



**U.S.\$200,000,000**  
**9.5 per cent. Loan Participation Notes due 2009**

issued with limited recourse by

**B.I.N. Capital S.A.**

for the sole purpose of financing a loan to

**Joint-Stock Bank "B.I.N."**

**Issue Price: 100 per cent.**

B.I.N. Capital S.A. (the "Issuer" or the "Lender") is issuing an aggregate principal amount of U.S.\$200,000,000, 9.5 per cent. Loan Participation Notes due 2009 (the "Notes") for the sole purpose of financing a loan (the "Loan") to Joint-Stock Bank "B.I.N." ("B.I.N.BANK" or the "Borrower") pursuant to a loan agreement dated 11 May 2006 (the "Loan Agreement") between the Issuer and B.I.N.BANK. Subject as provided in the Trust Deed (as defined herein), the Issuer will (i) charge, by way of first fixed charge, in favour of The Bank of New York (the "Trustee") as trustee for the benefit of itself and of the holders of the Notes (the "Noteholders"), 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 Lender Account (as defined in the Loan Agreement) and (ii) assign certain of its administrative rights under the Loan Agreement to the Trustee, all as more fully described under "Description of the Transaction". The Notes are limited recourse obligations of the Issuer. In each case where amounts of principal, interest and other 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 other amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and other amounts (if any) actually received 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 obligations under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of B.I.N.BANK in respect of the financial servicing of the Notes.**

Interest on the Notes will be payable at the rate of 9.5 per cent. per annum semi-annually in arrear on 18 May and 18 November in each year commencing on 18 November 2006 as described under "Terms and Conditions of the Notes-Interest". At the time of issue, the yield of the Notes is U.S.\$9,500 per U.S.\$100,000 in nominal amount of the Notes held. The issue price of the Notes is 100 per cent. of their principal amount and the issue date is 15 May 2006. Unless previously redeemed or cancelled, including in accordance with the Noteholders' Put Option (see "Terms and Conditions of the Notes"), the Notes will be redeemed at their principal amount on 18 May 2009.

Save as otherwise expressly provided in this Prospectus 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 of the provisions in the Loan Agreement or have direct recourse to B.I.N.BANK except through action by the Trustee under any of the Security Interests (as defined in the Terms and Conditions of the Notes).

**AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK.**  
**SEE "RISK FACTORS" BEGINNING ON PAGE 6.**

**The Notes 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 and sold within the United States.**

This Prospectus has been approved by the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in the United Kingdom (the "UK Listing Authority"), as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications have been made to admit the Notes to listing on the Official List of the UK Listing Authority and to trading on the Gilt-Edged and Fixed Interest Market (the "Regulated Market") of the London Stock Exchange plc (the "London Stock Exchange").

The Notes will be issued in registered form in denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000, without interest coupons attached. The Notes will initially be represented by a global certificate (the "Global Certificate"), without interest coupons, registered in the name of a nominee, and deposited with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), on or about 15 May 2006. The Global Certificate will be exchangeable for definitive certificates ("Definitive Certificates") only in the limited circumstances described under "Summary of the Provisions relating to the Notes in Global Form".

**Joint Lead Managers**

**Commerzbank  
Corporates & Markets**

**Merrill Lynch International**

The date of this Prospectus is 11 May 2006.



This prospectus (the “**Prospectus**”) is issued in compliance with the Prospectus Directive compliant listing rules of the Financial Services and Markets Act 2000 (“**FSMA**”) for the purpose of giving information with respect to the Issuer, B.I.N.BANK, the Loan and the Notes. Each of B.I.N.BANK and the Issuer accepts responsibility for the information contained in this document. To the best of the knowledge and belief of B.I.N.BANK and the Issuer, which have taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Where information has been sourced from a third party, this information has been accurately reproduced and so far as the Issuer and B.I.N.BANK are aware and are able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Information contained in this Prospectus relating to the Russian banking sector and information on the competitors of B.I.N.BANK (which may include estimates and approximations) was derived from publicly available information, including press releases and filings under various banking and securities laws. In addition, B.I.N.BANK has 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 “**Central Bank**”). See “*Risk Factors – Risks Relating to Russia – Lack of Reliable Official Data*”.

B.I.N.BANK, having made all reasonable enquiries, confirms that (i) this Prospectus contains all information with respect to B.I.N.BANK and its subsidiaries, the Loan Agreement and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to B.I.N.BANK and its subsidiaries are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to B.I.N.BANK and its subsidiaries are honestly held, have been reached after considering all relevant circumstances, and are based on reasonable assumptions; (iv) there are no other facts in relation to B.I.N.BANK and its subsidiaries, the Loan Agreement 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 B.I.N.BANK to ascertain such facts and to verify the accuracy of all such information and statements.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, B.I.N.BANK or the Managers (as defined in “*Subscription and Sale*”) 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 B.I.N.BANK, the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Prospectus, see “*Subscription and Sale*” below.

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, B.I.N.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.

**In connection with this issue, Merrill Lynch International (the “Stabilising Manager”) (or any person acting on behalf of the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period, provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an 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. Such stabilising shall be in compliance with all applicable laws, regulations and rules.**

**NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGER(S) AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGER(S) ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE**

**CREDITWORTHINESS OF B.I.N.BANK AND THE ISSUER AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT, WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE, AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.**

## FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus as well as written and oral statements of B.I.N.BANK or its representatives made 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 B.I.N.BANK’s plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. B.I.N.BANK uses the words “**anticipates**”, “**estimates**”, “**expects**”, “**believes**”, “**intends**”, “**plans**”, “**may**”, “**will**”, “**should**” and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in “*Risk Factors*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of B.I.N.BANK*” and “*Description of B.I.N.BANK*” and other sections of this Prospectus. B.I.N.BANK has based these forward-looking statements on the current view of its management with respect to future events and financial performance. These views reflect the best judgement of B.I.N.BANK’s management but involve uncertainties and are subject to certain risks the occurrence of which could cause actual results to differ materially from those predicted in B.I.N.BANK’s forward-looking statements and from past results, performance or achievements. Although B.I.N.BANK believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which B.I.N.BANK have identified in this Prospectus, or if any of B.I.N.BANK’s underlying assumptions prove to be incomplete or incorrect, B.I.N.BANK’s actual results of operations may vary from those expected, estimated or projected.

B.I.N.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 B.I.N.BANK, or persons acting on B.I.N.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 undue reliance on these forward-looking statements.

## ENFORCEABILITY OF JUDGMENTS

The Issuer is a company incorporated in the Grand Duchy of Luxembourg and B.I.N.BANK is a company organised under Russian law. None of the members of the Board of Directors and executive officers of any of the Issuer or B.I.N.BANK is a resident of England. As a result, it may not be possible for the Trustee, acting on behalf of the Noteholders, to effect service of process within England upon the Issuer or B.I.N.BANK, although, under terms and conditions of the Notes and the Loan Agreement, each of the Issuer and B.I.N.BANK has appointed an agent for service of process in England. Moreover, all or a substantial portion of the assets of the Issuer and B.I.N.BANK and such persons are located outside England. As a result, it may not be possible for the Trustee, acting on behalf of the Noteholders, to enforce against the Issuer, B.I.N.BANK or any such persons court judgments obtained in English courts.

A final judgment obtained in the Courts of England will be enforceable in the Grand Duchy of Luxembourg subject to applicable *exequatur* proceedings as provided for in the Council Regulation (EC) No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters.

