TRADING PROFITS, NET

	2005	2004
Gains from operations with equity securities	-	619
Losses from operations with equity securities	-	(10)
Securities trading profits, net	-	609

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 19 – SALARIES, EMPLOYMENT BENEFITS AND ADMINISTRATIVE EXPENSES

	2005	2004
Salaries	17,091	12,053
Social security costs	1,755	890
Other	12	-
Salaries and employment benefits	18,858	12,943
Occupancy	3,184	3,165
Operating taxes	1,826	1,442
Business development	1,348	1,309
Communications	730	729
Transport	629	426
Security	408	178
Other	714	331
Administrative expenses	8,839	7,580

The Bank does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the income statement in the period the related compensation is earned by the employee. The Bank does not have any stock option plans.

NOTE 20 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	December 31, 2005	December 31, 2004
Correspondent account with the CBR	34,522	30,142
Due from credit institutions with the original maturity of less than 3 months	52,078	37,053
Cash on hand	34,004	11,705
Cash and cash equivalents	120,604	78,900

NOTE 21 – INCOME TAXES

The provision for income taxes comprises:

	2005	2004
Current tax charge	1,096	750
Deferred taxation	2,223	1,723
Taxation	3,319	2,473

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The current year income tax rate for the Bank is 24%.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the provision for income taxes based on statutory rates with the actual provision for income taxes follows:

	2005	2004
Income before tax	14,226	7,863
Applicable statutory tax rate	24%	24%
Income tax using the applicable tax rate	3,414	1,887
Income taxed at lower rate	(156)	(37)
Net non-deductible costs/(non-taxable income), net	61	623
Taxation	3,319	2,473

Income tax liabilities comprise:

	2005	2004
Current tax liability	419	-
Deferred tax liability	9,602	7,378
Income tax liability	10,021	7,378

A current tax liability is recognized for the estimated taxes payable or refundable on tax returns for the reporting year. A deferred tax liability is recognized for the estimated future tax effects attributable to temporary differences.

Accumulated temporary differences between the carrying amounts of assets and liabilities reflected in these consolidated financial statements and their bases for local taxation purposes give rise to a net deferred tax liability of USD 9,602 thousand as of December 31, 2005 (2004: USD 7,378 thousand). This deferred tax liability is attributable to the following items, listed below at their tax effected values:

	December 31, 2005	December 31, 2004
Property and equipment	(201)	(201)
Deferred tax assets	(201)	(201)
Provisions	9,168	7,407
Accrued interest	634	173
Deferred tax liabilities	9,803	7,579
Net deferred tax liability	9,602	7,378

The applicable deferred tax rate for the Bank is 24% (2004: 24%).

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 22 – COMMITMENTS AND CONTINGENCIES*a) Financial commitments*

Undrawn loan commitments and guarantees at December 31, 2005 and 2004 comprise:

	December 31, 2005	December 31, 2004
Commitments given		
Undrawn loan commitments	11,933	3,692
Letters of credit and guarantees	14,677	18,788
	26,610	22,480

At December 31, 2005 the Bank provided for potential losses on guarantees in the amount of USD 37 thousand (December 31, 2004: USD 701 thousand).

b) Legal

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

c) Insurance

The Bank has arranged comprehensive crime, computer crime, property and liability insurance.

d) Tax

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. In addition certain transactions could be treated as inappropriately reducing taxes by the tax authorities. Management believes that it has provided adequately for tax liabilities. However, the relevant tax authorities could take a different position and the effect on these consolidated financial statements, if the authorities were successful in enforcing their position, could be significant.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

NOTE 23 – RELATED PARTIES

The outstanding balances and related average interest rates as of December 31, 2005 and 2004 with related parties are as follows:

	December 31, 2005		December 31, 2004	
	Amount	Average effective interest rate	Amount	Average effective interest rate
<i>Assets</i>				
Loans to customers, gross	7,196	10.1%	22,298	12.3%
<i>Liabilities</i>				
Deposits by customers	735	1.5%	122	2.0%

Material amounts included in the income statements for years ended December 31, 2005 and 2004 in relation to transactions with related parties are as follows:

	Year ended December 31, 2005	Year ended December 31, 2004
Interest income on loans to customers	1,995	1,661

NOTE 24 – CAPITAL ADEQUACY

The Bank's risk based capital adequacy ratio was 19% for December 31, 2005 and 28% for December 31, 2004, which exceeds the minimum ratio of 8% recommended by the Basle Accord.

NOTE 25 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No.107. The Bank has performed an assessment of its financial instruments to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

The Bank has concluded that due to the lack of liquidity and published “indicator interest rates” in the Russian markets, and the fact that some of its transactions are with related parties and of a specialized nature, it is not possible to determine the fair value of the obligatory reserve deposits with CBR, loans to customers, deposits by customers, promissory notes and certificates of deposit.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for are as follows:

	December 31, 2005		December 31, 2004	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Cash and correspondent account with CBR	68,526	68,526	41,847	41,847
Due from credit institutions, net	52,078	52,078	37,053	37,053
Trading securities	87,211	87,211	32,711	32,711
Financial Liabilities				
Deposits by credit institutions	144,854	144,854	49,604	49,604

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and correspondent account with CBR, due from credit institutions and deposits by credit institutions: the carrying amounts approximate fair value because of the short maturity of these instruments.

Trading securities: the fair values are based on quoted market prices for these or similar instruments.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate settlement of the instruments.

NOTE 26 – RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows:

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore usually bear limited credit risk.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

The geographical concentration of monetary assets and liabilities follows:

	December 31, 2005				December 31, 2004			
	Russia	OECD	Other non- OECD	Total	Russia	OECD	Other non- OECD	Total
Assets								
Cash and due from CBR	75,496	3,050	-	78,546	45,860	2,503	-	48,363
Due from credit institutions, gross	38,560	13,503	15	52,078	28,476	8,574	3	37,053
Trading securities	87,211	-	-	87,211	32,711	-	-	32,711
Loans to customers, gross	415,342	18,237	5,749	439,328	290,734	-	23	290,757
	616,609	34,790	5,764	657,163	397,781	11,077	26	408,884
Liabilities								
Deposits by credit institutions	43,708	92,696	8,450	144,854	28,459	20,824	321	49,604
Deposits by customers	217,550	910	10,700	229,160	121,717	1,128	2,719	125,564
Debt securities issued	150,833	10,152	3,210	164,195	119,810	-	-	119,810
	412,091	103,758	22,360	538,208	269,986	21,952	3,040	294,978
Net position	204,518	(68,968)	(16,596)	118,954	127,795	(10,875)	(3,014)	113,906

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of Russia.

The Bank's exposure to foreign currency exchange rate risk is as follows:

	December 31, 2005				December 31, 2004			
	USD	Rubles	Other currencies	Total	USD	Rubles	Other currencies	Total
Assets								
Cash and due from CBR	2,441	75,496	609	78,546	2,111	45,860	392	48,363
Due from credit institutions, gross	11,231	37,631	3,216	52,078	6,975	27,800	2,278	37,053
Trading securities	57	87,154	-	87,211	52	32,659	-	32,711
Loans to customers, gross	87,100	316,621	35,607	439,328	44,219	226,322	20,216	290,757
	100,829	516,902	39,432	657,163	53,357	332,641	22,886	408,884
Liabilities								
Deposits by credit institutions	72,631	36,940	35,283	144,854	1,638	27,033	20,933	49,604
Deposits by customers	32,059	187,950	9,151	229,160	23,802	95,223	6,539	125,564
Debt securities issued	21,211	138,398	4,586	164,195	16,950	94,893	7,967	119,810
	125,901	363,288	49,020	538,209	42,390	217,149	35,439	294,978
Net position	(25,072)	153,614	(9,588)	118,954	10,967	115,492	(12,553)	113,906

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's Asset and Liability Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

The contractual maturities of monetary assets and liabilities as of December 31, 2005 and 2004 are as follows:

December 31, 2005							
	Less than 1 month	1 – 6 months	6 months to 1 year	Over 1 year	No maturity	Overdue	Total
Assets							
Cash and due from CBR	68,526	-	-	-	10,020	-	78,546
Due from credit institutions, gross	52,078	-	-	-	-	-	52,078
Trading securities	2,250	28,195	21,203	35,563	-	-	87,211
Loans to customers, gross	143,867	174,824	44,426	66,651	-	9,560	439,328
	266,721	203,019	65,629	102,214	10,020	9,560	657,163
Liabilities							
Deposits by credit institutions	46,593	34,280	47,309	16,672	-	-	144,854
Deposits by customers	147,409	53,169	27,339	1,243	-	-	229,160
Debt securities issued	35,755	97,673	27,614	3,153	-	-	164,195
	229,757	185,122	102,262	21,068	-	-	538,208
Net position	36,964	17,897	(36,633)	81,146	10,020	9,560	118,954
<i>Accumulated gap</i>	36,964	54,861	18,228	99,374	109,394	118,954	-
December 31, 2004							
	Less than 1 month	1 – 6 months	6 months to 1 year	Over 1 year	No maturity	Overdue	Total
Assets							
Cash and due from CBR	41,847	-	-	-	6,516	-	48,363
Due from credit institutions, gross	37,053	-	-	-	-	-	37,053
Trading securities	5,393	4,190	9,759	13,369	-	-	32,711
Loans to customers, gross	107,529	114,909	16,403	47,645	-	4,271	290,757
	191,822	119,099	26,162	61,014	6,516	4,271	408,884
Liabilities							
Deposits by credit institutions	35,908	446	70	13,181	-	-	49,604
Deposits by customers	81,350	28,757	14,438	1,020	-	-	125,564
Debt securities issued	21,501	88,103	10,206	-	-	-	119,810
	138,758	117,306	24,714	14,201	-	-	294,978
Net position	53,064	1,794	1,448	46,813	6,516	4,271	113,906
<i>Accumulated gap</i>	53,064	54,858	56,306	103,119	109,635	113,906	

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

Credit Bank of Moscow

Notes to consolidated financial statements December 31, 2005

(All amounts in thousands of US Dollars)

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's average effective interest rates as at December 31, 2005 and 2004 for interest bearing financial instruments follow:

	December 31, 2005			December 31, 2004		
	US Dollars	Rubles	Other foreign currencies	US Dollars	Rubles	Other foreign currencies
Interest earning assets						
Due from credit institutions	3.3%	7.1%	-	0.2%	3.5%	-
Trading securities – government bonds	5.6%	6.1%	-	6.6%	6.5%	-
Trading securities – corporate notes and municipal bonds	-	7.7%	-	-	7.0%	-
Loans to customers	10.5%	10.0%	4.1%	13.0%	9.1%	7.5%
Interest bearing liabilities						
Deposits by credit institutions	7.1%	7.0%	3.8%	2.6%	3.8%	3.1%
Deposits by customers	6.1%	3.2%	5.2%	5.2%	3.0%	6.3%
Debt securities issued	6.7%	6.2%	3.5%	3.6%	12.4%	5.8%



KPMG Limited
11 Gogolevsky Boulevard
Moscow 119019
Russia

Telephone +7 (095) 937 4477
Fax +7 (095) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Council of JSC "Credit Bank of Moscow"

We have audited the accompanying balance sheets of JSC "Credit Bank of Moscow" ("the Bank") as of December 31, 2004 and 2003, and the related statements of income and other comprehensive income, stockholders' equity and other comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited
March 23, 2005