Russian courts may not enforce any judgment obtained in a court established in a country other than Russia unless there is a treaty in effect between such country and Russia providing the reciprocal recognition and enforcement of court judgments. No such treaty exists between Russia and the United Kingdom. Even if there were such a treaty, Russian courts may nonetheless refuse to recognise and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date of which such recognition and enforcement is sought. In September 2002, the new Arbitrazh Procedural Code of the Russian Federation came into force, providing for the procedures of recognition and enforcement of judgments and introducing an extensive list of grounds for refusal of such recognition and enforcement of judgments. However, Russian procedural legislation may further change and no assurance can be given that there could be no other ground for refusal in the future. See “*Risk Factors – Risks Relating to Russia – Foreign Court Judgments and Arbitral Awards May Not Be Enforceable Against B.I.N.BANK.*”

The Loan Agreement provides that if any dispute or difference arises from or in connection with the Loan Agreement the Lender may elect, by notice in writing to B.I.N.BANK, to settle the claim by arbitration in accordance with the Rules of the London Court of International Arbitration. The seat of any arbitration will be London, England. The United Kingdom and Russia 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 Russia 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).

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Presentation of Financial Information

B.I.N.BANK's financial information set forth herein, has, unless otherwise indicated, been derived from its audited consolidated income statements, consolidated balance sheets, consolidated statements of changes in equity and consolidated cash flow statements and the notes thereto as of and for the years ended 31 December 2005, 2004 and 2003 (the "**B.I.N.BANK Financial Statements**") prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board. The B.I.N.BANK Financial Statements were audited by B.I.N.BANK's independent auditors, ZAO Deloitte & Touche CIS ("**Deloitte & Touche**"), located at Business Centre "Mokhovaya", 4/7 Vozdvizhenka Street, Building 2, Moscow 125009, Russia. Deloitte & Touche have expressed an unqualified opinion on the B.I.N.BANK Financial Statements. The B.I.N.BANK Financial Statements, including the audit opinions of Deloitte & Touche Limited are set out on pages F-3 to F-47 of this Prospectus. Certain restatements have been made to B.I.N.BANK's consolidated financial statements as at 31 December 2004 and 2003 and for the years then ended to comply with the changes in IAS 1 "Presentation of Financial Statements", IAS 24 "Related party disclosures", IAS 39 "Financial Instrument: Recognition and Measurement", IFRS 4 "Insurance Contracts" effective for the periods beginning on or after 1 January 2005 as well as IFRS 3 "Business combinations" effective for the periods beginning on or after 31 March 2004. Restatements relating to IAS 1 "Presentation of Financial Statements" have been done retrospectively to the earliest financial statements period presented. Restatements relating to IFRS 3 "Business combinations" have been done for the annual periods stating 31 March 2004. For more details, see Note 3 to the B.I.N.BANK Financial Statements on pages F-12 to F-19 of this Prospectus..

The Rouble is the functional currency for the B.I.N.BANK Financial Statements. Monetary assets and liabilities denominated in foreign currencies are translated into Roubles at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at exchange rates prevailing at the date of the transaction.

Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of some Rouble amounts into U.S. Dollars at a conversion rate of RUR28.7825 to U.S.\$1, which was the official exchange rate quoted by the Central Bank on 31 December 2005.

B.I.N.BANK believes that its financial statements, which are prepared in accordance with IFRS as set out by the International Accounting Standards Board, would be consistent in all material respects with financial statements prepared in accordance with the financial reporting standards adopted by the EU for the purposes of Regulation (EC) No. 1606/2002.

### Currency

In this Prospectus, the following currency terms are used:

- "**EUR**", "**Euro**" or "**€**" means the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended;
- "**RUR**", "**Russian Rouble**" or "**Rouble**" means the lawful currency of Russia; and
- "**U.S. Dollar**" or "**U.S.\$**" means the lawful currency of the United States.

### Rounding

Some numerical figures included in this Prospectus have been subject to rounding adjustments.

Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.

## EXCHANGE RATES

The following table sets forth, for the periods indicated, the high, low, average and period-end official rates set by the Central Bank in each case for the purchase of Roubles, all expressed per U.S. Dollar. These translations should not be construed as representations that Rouble amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of any of the dates mentioned in this Prospectus or at all.

	<b>High</b>	<b>Low</b>	<b>Average</b>	<b>Period-End</b>
		<i>(RUR per U.S. Dollar)</i>		
2006 (up to and including 28 April 2006) .....	28.7825	27.3621	28.0436	27.3621
2005.....	28.9987	27.4611	28.2295	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
2001.....	30.3000	28.1600	29.2300	30.1400

Source: [www.cbr.ru](http://www.cbr.ru) (Central Bank)



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## THE OFFERING

The Offer	U.S.\$200,000,000, 9.5 per cent. Loan Participation Notes due 2009 in reliance on Regulation S under the Securities Act (“ <b>Regulation S</b> ”).
Issuer	B.I.N. Capital S.A.
Borrower	Joint-Stock Bank “B.I.N.” with its registered office at 5a Grodnenskaya Street, Moscow 121471, Russia.
Trustee	The Bank of New York.
Principal Paying Agent, Registrar Paying Agent and Transfer Agent	The Bank of New York. An up-to-date copy of the register of the Notes shall be kept at the registered office of the Issuer.
Paying Agent and Transfer Agent	The Bank of New York (Luxembourg) S.A.
Issue Price	100 per cent. of the principal amount of the Notes.
Issue Date	15 May 2006
Maturity Date	18 May 2009
Yield	U.S.\$9,500 per U.S.\$100,000 in nominal amount of the Notes held.
Use of Proceeds	The Issuer will use the proceeds of the issue of the Notes for the sole purpose of financing the Loan. The proceeds from the Loan will be used by B.I.N.BANK for funding its lending activities and general banking purposes. See “ <i>Use of Proceeds</i> ”.
Interest	On each Interest Payment Date (being 18 May and 18 November in each year commencing on 18 November 2006) the Issuer shall account to Noteholders for an amount equivalent to amounts of interest actually received by or for the account of the Issuer pursuant to the Loan Agreement excluding any amounts paid in respect of the Reserved Rights, which interest is equivalent to 9.5 per cent. per annum.
Limited Recourse	The Notes will constitute the obligation of the Issuer to apply an amount equal to the net proceeds from the issue of the Notes solely for the purpose of financing the Loan to B.I.N.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 from B.I.N.BANK under the Loan Agreement.
Security	The Notes are secured by (i) a first fixed charge in favour of the Trustee for the benefit of itself and of the Noteholders as security for the Issuer’s payment obligations in respect of the Notes of (a) certain of the Issuer’s rights and interests as lender under the Loan Agreement and (b) the Issuer’s rights, title and interest in and all sums held on deposit in the Lender Account (as defined in the Loan Agreement) (in each case, other than the Reserved Rights), all as more fully described under “ <i>Terms and Conditions of the Notes</i> ” and (ii) an assignment of certain other rights under the Loan Agreement, all as more fully described under “ <i>Description of the Transaction</i> ”.
Form	The Notes will be issued in registered form in the denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000, without interest coupons attached. The Notes will initially be represented by a Global Certificate, without interest coupons, registered in the name of a nominee, and deposited with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System and Clearstream Banking, <i>société anonyme</i> , on or about 15 May 2006. The Global Certificate will only be exchangeable for Definitive Certificates in the limited circumstances described under “ <i>Summary of the Provisions relating to the Notes in Global Form</i> ”.

Early Redemption	<p>The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time at their outstanding principal amount together with accrued interest to the date of redemption if B.I.N.BANK elects to prepay the Loan for tax reasons or subject to certain exceptions by reason of increased costs or in the event that it becomes unlawful for the Issuer to allow all or part of the Loan or the Notes to remain outstanding or to maintain or give effect to any of its obligations under the Loan Agreement, all as more fully described in Clauses 5.2 and 5.3 of the Loan Agreement. See also Condition 5 (Redemption and Purchase). B.I.N.BANK or any of its subsidiaries may also purchase Notes which, under the terms of the Loan Agreement and the Notes, may be held, sold in the open market, or, at the option of B.I.N.BANK or any of its subsidiaries, surrendered to the Issuer for cancellation. Upon such a cancellation by the Issuer, the principal amount outstanding of the Loan shall be reduced in an amount corresponding to the principal amount of the Notes cancelled.</p>
Put Option	<p>On 18 May 2007, the Notes may be redeemed in whole or in part at the option of a Noteholder at their principal amount together with accrued interest, provided notice has been given to any Paying Agent indicating the Noteholder's intention to exercise such option during the period from (and including) 3 April 2007 to (but excluding) 3 May 2007, all in accordance with the "Terms and Conditions of the Notes".</p>
Certain Covenants	<p>As long as any of the Notes remains 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.</p>
Negative Pledge and other Covenants	<p>The Loan Agreement contains a negative pledge in relation to the creation of Liens (other than Permitted Liens) by B.I.N.BANK. The Loan Agreement also contains covenants limiting mergers and disposals by B.I.N.BANK. The Loan Agreement further contains a covenant by B.I.N.BANK limiting transactions between B.I.N.BANK and its Affiliates (other than transactions made on an arm's length basis in the ordinary course of business) and a covenant by B.I.N.BANK to comply with certain capital adequacy requirements.</p>
Events of Default/Relevant Event	<p>At any time after an Event of Default (as defined in Clause 11 of the Loan Agreement) or a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may institute such proceedings as it may think fit to enforce the rights of the Noteholders and the provisions of the Trust Deed. In the case of a Relevant Event, this shall include enforcement of the security created under the Trust Deed by the Issuer. In the case of an Event of Default, this shall include the ability to declare all amounts payable under the Loan Agreement by B.I.N.BANK to be due and payable or to procure that such a declaration is made.</p> <p>Upon repayment of the Loan following an Event of Default, the Notes will be redeemed and repaid at their principal amount together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.</p>
Rating	<p>The Notes are rated "B-" by Standard &amp; Poor's and "B-" by Fitch.</p> <p><i>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.</i></p>

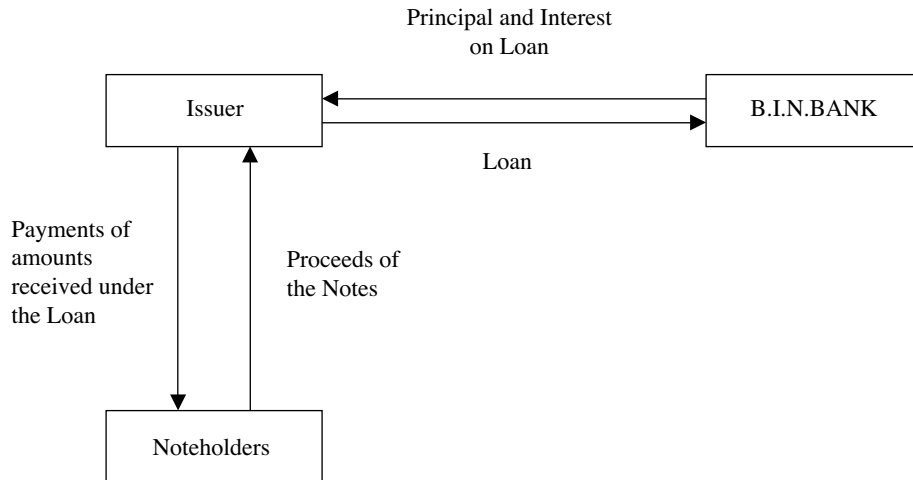
Withholding Tax	<p>All payments of principal and interest under the Loan Agreement and in respect of the Notes will be made free and clear of all taxes, duties, assessments or governmental charges of Russia and the Grand Duchy of Luxembourg, as the case may be, save as required by law (or in the event of a Relevant Event (as defined in the Trust Deed) the jurisdiction where the Trustee is domiciled for tax purposes). If any taxes, duties, assessments or governmental charges are payable in any or all of the above jurisdictions, the sum payable by B.I.N.BANK will (subject to certain exceptions) be required to be increased to the extent necessary to ensure that the Issuer receives a net sum which it would have received had no such deduction or withholding been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from B.I.N.BANK to the Noteholders. See “<i>Terms and Conditions of the Notes</i>”.</p>
Listing	<p>Application has been made to the UK Listing Authority for the Notes to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the Regulated Market.</p>
Selling Restriction	<p>The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including Austria, Germany, Hong Kong, Italy, Russia, Singapore, Switzerland and the United Kingdom) only in compliance with applicable laws and regulations. See “<i>Subscription and Sale</i>”.</p>
Governing Law	<p>The Notes, the Loan Agreement and the Trust Deed will be governed by English law. The provisions of articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded.</p>
Risk Factors	<p>An investment in the Notes involves a high degree of risk. See “<i>Risk Factors</i>”.</p>
Security Codes	<p>ISIN: XS0254105561 Common code: 025410556</p>

## DESCRIPTION OF THE TRANSACTION

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

### Transaction Summary

Set out below is a diagrammatic representation of the structure:



The transaction will be structured such that the proceeds of the issue of the Notes will be lent by the Issuer to B.I.N.BANK pursuant to the Loan Agreement.

The Notes are limited recourse notes to be issued by the Issuer for the sole purpose of funding the Loan. The Notes will have the benefit of, and be constituted by, the Trust Deed. As provided in the Trust Deed, the Issuer will (i) charge by way of first fixed charge to the Trustee (a) all principal, interest and other amounts (if any) payable by B.I.N.BANK to the Issuer under the Loan Agreement, (b) the right to receive all sums which may be or become payable by B.I.N.BANK under any claim, award or judgment relating to the Loan Agreement and (c) all rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent, account number 924997 8401 in the name of the Issuer and the debts represented thereby, including interest from time to time earned thereon (the “**Account**”), and (ii) assign certain other rights in respect of the Loan Agreement.

B.I.N.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 as otherwise instructed by the Trustee following a Relevant Event. The Loan has characteristics that demonstrate a capacity to produce funds to service any payments due and payable on the Notes. The Issuer will agree in the Trust Deed not to make or consent to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement unless the Trustee has given its prior written consent. The Issuer will further agree to act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement. Any amendments, modifications, waivers or authorisations made to the Terms and Conditions with the Trustee’s consent shall be notified to the Noteholders in accordance with Condition 13 of the Notes and shall be binding on the Noteholders. Formal notice of the security interests created by the Trust Deed will be given to B.I.N.BANK and The Bank of New York, acting as principal paying agent pursuant to an agency agreement dated 11 May 2006 (the “**Agency Agreement**”) between the Issuer, The Bank of New York, as principal paying agent, paying agent, registrar and transfer agent, The Bank of New York (Luxembourg) S.A. as paying agent and transfer agent, the Trustee and B.I.N.BANK which will each be required to acknowledge the same.

The Notes are limited recourse obligations and the Issuer will not have any obligation to the Noteholders other than the obligation to account to the Noteholders for payment of principal and interest received by it pursuant to the Loan Agreement. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of the Loan.

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

## **USE OF PROCEEDS**

The Issuer will use the proceeds of the issue of the Notes, expected to amount to U.S.\$200,000,000 for the sole purpose of financing the Loan to B.I.N.BANK. The proceeds from the Loan will be used by B.I.N.BANK for funding its lending activities and general banking purposes. Total commissions and expenses payable by B.I.N.BANK in connection with the Notes and the Loan are expected to be approximately U.S.\$3,629,573.08.

## 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 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 B.I.N.BANK's business, operations and financial condition and/or the rights of the Noteholders under the Notes.*

*An investment in the Notes involves a high degree of risk. Prospective investors should consider carefully, among other things, the risks set forth below and the other information contained in this Prospectus prior to making any investment decision with respect to the Notes. The risks highlighted below could have a material adverse effect on B.I.N.BANK's business, financial condition, results of operations or prospects 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.*

*Prospective investors should note that the risks described below are not the only risks B.I.N.BANK faces. These are the risks B.I.N.BANK considers material. There may be additional risks that B.I.N.BANK currently considers immaterial or of which it is currently unaware, and any of these risks could have similar effects to those set forth below.*

### **Risks Relating to B.I.N.BANK and the Russian Banking Sector**

#### ***B.I.N.BANK Faces Competition From Russian and Foreign Banks***

The Russian banking market is highly competitive. As of 1 January 2006, the Central Bank had registered approximately 1,253 banks and non-banking credit organisations in Russia. Accordingly, B.I.N.BANK faces competition in substantially all the business segments and regions in which it operates. See “*Description of B.I.N.BANK – Market Position, Competition and Competitive Strengths*”.