Credit Bank of Moscow
Balance sheets
December 31, 2004 and 2003
(thousands of US Dollars)

	Notes	December 31, 2004	December 31, 2003
Assets			
Cash and due from Central Bank	4	48,363	52,061
Due from credit institutions, net	5	37,053	42,903
Trading securities	6	32,711	22,354
Loans to customers, net	7	274,517	257,356
Property and equipment	8	3,430	2,907
Other assets	9	3,470	2,474
Total assets		399,544	380,055
Liabilities			
Deposits by credit institutions	10	49,604	60,279
Deposits by customers	11	125,564	133,168
Promissory notes and certificates of deposit	12	119,810	93,330
Deferred tax liability	22	7,378	5,655
Provisions, accruals and other liabilities		1,738	3,150
Total liabilities		304,094	295,582
Stockholders' equity			
Common stock	13	23,340	23,340
Additional paid-in capital		47,212	47,212
Retained earnings	14	13,677	8,287
Other comprehensive income - cumulative translation adjustment		11,221	5,634
Total stockholders' equity		95,450	84,473
Total liabilities and stockholders' equity		399,544	380,055
Commitments and contingencies	23		

Signed on behalf of the Executive Management Board

Aleksandr L Khrilev



Chairman of the Board - President

Olga I. Melnikova



Chief Accountant



The accompanying notes are an integral part of these financial statements.

Credit Bank of Moscow
Statements of income and other comprehensive income
For the years ended December 31, 2004 and 2003
(thousands of US Dollars)

	Notes	2004	2003
Interest income	15	34,831	29,411
Interest expense	15	(10,590)	(7,371)
Net interest income		24,241	22,040
Provision for credit impairment	16	(2,506)	(8,891)
Net interest income after provision for credit impairment		21,735	13,149
Fees and commissions income	17	10,332	8,438
Securities trading profits, net	18	609	417
Foreign exchange gains, net		1,524	927
Other operating income		950	508
Non interest income		13,415	10,290
Salaries and employment benefits	19	12,943	8,972
Administrative expenses	19	7,580	6,986
Depreciation and amortization		1,116	853
Fees and commissions expenses	20	2,202	581
Other operating expenses	21	3,446	465
Non interest expense		27,287	17,857
Income before income taxes		7,863	5,582
Income taxes	22	(2,473)	(1,045)
Net income		5,390	4,537
Foreign currency translation adjustments		5,587	5,634
Other comprehensive income		5,587	5,634
Comprehensive income		10,977	10,171

The accompanying notes are an integral part of these financial statements.

Credit Bank of Moscow
Statements of changes in stockholders' equity and other comprehensive income
For the years ended December 31, 2004 and 2003
(thousands of US Dollars)

	Common stock	Additional paid-in capital	Retained earnings	Other comprehensive income - cumulative translation adjustment	Total stockholders' equity
December 31, 2002	21,898	38,558	3,750	-	64,206
Shares issued	1,442	8,654	-	-	10,096
Net income	-	-	4,537	-	4,537
Translation adjustment	-	-	-	5,634	5,634
December 31, 2003	23,340	47,212	8,287	5,634	84,473
Net income	-	-	5,390	-	5,390
Translation adjustment	-	-	-	5,587	5,587
December 31, 2004	23,340	47,212	13,677	11,221	95,450

The accompanying notes are an integral part of these financial statements.

Credit Bank of Moscow
Statements of cash flows
For the years ended December 31, 2004 and 2003
(thousands of US Dollars)

	Notes	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		5,390	4,537
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>			
Provision for credit impairment		2,506	8,891
Depreciation and amortization		1,116	853
Deferred taxes		1,723	492
Accrued interest income		(453)	(270)
Accrued interest expense		86	866
Operating cash flow before changes in operating assets and liabilities		10,368	15,369
(Increase)/decrease in operating assets			
Reserve deposits with the Central Bank of the Russian Federation		5,123	(4,962)
Trading securities		(10,357)	(5,879)
Loans to customers		(21,089)	(129,205)
Other assets		(567)	(821)
Increase/(decrease) in operating liabilities			
Deposits by credit institutions		(10,675)	48,190
Deposits by customers		(7,604)	52,008
Promissory notes and certificates of deposit		26,481	41,677
Provisions, accruals and other liabilities		(79)	(211)
Unrealised translation adjustment		5,587	5,784
Net cash from operations		(2,812)	21,950
CASH FLOWS FROM INVESTING ACTIVITIES			
Net purchase of property and equipment and intangible assets		(1,615)	(1,715)
Net cash from investing activities		(1,615)	(1,715)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of common stock		-	10,096
Net cash from financing activities		-	10,096
Change in cash and cash equivalents		(4,427)	30,331
Cash and cash equivalents, beginning of the year		83,327	52,996
Cash and cash equivalents, end of the year	24	78,900	83,327
<i>Supplemental information:</i>			
Interest paid during the period		(12,627)	(6,505)
Income taxes paid during the period		(750)	(553)

The accompanying notes are an integral part of these financial statements.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 1 – BACKGROUND**(a) Organization and operations**

Credit Bank of Moscow (the “Bank”) was formed on August 5, 1992 as an open joint stock company, then re-registered as a closed joint stock company under the laws of the Russian Federation. On August 18, 1999 the Bank was reorganized as an open joint stock company. The Bank’s registered legal address is 4, Marshala Rybalko Str., Moscow, Russia. The Bank possesses a general banking license from the Central Bank of Russia (the “CBR”), granted on January 20, 2001. The Bank is among the 60 largest banks in Russia. The Bank’s main office is in Moscow and it has 13 full service branches in Moscow.