B.I.N.BANK believes that it offers competitive banking services to all of its clients. Furthermore, it has longstanding relationships with certain large company clients and public authorities, from which it receives significant business, and it expects these relationships to continue in the future. Nevertheless, some of B.I.N.BANK's clients might transfer some or all of their business to B.I.N.BANK's competitors, which might adversely affect B.I.N.BANK's business and financial condition.

Competition between Russian banks and subsidiaries of foreign banks in Russia is increasing. In addition, the effect of Russia's expected accession to the World Trade Organisation on the number of foreign banks operating in Russia and the competition in the Russian banking sector remains unclear. Access to low-cost funding and interbank operations on the international markets allow subsidiaries of foreign banks to increase their deposit-taking and lending operations in Russia. Such competition has, among other consequences, decreased the margin between the rates of interest on loans and the rates of interest on deposits and may further decrease such margin, thereby negatively affecting the business and financial condition of Russian banks, including B.I.N.BANK.

#### ***B.I.N.BANK May Not Be Able to Improve Its Profitability***

B.I.N.BANK had a relatively low profitability (RUR266.11 million (U.S.\$9.2 million) for year ended 31 December 2005) and high cost-to-income ratio due to its low interest margins, substantial provisioning costs and high operating expenses. In the event that B.I.N.BANK's cost-to-income ratio increased, this would have a material adverse effect on B.I.N.BANK's ability to pay interest and principal on the Loan.

#### ***B.I.N.BANK Holds a Loan and Deposit Portfolio with a Relatively High Level of Industry and Key Client Concentration***

B.I.N.BANK's loan portfolio, like that of many Russian banks, has a relatively high industry concentration level. As of 31 December 2005, commercial real estate (office property holding, supermarkets property holding and warehouse property holding) accounted for 36.68 per cent. of B.I.N.BANK's total loan portfolio (gross of provision for impairment losses). See “*Description of B.I.N.BANK – Banking Services and Activities – Corporate Customer Segmentation*”. Although these sectors are among the best performing in the Russian economy, if a downturn occurs in any of these sectors, B.I.N.BANK's customers may face difficulties in servicing their loans, which in turn could have an adverse affect on B.I.N.BANK's business and financial condition.



Furthermore, customer accounts accounted for 87.2 per cent. of B.I.N.BANK's total liabilities as of 31 December 2005. Under Russian law, term deposits made by individuals can be withdrawn at any time at the request of the respective depositors. If an economic downturn occurs, B.I.N.BANK's clients might withdraw their term deposits and current account balances to satisfy their short-term liquidity needs, which, among other things, may result in liquidity difficulties and a loss of funding for B.I.N.BANK, adversely affecting its business and financial condition.

As of 31 December 2005, B.I.N.BANK's exposure to its twenty largest borrowers (excluding banks) was RUR12.9 billion, or 53 per cent. of B.I.N.BANK's gross loan portfolio. Additionally, the current account balances of B.I.N.BANK's twenty largest depositors represented 30 per cent. of B.I.N.BANK's total current accounts and customer deposits. Any impairment in the ability of such borrowers to repay their loans or decision by these customers to withdraw their funds could have a material adverse effect on B.I.N.BANK's business and financial condition.

The Central Bank imposes a limit on a bank's exposure to a single borrower or group of related borrowers. This limit is set at 25 per cent. of a bank's regulatory capital and it must be observed by B.I.N.BANK on a daily basis. B.I.N.BANK's ratio continues to be in compliance with the Central Bank's limit. However, if B.I.N.BANK's limit on a bank's exposure to a single borrower or group of related borrowers were to rise above this limit, either due to a change in the composition of B.I.N.BANK's loan portfolio, a change in the Central Bank's limit or a change in how the Central Bank's limit is interpreted or applied with respect to a single borrower or group of related borrowers, this might result in a violation by B.I.N.BANK of the Central Bank's limit. The sanctions for failure to comply with this requirement could include fines, temporary administration of B.I.N.BANK by the Central Bank or revocation of B.I.N.BANK's banking licence. If B.I.N.BANK were in violation of this ratio and the Central Bank were to take such steps, B.I.N.BANK's business, financial condition, results of operations or prospects could be materially adversely affected.

#### ***B.I.N.BANK May Be Unable to Assess the Credit Risk of Potential Borrowers Adequately***

The financial performance of Russian corporations is generally more volatile, and the credit quality of Russian companies on average is less predictable, than those of similar companies doing business in more mature markets and economies. An accurate assessment of default risk on loans provided to corporate clients may be difficult for B.I.N.BANK to make due to the unpredictability of economic conditions in Russia and abroad. Even though B.I.N.BANK requires regular disclosure of its corporate clients' financial statements, such financial statements may not always present a complete and accurate picture of each client's financial condition. Therefore, in spite of B.I.N.BANK's credit risk evaluation procedures, it may be unable to correctly evaluate the current financial condition of each prospective corporate borrower and to accurately determine the ability of such corporate borrower to repay. Furthermore, the retail lending market in Russia is relatively undeveloped and limited resources are available to Russian banks to ascertain the credit history of individual borrowers. As a result, the financial condition of private individuals transacting business with B.I.N.BANK is difficult to assess and predict.

If a significant number of B.I.N.BANK's corporate or individual borrowers and/or guarantors experience poor financial performance due to a general Russian or regional economic downturn or volatility in certain sectors of the Russian or regional economy, or if their financial condition deteriorates significantly for any reason, B.I.N.BANK could suffer material adverse consequences to its business, financial condition, results of operations or prospects.

Although, following recent changes to Russian legislation, credit bureaus are allowed to operate in Russia, Russia does not currently have any developed central credit bureaus, and B.I.N.BANK and its competitors do not share customer information. Therefore, B.I.N.BANK is unable to confirm independently information provided by credit applicants regarding the total credit extended to the applicant. As a result, customers may be overextended by virtue of other credit obligations about which B.I.N.BANK is unaware. B.I.N.BANK is therefore exposed to credit risks which it may not be able to accurately assess and provide for.

#### ***B.I.N.BANK May Fail to Develop its Retail Banking Business***

The Russian market for retail banking services is highly competitive. B.I.N.BANK faces competition for the provision of retail banking services from a number of Russian banks and Russian subsidiaries of international banks. See "*Description of B.I.N.BANK – Market Position, Competition and Competitive Strengths*".

As existing participants of the retail banking market continue to expand their retail banking programmes and other banks launch their programmes, increased competition in the market may lead to a decrease in interest rate margins and lower commission fees. The moderate size of B.I.N.BANK compared to that of some other Russian banks might impede its ability to compete successfully.

In addition, although lending to retail customers keeps B.I.N.BANK's single-party exposure low, it may also increase the credit risk exposure in B.I.N.BANK's portfolio. Retail customers typically have less financial strength than corporate borrowers. The continued development of the Russian retail banking market depends largely on factors such as further economic growth, increases in average disposable consumer income and levels of consumer spending. Any significant deterioration in the performance of the Russian economy or a reduction in levels of personal income, individual purchasing power and consumer confidence, either generally or specifically in respect of the banking sector, could have a material adverse affect on the development of B.I.N.BANK's retail banking business.

### ***The Interests of B.I.N.BANK's Principal Shareholders May Conflict with those of Noteholders***

As of 31 March 2006, 90.75 per cent. of the share capital of B.I.N.BANK is beneficially owned by Mr. Mikail Shishkhanov, his relative Mr. Sait-Salam Gutseriev and Mr. Suleiman Kerimov (the "**Principal Shareholders**"). If circumstances were to arise where the interests of the Principal Shareholders conflicted with the interests of the Noteholders, Noteholders could be disadvantaged by any such conflict, as the Principal Shareholders could take actions contrary to Noteholders' interests. For example, although they have not done so in the past, the Principal Shareholders have the ability to cause B.I.N.BANK to enter into transactions advantageous to them or to their business interests, even though such transactions could result in increased risk for B.I.N.BANK and the Noteholders. In addition, the B.I.N. Group of companies (the "**B.I.N. Group**") has interests in certain industrial sector companies such as Russneft oil company. Although the major B.I.N. Group companies generally satisfy their funding needs on international markets and as of 31 December 2005 B.I.N.BANK's loans to related parties amounted to 6.8 per cent. of B.I.N.BANK's loan portfolio, if issues were to arise with any of these companies, the Principal Shareholders could (although they have not done so in the past) elect to provide additional funding to such companies through exercising their control over B.I.N.BANK, which could adversely affect B.I.N.BANK's financial condition, results of operations or prospects if such funding were not on market terms or were not properly approved by B.I.N.BANK.

### ***B.I.N.BANK's Business with Related Parties***

From time to time, B.I.N.BANK engages in transactions with related parties (including loans which accounted for approximately 6-8 per cent. of B.I.N.BANK's loan portfolio for both 2004 and 2005). However, because Russian law confers significant powers on shareholders to control and influence the operations of a company, B.I.N.BANK's shareholders could cause B.I.N.BANK to provide such services on a basis which is not arm's length. See "*Risk Factors – Risks Relating to B.I.N.BANK and the Russian Banking Sector – The Interests of B.I.N.BANK's Principal Shareholders May Conflict with those of Noteholders*". In addition, although B.I.N.BANK attempts to obtain all corporate approvals required to consummate transactions with related parties, including intra-group transactions, it cannot be certain that it has obtained all such approvals, particularly since some of the concepts relating to transactions with related parties are subject to differing interpretations under Russian law.

Russian law and B.I.N.BANK's charter require the approval of disinterested directors or shareholders for transactions with "interested parties" (as defined in the Russian Joint Stock Company Law). The concept of "interested parties" is defined with reference to the concepts of "affiliated persons", "beneficiaries" and "group of persons" under Russian law, which are subject to many different interpretations. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are subject to different interpretations. Although B.I.N.BANK has generally taken a reasonably conservative approach in applying these concepts, B.I.N.BANK cannot be certain that its application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of certain transactions that are important to B.I.N.BANK's business.

Also, under Russian law, certain "major transactions," (i.e. those involving more than 50 per cent. or, in the absence of an unanimous decision of the board of directors, 25 per cent. or more, of the assets of the company determined under Russian accounting standards ("**RAS**")) require the approval of the majority of the holders of voting stock present at a shareholders' meeting. Any failure by B.I.N.BANK's shareholders to approve such transactions in the future could limit B.I.N.BANK's operational flexibility, materially adversely affecting B.I.N.BANK's business and financial condition.

### ***Interest Rate, Liquidity and Exchange Rate Sensitivity of B.I.N.BANK***

B.I.N.BANK is exposed to interest rate risk principally as a result of lending and making advances to customers and other banks mostly at fixed interest rates and in amounts and for periods which may differ from B.I.N.BANK's funding sources (customer deposits, bank borrowings and securities offerings). While B.I.N.BANK monitors interest rates with respect to its assets and liabilities and seeks to match its interest rate positions, interest rate movements may adversely affect B.I.N.BANK's business, financial condition, results of operations or prospects.

To minimise its liquidity risks, B.I.N.BANK also monitors maturity mismatches between its assets and liabilities and has taken measures to diversify its portfolio with respect to the deposit types and terms (although, under Russian law, term deposits can be withdrawn at any time at the request of the respective depositors, which may affect their usefulness in such a liquidity diversification exercise). Although management believes that B.I.N.BANK's access to domestic and international interbank markets will continue to allow it to meet its short-term liquidity needs, maturity mismatches arising as a consequence of the early withdrawal of term deposits or otherwise may have a material adverse effect on B.I.N.BANK's business, financial condition, results of operations or prospects.

B.I.N.BANK trades currency for its own account and maintains open currency positions that result in foreign exchange risk. Although B.I.N.BANK is subject to limits on its open positions which are governed by the Central Bank regulations and B.I.N.BANK's own internal policies (which seek to minimise open currency positions), future changes in currency exchange rates and the volatility of the Rouble may have a material adverse effect on B.I.N.BANK's business, financial condition, results of operations or prospects. Although B.I.N.BANK invests substantial amounts of time and money in its risk management strategies and techniques, such efforts may nonetheless fail under some circumstances, particularly when confronted with risks that B.I.N.BANK does not identify or anticipate. If circumstances arise that B.I.N.BANK has not identified or anticipated in developing its statistical models, or if B.I.N.BANK's measures to assess and mitigate risks prove insufficient, B.I.N.BANK may experience material unexpected losses.

Moreover, B.I.N.BANK's employees may not always adhere to B.I.N.BANK's compliance procedures and limits on risk-related activities. The precautions B.I.N.BANK takes to detect and prevent such employee misconduct may not be effective in all cases. Employee misconduct may include binding B.I.N.BANK to transactions that exceed authorised limits or present unacceptable risks, or concealing from B.I.N.BANK unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. Employee misconduct could further involve the improper use or disclosure of confidential information that could result in regulatory or legal sanctions and significant reputation or financial harm which could have a material adverse effect on B.I.N.BANK's business, financial condition, results of operations or prospects.

### ***B.I.N.BANK May Fail to Manage its Growth Properly***

The ability of B.I.N.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 promotion of capital growth in order to maintain its capital adequacy requirements. If B.I.N.BANK accepts a higher degree of credit risk to achieve growth in the future, it could increase the level of non-performing loans/delinquency in its loan portfolio, which could have a material adverse effect on its financial performance and results of operations.

The expansion of B.I.N.BANK's network entails investment and increased operating costs. There can be no assurance that B.I.N.BANK will achieve adequate positive returns on any investment that it makes in the development of its network. Overall growth of B.I.N.BANK's business also requires greater allocation of management resources away from daily operations. In addition, the management of such growth will require, among other things, continued development of B.I.N.BANK's financial and information management control systems, the ability to integrate new branches or newly acquired financial services businesses with existing operations, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel, the presence of adequate supervision and the maintenance of consistency of customer services. If B.I.N.BANK fails to properly manage its growth, such failure may have a material adverse effect on its business, financial condition, results of operations or prospects.

### ***B.I.N.BANK May Have Difficulty Enforcing Security under Russian Law***

B.I.N.BANK typically takes pledges over goods and real property as part of its lending procedures. See “*Lending Policies and Procedures*”. Under Russian law, security (which includes pledges and mortgages) and guarantees/suretyships (other than bank guarantees) are considered secondary obligations which automatically terminate if the underlying secured obligation becomes void. Furthermore, enforcement of security under Russian law generally requires a court judgment and a sale of the relevant collateral through a public auction. A court may in its discretion delay such sale through a public auction 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 and pledges of shares in joint-stock companies, which may contribute to the incidence of unexpected and/or conflicting claims of secured creditors upon the pledged property. Moreover, were it to elect to enforce, B.I.N.BANK would, as a result of the above challenges, have difficulty enforcing pledges when borrowers default on their loans.

### ***B.I.N.BANK May Be Unable to Adequately Maintain the Functionality and Expand the Capacity of its Information Technology Systems***

B.I.N.BANK’s financial results and ability to meet its strategic objectives depend significantly on the proper functioning of its information technology (“IT”) systems and the ability to increase their capacity sufficiently to support B.I.N.BANK’s operations. In addition, B.I.N.BANK may encounter difficulties in developing and integrating modern IT systems. Any disruption in the operation of B.I.N.BANK’s IT systems, or any impairment in increasing their capacity, could materially affect B.I.N.BANK’s business and financial condition.