At December 31, 2004 the stockholders of the Bank were as follows:

	2004 (voting and ownership rights)
Inform Personal	26%
Centre Servicestroy	15%
Yuriditcheskoye agentstvo	15%
Capital MKB	13%
MKB – Holding	13%
Rossinform	11%
Balansovoye planirovanie	6%
Concern Rossium	1%
Total	100%

(b) Operating environment

The Russian Federation has been experiencing political and economic instability change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying financial statements reflect management’s assessment of the impact of the Russian business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

NOTE 2 – BASIS OF PREPARATION**(a) Statement of compliance**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

(b) Reporting currency and translation into US dollars

Prior to December 31, 2003 Russian economy was considered to be hyperinflationary and the Bank used US Dollar as its functional and reporting currency. Starting January 1, 2003 the Russian economy is no longer considered to be hyperinflationary under Statement of Financial Accounting Standard 52 *Foreign Currency Translation*. Accordingly the Bank has conducted an assessment of its operations and determined the Russian Rouble to be its functional currency. Management of the Bank have elected to use US Dollar as the reporting currency in these financial statements.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

The carrying values of all non-monetary assets, liabilities and equity items were translated and fixed in Russian Rubles at the rates effective at the date of transition to the Russian Ruble as the functional currency, January 1, 2003. Translation from functional to reporting currency was conducted as follows:

- all assets and liabilities are translated from the functional to the reporting currency at the exchange rate, effective at the reporting date;
- equity items are translated from functional to reporting currency at the historical exchange rates. Translation adjustments arising from translation of equity are included in Other Comprehensive Income in accordance with SFAS 52;
- income statement transactions are translated from functional to reporting currency at the approximate rates ruling at the dates of the transactions. Translation adjustments arising from translation of income and expenses are included in Other Comprehensive Income in accordance with SFAS 52.

The closing rate of exchange effective at December 31, 2004 and 2003 was 1 USD to 27.75 Rubles and 1 USD to 29.45 Rubles, respectively.

(c) Convertibility of the Ruble

The Russian Ruble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian Ruble amounts to US dollars should not be construed as a representation that Russian Ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(d) Going concern

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying financial statements do not include any adjustments should the Bank be unable to continue as a going concern.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the financial statements. These accounting policies have been consistently applied.

a) Use of estimates

Management of the Bank has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

b) Loans to customers

The carrying amounts of the Bank's loans are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the loans' recoverable amounts are estimated.

An impairment loss is recognized whenever the carrying amount of a loan exceeds its recoverable amount.

The recoverable amount of loans is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the loan.

c) Due from credit institutions

In the normal course of business, the Bank lends or deposits funds for various periods with other credit institutions. Impairment losses for placements with banks and other credit institutions is calculated in accordance with the policy similar to the one applied to loans to customers (refer 3(b) above).

d) Trading securities

Trading securities are carried at market value with the gains and losses recognized in the statement of income.

Included in securities trading profits are realized gains and losses from recording the results of sales and unrealized gains and losses resulting from market value adjustments of trading equity securities.

Included in interest income is coupon income, amortization of premiums and discounts and realized and unrealized gains and losses related to trading debt securities.

e) Repurchase and reverse repurchase agreements

Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business. Repurchase agreements are accounted for as financing transactions. As financing transactions, the related securities are recorded in the Bank's accounts and the related payable is included as an amount due to credit institutions or customers, respectively. Any related expense arising from the pricing spreads for the underlying securities is recognized as interest expense.

Reverse repurchase agreements are accounted for as loans and advances to banks or customers, respectively. Any related income arising from the pricing spreads for the underlying securities is recognized as interest income.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

f) Property and equipment

Property and equipment are recorded at historical cost less accumulated depreciation (refer below) and impairment losses (refer accounting policy (h)). Depreciation is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The economic lives are as follows:

	Years
Buildings	50
Furniture and equipment	6
Computers	4
Vehicles	5
Other	5

g) Intangible assets

Intangible assets are recorded at historical cost less accumulated amortization and impairment losses (refer accounting policy (h)). Amortization is provided to write off the cost on a straight-line basis over the estimated useful economic life of the asset. The majority of intangible assets is represented by accounting software.

h) Impairment of property and equipment

The Bank accounts for long lived assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Under this standard the carrying value of the asset is considered to be impaired when the anticipated undiscounted future cash flow from such asset is separately identifiable, and is less than the carrying value.

In that event, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair market value of the asset. Impairment losses are recognized in the income statement. Fair market value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

i) Interest bearing liabilities

Interest-bearing liabilities are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing liabilities are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings.

j) Income and expense recognition

Income and expenses are recognized on an accrual basis.

k) Dividends

Dividends are recognized as a liability in the period in which they are declared.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

l) Taxes

Income taxes are accounted for under the asset and liability method in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109 *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Russia also has various other operating taxes, which are assessed on the Bank's activities. These taxes are included as a component of non-interest expense.

m) Statement of cash flows

The Bank considers cash on hand, correspondent account with the CBR and due from credit institutions with original maturities of three months or less to be cash equivalents.

NOTE 4 – CASH AND DUE FROM CENTRAL BANK

Cash and due from Central Bank comprise:

	December 31, 2004	December 31, 2003
Correspondent account with CBR	30,142	29,489
Obligatory reserve deposits with CBR	6,516	11,639
Cash on hand	11,705	10,933
Cash and due from Central Bank	48,363	52,061

The obligatory reserve deposits are mandatory non-interest bearing deposits calculated in accordance with regulations issued by the CBR, the withdrawal of which is restricted, based on either a reduction in the Bank's deposit base or a reduction in the required level of reserves. The correspondent account with CBR represents balances held with the CBR related to settlement activity, and was available for withdrawal at period end.

Information about the currency breakdown and maturity profile of cash and due from Central Bank is presented in note 28 to these financial statements.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 5 – DUE FROM CREDIT INSTITUTIONS, NET

Due from credit institutions comprise:

	December 31, 2004	December 31, 2003
Current accounts	9,245	42,830
Time deposits	27,808	75
Less: Provision for losses	-	(2)
Due from credit institutions	37,053	42,903

Information about the currency breakdown, maturity profile and effective interest rates on amounts due from credit institutions is presented in note 28 to these financial statements.

Concentration of balances due from credit institutions

As at 31 December 2004 the Bank had 2 banks (31 December 2003: 2 banks) whose balances exceeded 10% of Bank's equity. The gross value of these balances as of 31 December 2004 was USD 21,622 thousand (2003 - USD 28,585 thousand).

NOTE 6 – TRADING SECURITIES

Trading securities, at fair value, consist of the following:

	December 31, 2004	December 31, 2003
Debt instruments		
Corporate promissory notes and bonds	21,513	15,655
Fixed income Russian Government debt securities	5,627	1,710
Municipal bonds	5,571	3,619
Marketable equity securities	-	1,370
Trading securities	32,711	22,354

Information about the currency breakdown, maturity profile and effective interest rates on Bank's trading securities is presented in note 28 to these financial statements.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 7 – LOANS TO CUSTOMERS, NET

The Bank's loan portfolio has been extended to private enterprises and individuals only. Loans to customers are made principally within the Russian Federation to the entities, which operate in the following economic sectors:

	December 31, 2004	December 31, 2003
Corporate banking		
Foods	44,039	42,039
Consumer electronics and computers	34,204	44,771
Light industry	32,213	10,155
Construction materials	31,737	15,025
Sporting goods	19,292	16,699
Furniture	14,258	8,753
Other consumer	11,587	5,086
Machinery	10,504	7,289
Hygiene products and consumer chemicals	8,680	18,304
Metal products	2,282	4,670
Medical goods	2,187	3,806
Paper and stationery	1,800	11,948
Oil products	1,337	3,404
Other corporate	21,179	25,262
	235,299	217,211
Retail banking		
Consumer loans	55,458	52,458
	290,757	269,669
Less – Provision for credit impairment	(16,240)	(12,313)
Loans to customers, net	274,517	257,356

Information about the currency breakdown, maturity profile and effective interest rates on Bank's loan portfolio is presented in note 28 to these financial statements.

Information about the breakdown of the provision for loan impairment by corporate and retail lending is presented in Note 16 to these financial statements.

Significant credit exposures

As at December 31, 2004 the Bank had one group of borrowers (December 31, 2003: two) whose loans balances exceeded 10% of equity. The gross value of these loans as of December 31, 2004 was USD 21,179 thousand (December 31, 2003: USD 30,023 thousand).

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 8 – PROPERTY AND EQUIPMENT

Property and equipment comprise:

	December 31, 2004	December 31, 2003
Land and buildings	883	867
Fixtures and fittings	6,162	4,693
	7,045	5,560
Less - accumulated depreciation	(3,615)	(2,653)
Property and equipment	3,430	2,907

NOTE 9 – OTHER ASSETS

Other assets comprise:

	December 31, 2004	December 31, 2003
Accrued interest receivable	1,327	874
Prepaid expenses	639	381
Trade debtors and prepayments	351	643
Intangibles	216	241
Other	937	335
Other assets	3,470	2,474

NOTE 10 – DEPOSITS BY CREDIT INSTITUTIONS

Deposits by credit institutions comprise:

	December 31, 2004	December 31, 2003
Demand deposits	1,351	20,345
Time deposits	48,253	39,934
Deposits by credit institutions	49,604	60,279

Information about the currency breakdown, maturity profile and effective interest rates on deposits by credit institutions is presented in note 28 to these financial statements.

Concentration of deposits from credit institutions

As at December 31, 2004 the Bank had balances of 3 banks (December 31, 2003: 3 banks) whose deposits' balances exceeded 10% of equity. The gross value of these balances as of December 31, 2004 was USD 38,898 thousand – all in respect of time deposits (December 31, 2003: USD 13,582 thousand in respect of demand deposits and USD 15,002 thousand in respect of time deposits).

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 11 – DEPOSITS BY CUSTOMERS

Deposits by customers comprise:

	December 31, 2004	December 31, 2003
Demand deposits	75,573	79,705
Time deposits	49,991	53,463
Deposits by customers	125,564	133,168

Information about the currency breakdown, maturity profile and effective interest rates on deposits by customers is presented in note 28 to these financial statements.

Concentrations of current accounts and customer deposits

As at December 31, 2004 and 2003, there were no demand or time deposits from customers, which individually exceeded 10% of equity.

NOTE 12 – PROMISSORY NOTES AND CERTIFICATES OF DEPOSIT

Promissory notes and certificates of deposit comprise:

	December 31, 2004	December 31, 2003
Promissory notes issued – nominal value	123,047	59,883
Unamortized discount on promissory notes	(3,237)	(622)
	119,810	59,261
Certificates of deposit	-	34,069
	119,810	93,330

Information about the currency breakdown, maturity profile and effective interest rates on promissory notes and certificates of deposit is presented in note 28 to these financial statements.

NOTE 13 – COMMON STOCK

The stockholders' equity of the Bank has been contributed by stockholders in Rubles. Stockholders are entitled to dividends and capital distributions in the currency in which their contribution was made.

Issued, outstanding and paid stock comprised 393,289,502 shares (December 31, 2003: 393,289,502 shares) with par value of 1 RUR per share. For the purposes of these financial statements stockholders' equity was translated into US dollars using the exchange rates ruling at the dates of its contribution.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 14 – RETAINED EARNINGS

The Bank's distributable reserves are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, net income and retained earnings available for distribution amounted to USD 9,523 thousand (December 31, 2003: USD 5,145 thousand).