### ***B.I.N.BANK May Lack Sufficient Insurance Cover***

Russian banking and other laws do not require banks to maintain insurance on their material assets or liabilities, other than the mandatory insurance of retail deposits. Furthermore, the Russian insurance industry is in a developing state, and many forms of insurance offered in other jurisdictions are not available to B.I.N.BANK on the terms common in such jurisdictions. B.I.N.BANK does not have full insurance coverage with respect to damages to its property and equipment, business interruption and third party liability. Consequently, B.I.N.BANK may incur uninsured losses of assets and face claims not covered or inadequately covered by insurance. Any such loss or claim may have a material adverse affect on B.I.N.BANK’s financial condition or results of operations.

### ***B.I.N.BANK May Suffer from Instability in the Russian Banking Sector***

From May to July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. In May 2004, the Central Bank announced that it would suspend the banking licence of Sodbusinessbank, a medium-size institution that had been accused of serious breaches of the Russian money laundering laws. Fears that the Central Bank was set to adopt a tougher line of enforcement caused a dramatic loss of confidence within the banking system and a disruption of the interbank market. By the end of May 2004, depositors (primarily individuals) began en masse to withdraw their funds from certain banks. As a result of the circulation of various rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks collapsed, ceased to trade or significantly limited their operations. A number of Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they were facing large withdrawals of deposits by both retail and corporate customers. In response to these events, the Central Bank enacted regulations in July 2004 providing government insurance for deposits of up to 100,000 Roubles and lowering reserve requirements. Most analysts believe that the situation had stabilised by July 2004. While B.I.N.BANK experienced a withdrawal of almost 25 per cent. of its retail deposits, it was able to recover quickly. However, any similar events in the future could have a material adverse effect on B.I.N.BANK’s ability to develop its retail banking division and on B.I.N.BANK’s business, financial condition, results of operations or prospects.

### ***B.I.N.BANK May Be Unable to Recruit and Retain Experienced Personnel***

B.I.N.BANK’s success will depend, in part, on its ability to continue to attract, retain and motivate qualified personnel. Competition in the Russian banking industry for personnel with relevant expertise is intense, due to the small number of qualified individuals. B.I.N.BANK attempts to structure its compensation packages appropriately in order to attract and retain experienced personnel. See



“*Description of B.I.N.BANK – Employees*”. However, if B.I.N.BANK fails to continue to attract and retain qualified employees and successfully manage its personnel needs, this could have a material adverse effect on B.I.N.BANK’s business, financial condition, results of operations or prospects.

#### ***B.I.N.BANK is Dependent on Key Management***

B.I.N.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 relations of members of senior management (including B.I.N.BANK’s CEO, Mr. Mikail Shishkhanov) may be important to the conduct of B.I.N.BANK’s business. There can be no assurance that key members of senior management will be involved in the operation of B.I.N.BANK’s day-to-day activities to the same extent as they currently are, that they will remain at B.I.N.BANK or that such business relationships will continue.

#### ***B.I.N.BANK Operates in a Highly Regulated Environment***

B.I.N.BANK operates in a highly regulated business environment. The Central Bank requires the regular filing of periodic reports and the maintenance of various ratios. Russian authorities, including the Central Bank, have the right to, and do, conduct periodic inspections of B.I.N.BANK’s operations throughout the year. Any such future inspections may conclude retrospectively that B.I.N.BANK has violated laws, decrees or regulations, and B.I.N.BANK may be unable to adequately remedy such violations. Moreover, the unlawful or arbitrary nature of government action may result in the assertion of violations where they are negligible or non-existent. Such findings could result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of B.I.N.BANK’s licences, any of which could increase costs or materially adversely affect B.I.N.BANK’s business, financial condition, results of operations or prospects.

#### ***B.I.N.BANK May Be Unable to Maintain Its Existing Banking Licences or Obtain Such Licences in the Future***

All banking and various related operations in Russia require licences from the Central Bank. Certain types of operations in the securities market require licences from the Federal Service for the Financial Markets (“**FSFM**”). Before most provisions of Federal Law No. FZ 173 “On Currency Regulation and Currency Control”, dated 10 December 2003, (the “**Currency Law**”) entered into force on 18 June 2004, certain capital transactions in foreign currencies also required transaction-specific currency licences from the Central Bank.

B.I.N.BANK has obtained all necessary licences in connection with its banking operations and operations in securities and foreign currency. However, like any other bank operating in Russia, B.I.N.BANK may be unable to obtain, maintain or renew such licences in the future. Applying for licences is a burdensome and time-consuming process. Failure to obtain such licences, or the revocation or breach by B.I.N.BANK of the terms of, such licences could result in B.I.N.BANK being unable to continue some or all of its banking activities, as well as in penalties, such as fines, imposed on B.I.N.BANK by the Central Bank or other licensor. Any such failure could, in turn, affect B.I.N.BANK’s ability to fulfill payment obligations, either generally or under specific transactions, and could have a material adverse effect on B.I.N.BANK’s business, financial condition, results of operations or prospects.

According to Central Bank regulations, which apply a methodology based on RAS, B.I.N.BANK’s shareholders’ equity as a percentage of risk-weighted assets, or its capital adequacy ratio, must be at least 10 per cent. While B.I.N.BANK increased shareholders’ equity in 2005 and its capital adequacy ratio as of 31 December 2005 was 23.5 per cent. (and thus in compliance with Central Bank requirements), if B.I.N.BANK’s capital adequacy ratio were to fall below the 10 per cent. threshold, B.I.N.BANK would be in violation of the Central Bank mandatory ratio. Any violation of Central Bank mandatory ratios or non-fulfillment of orders issued by the Central Bank may result in the imposition of administrative fines on B.I.N.BANK or, in the event of repeated violation, the revocation of B.I.N.BANK’s banking licence.

#### ***B.I.N.BANK’s Operations May Be Affected by Currency Regulation***

According to the Currency Law only a limited number of restrictions can be imposed in respect of currency operations. The Central Bank has enacted a number of regulations to implement the Currency Law, mainly concerning technical issues of the new currency control regime. In addition, the Central Bank has introduced special account and reserve requirements with respect to certain operations of Russian corporates. However, to date no such restrictions have been introduced with respect to Russian banks. The Central Bank and the Russian government may enact further regulations under the Currency Law. Until all of the regulations for the effective implementation of the Currency Law are published and

implemented, it will not be possible to assess fully the effect of the currency control regime introduced by the Currency Law and there may be uncertainties and disputes in the interpretation of the Currency Law. Accordingly, there can be no assurance that the Currency Law and the related regulations will not have a material adverse effect on B.I.N.BANK's business, financial condition, results of operations or prospects. The Currency Law provides for most current restrictions, including the reserve and special account requirements, to be effective until 1 January 2007.

### **Risks Relating to Russia**

B.I.N.BANK is a Russian bank and the majority of its assets are located in Russia. Investments in Russia carry certain region-specific risks.

#### ***Fluctuations in the Global Economy Could Adversely Affect the Value of Investments in Russia***

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Since Russia is one of the world's largest producers and exporters of natural gas and oil, the Russian economy is especially sensitive to the price of natural gas and oil on the world markets, and a decline in the price of natural gas or oil could slow or disrupt the Russian economy. Recent military conflicts and international terrorist activity have also significantly impacted oil and gas prices. Russia is also a major producer and exporter of metal products, and its economies are vulnerable to world commodity prices and the imposition of tariffs and antidumping measures by the United States, the European Union or by other principal export markets. These developments could severely limit B.I.N.BANK's access to capital and could adversely affect the financial condition of B.I.N.BANK's customers and thus B.I.N.BANK's business.

#### ***Countries in Emerging Markets, such as Russia, are Subject to Greater Risks than more Developed Markets, and Turmoil in any Emerging Market Could Adversely Affect the Value of Investments in Russia***

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

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

#### ***Political Risks Could Adversely Affect the Value of Investments in Russia***

Since 1991, Russia has been undergoing a substantial political transformation from a centrally controlled to a market-oriented economy. Although a significant number of reforms were undertaken during those years, certain political and economic reforms remain necessary to complete.