NOTE 15 – NET INTEREST INCOME

Net interest income comprises:

	December 31, 2004	December 31, 2003
Interest income		
Loans to customers	32,659	25,569
Debt securities	1,943	3,571
Due from credit institutions	229	271
	34,831	29,411
Interest expense		
Deposits by customers	(4,842)	(3,447)
Promissory notes and certificates of deposit	(4,412)	(3,517)
Deposits by credit institutions	(1,336)	(407)
	(10,590)	(7,371)
Net interest income	24,241	22,040

NOTE 16 – PROVISION FOR CREDIT IMPAIRMENT

Provisions for impairment in the income statement represents the charge required in the current year to establish the total provision for impairment.

The retail loan portfolio is mostly represented by car loans. These loans are fully covered by collateral of cars and additionally secured by car insurance and life insurance of the borrowers. Most of these loans were classified as "standard" as of December 31, 2004, nevertheless given the vast expansion of retail customer base and the absence of reliable credit history for this base, management considers retail lending business higher risk and applies a higher provisioning rate on the "standard" retail loan portfolio as compared to "standard" provisioning rate on loans to corporate customers.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

The breakdown of the credit loss provisions by type is presented in the following table:

	Loans to customers, corporate	Loans to customers, retail	Due from credit institutions	Off balance sheet items	Total allowance
December 31, 2003	9,084	3,229	2	2,121	14,436
Provisions charged / (recovered)	3,943	(16)	(2)	(1,420)	2,506
December 31, 2004	13,027	3,213	0	701	16,942

The estimate of loan losses includes consideration of specific loss exposures identified with respect to individual credits as well as judgmental consideration of risk factors unique to the Bank's loan portfolio and the economy in which the borrowers operate.

NOTE 17 – FEES AND COMMISSIONS INCOME

Fees and commissions income comprise:

	2004	2003
Settlements and wire transfers	3,858	3,608
Cash operations	2,474	1,957
Fees on letters of credit	1,689	948
Fees on guarantees issued	351	512
Other	1,960	1,413
Fees and commissions income	10,332	8,438

NOTE 18 – SECURITIES TRADING PROFITS, NET

Securities trading profits comprise:

	2004	2003
Gains from operations with equity securities	619	481
Losses from operations with equity securities	(10)	(64)
Securities trading profits, net	609	417

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 19 – SALARIES, EMPLOYMENT BENEFITS AND ADMINISTRATIVE EXPENSES

Salaries, employment benefits and administrative expenses comprise:

	2004	2003
Salaries	12,053	8,659
Social security costs	890	313
Salaries and employment benefits	12,943	8,972
Occupancy	3,165	2,761
Business development	1,309	1,643
Operating taxes	1,442	1,617
Communications	729	581
Other	935	384
Administrative expenses	7,580	6,986

The Bank does not have pension arrangements separate from the State pension system of the Russian Federation. The Russian Federation system requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged to the income statement in the period the related compensation is earned by the employee. The Bank does not have any stock option plans.

NOTE 20 – FEES AND COMMISSIONS EXPENSES

Fees and commissions expenses comprise:

	2004	2003
Fees on letters of credit paid to other banks	1,286	362
Other	916	219
Fees and commissions expenses	2,202	581

NOTE 21 – OTHER OPERATING EXPENSES

Included in other operating expenses in 2004 is a loss related to the disposal of a portion of the customer loan portfolio, supplies expenses, memberships and other expenses.

NOTE 22 – INCOME TAXES

The provision for income taxes comprises:

	2004	2003
Current tax charge	750	553
Deferred taxation	1,723	492
Taxation	2,473	1,045

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

Russian legal entities must report taxable income and remit income taxes thereon to the appropriate authorities. The current year income tax rate for the Bank is 24%.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the provision for income taxes based on statutory rates with the actual provision for income taxes follows:

	2004	2003
Income before tax	7,863	5,582
Applicable statutory tax rate	24%	24%
Income tax using the applicable tax rate	1,887	1,340
Non-deductible costs/(non-taxable income)	586	(295)
Taxation	2,473	1,045

Accumulated temporary differences between the carrying amounts of assets and liabilities reflected in these financial statements and their bases for local taxation purposes give rise to a net deferred tax liability of USD 7,378 thousand as of December 31, 2004 (2003: USD 5,655 thousand). This deferred tax liability is attributable to the following items, listed below at their tax effected values:

	December 31, 2004	December 31, 2003
Property and equipment	(201)	(51)
Deferred tax assets	(201)	(51)
Provisions	7,407	5,581
Other	173	125
Deferred tax liabilities	7,579	5,706
Net deferred tax liability	7,378	5,655

The applicable deferred tax rate for the Bank is 24% (2003: 24%).

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 23 – COMMITMENTS AND CONTINGENCIES*a) Financial commitments*

Undrawn loan commitments and guarantees at December 31, 2004 and 2003 comprise:

	December 31, 2004	December 31, 2003
Commitments given		
Undrawn loan commitments	3,692	11,073
Guarantees	18,788	34,127
	22,480	45,200

At December 31, 2004 the Bank provided for potential losses on guarantees in the amount of USD 701 thousand (December 31, 2003: USD 2,121 thousand).

b) Legal

Bank management is unaware of any significant actual, pending or threatened claims against the Bank.

c) Insurance

The Bank has arranged bankers blanket bond, property and computer crime insurance.

d) Tax

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. In addition certain transactions could be treated as inappropriately reducing taxes by the tax authorities. Management believes that it has provided adequately for tax liabilities. However, the relevant tax authorities could take a different position and the effect on these financial statements, if the authorities were successful in enforcing their position, could be significant.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 24 – CASH AND CASH EQUIVALENTS

Cash and due from Central Bank comprise:

	December 31, 2004	December 31, 2003
Cash on hand	11,705	10,933
Correspondent account with the CBR	30,142	29,489
Due from credit institutions with an original maturity of less than 3 months	37,053	42,905
Cash and cash equivalents	78,900	83,327

NOTE 25 – RELATED PARTIES

The outstanding balances and related average interest rates as of December 31, 2004 and 2003 with related parties are as follows:

	December 31, 2004		December 31, 2003	
	Amount	Average effective interest rate	Amount	Average effective interest rate
<i>Assets</i>				
Loans to customers, gross	22,298	12.3%	18,764	12.9%
<i>Liabilities</i>				
Deposits by customers	122	2.0%	820	2.1%

Material amounts included in the income statements for years ended December 31, 2004 and 2003 in relation to transactions with related parties are as follows:

	Year ended December 31, 2004	Year ended December 31, 2003
Interest income on loans to customers	2,507	1,661

NOTE 26 – CAPITAL ADEQUACY

The Bank's risk based capital adequacy ratio was 28% for December 31, 2004 and 2003, which exceeds the minimum ratio of 8% recommended by the Basle Accord.

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

NOTE 27 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No.107. The Bank has performed an assessment of its financial instruments to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

The Bank has concluded that due to the lack of liquidity and published “indicator interest rates” in the Russian markets, and the fact that some of its transactions are with related parties and of a specialized nature, it is not possible to determine the fair value of the obligatory reserve deposits with CBR, loans to customers, deposits by customers, promissory notes and certificates of deposit.

The financial assets and financial liabilities that the Bank does believe it is able to estimate fair values for are as follows:

	December 31, 2004		December 31, 2003	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Cash and correspondent account with CBR	41,847	41,847	40,422	40,422
Due from credit institutions, net	37,053	37,053	42,903	42,903
Trading securities	32,711	32,711	22,354	22,354
Financial Liabilities				
Deposits by credit institutions	49,604	49,604	60,279	60,279

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and correspondent account with CBR, due from credit institutions and deposits by credit institutions: the carrying amounts approximate fair value because of the short maturity of these instruments.

Trading securities: the fair values are based on quoted market prices for these or similar instruments.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate settlement of the instruments.

NOTE 28 – RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows:

Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry and geographical segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are frequently fully or partially covered by the funds deposited by customers and therefore usually bear limited credit risk.

With respect to undrawn loan commitments the Bank is potentially exposed to loss in an amount equal to the total amount of such commitments. However, the likely amount of loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

The geographical concentration of monetary assets and liabilities follows:

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

	December 31, 2004				December 31, 2003			
	Russia	OECD	Other non- OECD	Total	Russia	OECD	Other non- OECD	Total
Assets								
Cash and due from CBR	45,860	2,503	-	48,363	49,482	2,579	-	52,061
Due from credit institutions, gross	28,476	8,574	4	37,053	35,210	7,690	3	42,903
Trading securities	32,711	-	-	32,711	22,354	-	-	22,354
Loans to customers, gross	290,735	-	23	290,757	269,639	-	30	269,669
	397,781	11,077	26	408,884	376,685	10,269	33	386,987
Liabilities								
Deposits by credit institutions	28,459	20,824	321	49,604	38,862	17,411	4,006	60,279
Deposits by customers	121,717	1,128	2,719	125,564	131,955	106	1,107	133,168
Promissory notes and certificates of deposit	119,810	-	-	119,810	93,330	-	-	93,330
	269,986	21,952	3,040	294,978	264,147	17,517	5,113	286,777
Net position	127,795	(10,875)	(3,014)	113,906	112,538	(7,248)	(5,080)	100,210

Currency risk

The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the Central Bank of Russia. The Bank's exposure to foreign currency exchange rate risk is as follows:

	December 31, 2004				December 31, 2003			
	USD	Rubles	Other currencies	Total	USD	Rubles	Other currencies	Total
Assets								
Cash and due from CBR	2,111	45,860	392	48,363	1,886	49,482	693	52,061
Due from credit institutions, gross	6,975	27,800	2,278	37,053	7,274	34,967	662	42,903
Trading securities	52	32,659	-	32,711	48	22,306	-	22,354
Loans to customers, gross	44,219	226,322	20,216	290,757	96,054	165,200	8,415	269,669
	53,357	332,641	22,886	408,884	105,262	271,955	9,770	386,987
Liabilities								
Deposits by credit institutions	1,638	27,033	20,933	49,604	30,520	22,299	7,460	60,279
Deposits by customers	23,802	95,223	6,539	125,564	36,329	89,703	7,136	133,168
Promissory notes and certificates of deposit	16,950	94,893	7,967	119,810	14,284	70,812	8,234	93,330
	42,390	217,148	35,439	294,978	81,133	182,814	22,830	286,777
Net position	10,967	115,492	(12,553)	113,906	24,129	89,141	(13,060)	100,210

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current deposits, maturing deposits, loan draw downs and guarantees. The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The Bank's Asset and Liability Management Committee sets limits on the minimum proportion of maturing funds available to cover such cash outflows and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The contractual maturities of monetary assets and liabilities as of December 31, 2004 and 2003 are as follows:

December 31, 2004

	Less than 1 month	1 – 6 months	6 months to 1 year	Over 1 year	No maturity	Overdue	Total
Assets							
Cash and due from CBR	41,847	-	-	-	6,516	-	48,363
Due from credit institutions, gross	37,053	-	-	-	-	-	37,053
Trading securities	5,393	4,190	9,759	13,369	-	-	32,711
Loans to customers, gross	107,529	114,909	16,403	47,645	-	4,271	290,757
	191,822	119,099	26,162	61,014	6,516	4,271	408,884
Liabilities							
Deposits by credit institutions	35,908	446	70	13,181	-	-	49,604
Deposits by customers	81,350	28,757	14,438	1,020	-	-	125,564
Promissory notes and certificates of deposit	21,501	88,103	10,206	-	-	-	119,810
	138,758	117,306	24,714	14,201	-	-	294,978
Net position	53,064	1,794	1,448	46,813	6,516	4,271	113,906
Accumulated gap	53,064	54,858	56,306	103,119	109,635	113,906	