A significant number of changes were undertaken during these years but there is still no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system is vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in governmental policies, any of which could have a material adverse effect on B.I.N.BANK and its ability to meet its obligations under the Loan Agreement.

During this transformation, legislation has been enacted to protect private property against expropriation and nationalisation. However, due to the lack of experience in enforcing these provisions in the short time they have been in effect, and due to potential political changes in the future, there can be no assurance that such provisions would be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any substantial assets of B.I.N.BANK, potentially without adequate compensation, would have a material adverse effect on B.I.N.BANK.

The composition of the Russian government has recently been very unstable. The Russian government experienced six changes in prime minister between March 1998 and May 2000, as well as the unexpected resignation of former President Yeltsin on 31 December 1999 and the subsequent election of President Putin in March 2000. Although political stability has improved significantly since President Putin's election, the December 2003 State Duma elections resulted in the defeat of the opposition parties, such as the Communists, Yabloko, and the Union of Right Forces, and the election of a majority of pro-presidential and nationalist parties, such as United Russia, the Liberal Democratic Party, and Motherland. Some experts believe that this allocation of the State Duma seats will result in a lack of strong opposition to the President and render impossible the blocking of any governmental initiatives by the State Duma. President Putin himself was re-elected by a large margin in March 2004.

In February 2004, President Putin dismissed his entire cabinet, including Mikhail Kasyanov, the Prime Minister at the beginning of Mr. Putin's presidency, and appointed Mikhail Fradkov as Prime Minister. Shortly thereafter, a presidential decree reduced the number of ministries from 30 to fourteen and overhauled governmental structures, dividing the government into three levels: ministries, services and agencies. In addition to restructuring the Russian federal government, President Putin has implemented reforms under which the population no longer directly elects the governors of Russia's sub-federal units. Furthermore, President Putin has proposed eliminating single-member district elections for the State Duma, so that voters would only cast ballots for political parties.

Since June 2003, representatives of the Russian government have conducted tax investigations of the then largest Russian oil company, the Yukos Oil Company ("Yukos") and its subsidiaries, which has culminated in the arrest on criminal charges of some of the company's key shareholders, including Yukos's CEO Mikhail Khodorkovsky, and the subsequent freeze of a significant block of shares in the company. Some governmental representatives have also mentioned the possibility of Yukos' subsoil licences being re-examined. Some political analysts have interpreted these steps as part of a political struggle in the context of the 2003 and 2004 Duma and presidential elections. In June 2004, a court held Yukos liable for the non-payment of taxes for 2000 in the amount of approximately RUR99 billion. As a security measure for enforcement of the court judgment, Yukos's shares in its core production subsidiaries and Yukos's bank accounts were arrested, which resulted in significant disruptions in the business and effective management of the Yukos group. In December 2004, Yukos's core production subsidiary Yuganskneftegaz was sold at a significant discount to its market value to an affiliate of the 100 per cent. state-owned Rosneft oil company.

According to some commentators, these events have called into question the security of property and contractual rights and the independence of the judiciary in Russia, as well as raising concerns about the revision of tax and mineral resources legislation, the re-examination of Russia's past privatisations and the re-distribution of the assets involved.

Russia is a federation of 88 constituent entities comprising republics, territories, regions, autonomous districts, cities of federal importance and an autonomous area (from 1 January 2007, the number of the constituent entities will be further decreased by two). The delineation of authority among Russia's constituent entities as well as among the branches of government is often uncertain and at times contested. The Russian political system has in the past been vulnerable to tension and conflict between federal, regional and local autonomy. In an attempt to streamline coordination between levels of government, a law was passed in December 2004 whereby governors of constituent entities are no longer directly elected by the local population but are instead to be nominated by the President of Russia and approved by the legislature of the relevant constituent entity. This is likely to increase federal government control over regional and local authorities.

Lack of consensus among the federal, regional and local authorities often results in the enactment of conflicting legislation at various levels, and may result in political instability. This lack of consensus creates uncertainties in the operating environment in Russia, which may prevent B.I.N.BANK from carrying out its business strategy effectively and efficiently.

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 were engaged in Chechnya in 1994-96 and have maintained a presence there again since 1999. Groups associated with the Chechen rebels have committed various acts of terrorism in population centres within Russia, resulting in significant casualties and damage of property. In 2004, Russia suffered several terrorist attacks, including bombings in Moscow, the simultaneous destruction of two passenger jets and over 1,000 people being taken hostage in a school in Beslan, North Ossetia. As a result of these terrorist attacks, more than 500 people were killed. The spread of violence or its escalation may entail grave political consequences. In

particular, the Federal Constitutional Law “On Emergency” of 2001 provides under certain circumstances for the declaration of a state of emergency in Russia or in any part thereof, which could adversely impact its investment climate.

The presidential election scheduled for 2008 following the expiry of President Putin’s second term may trigger a new wave of potential instability in Russia.

These events could materially and adversely affect the investment environment and overall entrepreneurial confidence in Russia, which in turn could have a material adverse effect on B.I.N.BANK’s business, financial condition, results of operations or prospects.

### ***Economic Risks Could Adversely Affect the Value of Investments in Russia***

During the 1990s, at the same time as enacting political reforms, the Russian government attempted to implement economic reforms and stabilisation. These policies have involved liberalising prices, reducing defence expenditures and subsidies, privatising state-owned enterprises and reforming natural monopolies, reforming the tax and bankruptcy systems, and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment.

Despite these policies, until 1999, the Russian economy experienced, at various times, a decline in industrial production, significant inflation, an unstable but managed currency, rising unemployment and underemployment, high government debt relative to gross domestic product, high levels of corporate insolvency with little recourse to restructuring or liquidation in bankruptcy proceedings, a weak banking system providing limited liquidity to Russian enterprises, widespread tax evasion, high levels of corruption and the penetration of organised crime into the economy and the impoverishment of a large portion of the Russian population.

The Russian economy has suffered abrupt downturns. The events of 17 August 1998 – the Russian government’s default on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, the Central Bank’s abandonment of the Rouble currency band and a 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 of the country’s banking system, significant defaults on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities and an inability to raise funds on the international capital markets. While the Russian economy has improved significantly in several respects since 1998, there can be no assurance that recent trends in the Russian economy will continue or will not be reversed.

Although economic conditions in Russia have improved in the last few years, there is a lack of consensus as to the scope, content and pace of future economic and political reform. Economic reforms may not continue or succeed, Russia might not remain receptive to foreign trade and investment, and the economy in Russia might deteriorate, any of which could have a material adverse effect on the value of investments in Russia.

In addition, the physical infrastructure in Russia 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. The deterioration of the Russian physical infrastructure harms the economy, disrupts the transportation of goods and supplies, adds costs to doing business and can interrupt business operations. Further deterioration in the physical infrastructure could have a material adverse effect on the value of investments in Russia.

### ***Social Risks Could Adversely Affect the Value of Investments in Russia***

The political and economic changes in Russia since the early 1990s have resulted in reduced policing of society and increased lawlessness. Since the dissolution of the Soviet Union, significant criminal activity, including organised crime, has arisen, particularly in large metropolitan centres. Property crime in large cities has increased substantially. In addition, high levels of official corruption reportedly exist in locations where B.I.N.BANK conducts its business, including the bribing of officials for the purpose of initiating investigations by government agencies. Press reports have also described instances in which government officials engaged in selective investigations and prosecutions to further commercial interests of the government officials or certain individuals. Additionally, published reports indicate that a significant number of Russian media regularly publish slanted articles in return for payment. Corruption and other illegal activities could disrupt B.I.N.BANK’s ability to conduct its business effectively, and



claims that B.I.N.BANK was involved in such corruption or illegal activities could generate negative publicity, both of which might harm B.I.N.BANK's business and financial position.