December 31, 2003

	Less than 1 month	1 – 6 months	6 months to 1 year	Over 1 year	No maturity	Overdue	Total
Assets							
Cash and due from CBR	40,422	-	-	-	11,639	-	52,061
Due from credit institutions, gross	42,903	-	-	-	-	-	42,903
Trading securities	1,235	6,624	3,981	9,139	1,375	-	22,354
Loans to customers, gross	58,146	118,953	36,740	55,180	-	650	269,669
	142,706	125,577	40,721	64,319	13,014	650	386,987
Liabilities							
Deposits by credit institutions	38,867	17,504	-	3,908	-	-	60,279
Deposits by customers	85,640	37,659	9,776	93	-	-	133,168
Promissory notes and certificates of deposit	37,046	50,476	5,808	-	-	-	93,330
	161,553	105,639	15,584	4,001	-	-	286,777
Net position	(18,847)	19,938	25,137	60,318	13,014	650	100,210
Accumulated gap	(18,847)	1,091	26,228	86,546	99,560	100,210	

Credit Bank of Moscow

Notes to financial statements December 31, 2004

(All amounts in thousands of US Dollars)

The maturity gap analysis does not reflect the historical stability of current accounts, whose liquidation has historically taken place over a longer period than that indicated in the table above. The table is based upon these accounts' entitlement to withdraw on demand.

Interest rate risk

The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is measured by the extent to which changes in market interest rates impact margins and net income. To the extent the term structure of interest bearing assets differs from that of liabilities, net interest income will increase or decrease as a result of movements in interest rates. The Bank's expected repricing and maturity dates do not differ significantly from the contract dates, which are disclosed in the liquidity risk table above.

Interest rate risk is managed by increasing or decreasing positions within limits specified by the Bank's management. These limits restrict the potential effect of movements in interest rates on interest margin and on the value of interest-sensitive assets and liabilities.

The Bank's interest rate policy is reviewed and approved by the Bank's Assets and Liabilities Management Committee. The Bank's average effective interest rates as at December 31, 2004 and 2003 for interest bearing financial instruments follow:

	December 31, 2004			December 31, 2003		
	US Dollars	Rubles	Other foreign currencies	US Dollars	Rubles	Other foreign currencies
Interest earning assets						
Due from credit institutions	0.2%	3.5%	0.0%	0.1%	0.0%	0.0%
Trading securities – government bonds	6.6%	6.5%	-	7.3%	4.3%	-
Trading securities – corporate notes and municipal bonds	-	7.0%	-	-	9.8%	-
Loans to customers	13.0%	9.1%	7.5%	12.9%	10.7%	8.6%
Interest bearing liabilities						
Deposits by credit institutions	2.6%	3.8%	3.1%	3.0%	0.1%	3.2%
Deposits by customers	5.2%	3.0%	6.3%	5.6%	3.0%	6.9%
Promissory notes and certificates of deposit	3.6%	12.4%	5.8%	6.3%	10.8%	4.6%

NOTE 29 – EVENTS AFTER THE BALANCE SHEET DATE

In January 2005 the Bank obtained a 6 month non-revolving syndicated loan from foreign banks in the amount of USD 10 000 thousand.

THE BANK

Credit Bank of Moscow (open joint-stock company)
 4 Marshall Rybalko Street
 Moscow 123060
 Russian Federation

THE ISSUER

CBOM Finance p.l.c
 5 Harbourmaster Place
 IFSC
 Dublin 1
 Ireland

TRUSTEE

J.P. Morgan Corporate Trustee Services Limited
 Trinity Tower
 9 Thomas More Street
 London E1W 1YT

**PRINCIPAL PAYING AGENT AND
TRANSFER AGENT**

JPMorgan Chase Bank N.A.
 Trinity Tower
 9 Thomas More Street
 London E1W 1YT

LUXEMBOURG PAYING AGENT AND TRANSFER AGENT

J.P. Morgan Bank Luxembourg S.A.
 6, route de Trèves
 L-2633 Senningerberg
 Luxembourg

REGISTRAR

J.P. Morgan Bank Luxembourg S.A.
 6, route de Trèves
 L-2633 Senningerberg
 Luxembourg

LEGAL ADVISORS TO THE MANAGERS AND THE TRUSTEE*As to English law*

Clifford Chance Limited Liability Partnership
 10 Upper Bank Street
 London E14 5JJ
 United Kingdom

As to Russian law

Clifford Chance CIS Limited
 U1. Sadovaya-Samotechnaya 24/27
 Moscow
 Russian Federation

LEGAL ADVISORS TO THE BANK*As to English law*

Lovells
 Atlantic House
 Holborn Viaduct
 London EC1A 2FG
 United Kingdom

As to Russian law

Lovells (Moscow)
 5th Floor, Usadba Centre
 22 Voznesenky Pereulok
 125009 Moscow
 Russian Federation

LEGAL ADVISOR TO THE ISSUER*As to Irish law*

Arthur Cox
 Earlsfort Centre
 Earlsfort Terrace
 Dublin 2
 Ireland

INDEPENDENT AUDITORS TO THE BANK

KPMG Limited
 11 Gogolevsky Boulevard
 Moscow 119019
 Russian Federation

AUDITORS TO THE ISSUER

KPMG
 Earlsfort Terrace
 Dublin 2
 Ireland