In addition, the failure of the Russian government and of many private enterprises to pay full salaries regularly, and the failure of salaries and benefits generally to keep pace with the rapidly increasing cost of living, could lead to labour and social unrest, increased support for centralised authority and a rise in nationalism. For example, in 2005, Russian pensioners organised street protests against government proposals to monetise in-kind benefits. Such labour and social unrest may have consequences such as restrictions on foreign investment in Russian companies or large-scale nationalisation or expropriation of foreign-owned assets or businesses. Because courts have little experience in enforcing the protection of private property against nationalisation and expropriation, B.I.N.BANK might be unable to obtain judicial redress, and might not receive adequate compensation, if the Russian government were to nationalise or expropriate some or all of B.I.N.BANK's assets. Such unrest could also disrupt normal business operations, which also could materially adversely affect B.I.N.BANK's business and financial condition.

### ***Banking Activity Risks Could Affect the Value of Investments in Russia***

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

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

In addition, factors such as the limited liquidity in the Russian corporate securities market, the relatively small volume of buying and selling activities, unfavourable press coverage, market making and the use of practices forbidden in more developed securities markets could all negatively affect B.I.N.BANK's business.

### ***Legislative and Regulatory Reforms Effecting the Russian Banking Sector***

On 5 April 2005, the Russian government and the Central Bank issued their Joint Strategy for the Development of the Banking Sector of Russia (“**Joint Strategy**”) covering the period until 2008, which replaces the five-year strategy for banking reform in Russia issued in December 2001, and sets out an action plan for the facilitation of the development of the Russian banking sector in the medium-term (2005-2008).

The Joint Strategy outlines the objectives of the Russian banking sector reform. The main objective of the Joint Strategy is to increase the stability of the banking system. The other objectives of the Joint Strategy are to increase the protection of bank depositors and creditors, the competitiveness of Russian lending institutions and the transparency of banking activities.

The Joint Strategy plans for the implementation of the following measures:

- increasing the minimum bank charter capital to five million Euros (starting in 2007);
- increasing a bank's minimum total capital to risk-weighted assets ratio to 10 per cent. (starting in 2007);
- allowing increased participation by non-residents in the capital of Russian banks while maintaining restrictions on the establishment of foreign bank branches; and
- introducing a simplified procedure for the assignment of bank loans.

The Russian government has also recently announced plans to reform the state pension system. If successfully implemented, this reform is expected (i) to create a long-term Rouble funds market, (ii) to provide an opportunity for Russian banks to provide asset management services in relation to a certain

portion of pension funds and (iii) to allow Russian banks (in addition to Sberbank) to service the payment of pensions to individuals.

As a part of the Russian banking reform, the Federal Law “On Insuring Individuals’ Deposits in the Banks of the Russian Federation” No. 177-FZ (the “**Deposits Insurance Law**”) was passed by the State Duma on 23 December 2003, introducing rules regulating the insurance of individuals’ deposits placed with Russian banks. Russian retail banks are now required to satisfy certain qualification tests to be able to participate in the deposits insurance system and, more generally, to attract individuals’ deposits. On 29 December 2004, the Central Bank accepted B.I.N.BANK’s participation in the deposits insurance system.

Should B.I.N.BANK fail to comply with all of the requirements (including liquidity and financial reporting requirements) of the deposits insurance system for a period of three consecutive months, it would cease to be eligible to participate in the system and would as a result be precluded by the Central Bank from attracting deposits from, and opening accounts for, individuals.

Although the foregoing changes affecting the Russian banking sector are generally viewed as beneficial reforms to the Russian banking system, any delay in the implementation of, or failure to implement, such reforms may adversely impact Russian banks, including B.I.N.BANK, and in particular may inhibit such banks from expanding their businesses. In addition, although the implementation of a mandatory system of insuring deposits of individual customers may have the benefit of giving depositors more comfort that their funds will be protected against default or a further banking crisis, the deposits insurance premiums may (depending on their level) negatively impact net interest margins if the volume of additional deposits gained does not offset the additional expense of such premiums which Russian banks will be required to incur.

In April 2005, the Central Bank revised its system of mandatory economic ratios that Russian banks are required to observe. One of these ratios – current liquidity ratio N3 – requires that the liquid assets of a bank (including any financial assets realisable or receivable within 30 days) should be no less than 50 per cent. of the aggregate amount of such bank’s liabilities. Although this requirement is aimed at guarding against the lack of short-term liquidity in the Russian banking market, it also restricts the income-generating capacity of banks operating in Russia.

### ***Weaknesses of the Russian Legal System and Legislation***

Russia 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 B.I.N.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 Constitution of the Russian Federation, the Civil Code of the Russian Federation (the “**Civil Code**”) and other federal laws, and by decrees, orders and regulations issued by the President of Russia, the Russian government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There may be inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion. There is a risk that the state may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and limited precedential value of judicial decisions;
- Russia has a judiciary with limited experience in interpreting and applying market oriented legislation and which is vulnerable to economic and political influence; and

- Russia 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 Russia remains largely untested. The court system is understaffed and underfunded. Judges and courts in Russia are generally inexperienced in the area of business and corporate law. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. B.I.N.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 Actions***

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 common defects in matters surrounding documentation of financing activities 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 B.I.N.BANK, could have a material adverse effect on its business, financial condition, results of operations or prospects.

#### ***Difficulty in Enforcing B.I.N.BANK's Rights in Russia***

The current status of the Russian legal system makes it uncertain whether B.I.N.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 Russia has resulted in inconsistent or contradictory regulations and unpredictable enforcement. The Russian 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 in the future. B.I.N.BANK's ability to operate in Russia 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.

Enforcement of court orders can in practice be very difficult in Russia. Additionally, court orders are not always enforced or followed by law enforcement agencies.

#### ***Foreign Court Judgments and Arbitral Awards May Not Be Enforceable Against B.I.N.BANK***

Russia is not a party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgments. Consequently, should a judgment be obtained from a court in any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. However, Russia (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Notes, the Loan Agreement and other issue documents contain a provision allowing for the arbitration of disputes. A foreign arbitral award obtained in a state, which is party to that Convention should be recognised and enforced by a Russian court (subject to the qualifications provided for in the Convention and compliance with Russian civil procedure regulations and other procedures and requirements established by Russian legislation). Although the 2002 Arbitrazh Procedural Code of the Russian Federation is generally in conformity with the Convention and thus has not introduced any substantial changes in the grounds for refusal of recognition of foreign arbitral awards and court judgments which may be issued in relation to payments under the Notes or the Loan Agreement, in the event that Russian procedural legislation is further changed, it may introduce new grounds preventing foreign court judgments and arbitral awards from being recognised and enforced in Russia. New procedures introduced by the Arbitration Procedural Code are still to be tested in the courts. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgment or any foreign arbitral award in Russia.

### ***Exchange Rates, Exchange Controls and Repatriation Restrictions Could Adversely Affect the Value of Investments in Russia***

Since 2000, the Rouble has been stable relative to the U.S. Dollar, unlike in the period immediately following the crisis of August 1998, when the Rouble experienced significant depreciation relative to the U.S. Dollar.

The ability of the Russian government and the Central Bank to maintain low volatility of the Rouble, which has been achieved in recent years, depends on many political and economic factors, including their ability to control inflation and the availability of foreign currency.

The Rouble is not convertible outside Russia. A market exists within Russia for the conversion of Roubles into other currencies, but it is limited in size and is subject to rules governing such conversion. There can be no assurance that a relatively stable market will continue indefinitely and a lack of growth of this market may hamper the development of B.I.N.BANK's business and the businesses of its clients. Moreover, the Russian banking system is not as developed as its Western counterparts, and considerable delays may occur in the transfer of funds within, and the remittance of funds out of, Russia.

Furthermore, although the Russian government currently allows foreign investors to repatriate profits earned in Roubles, it could place restrictions on such repatriation. Any such restrictions on convertibility of the Rouble or repatriation of profits could adversely affect the value of investments in Russia, including the Notes.

### ***Taxation***

Taxes payable by Russian companies are substantial and include (without limitation) value added tax, profit taxes, payroll-related taxes, property taxes and excise duties.

Russian tax laws and regulations are subject to frequent change, varying interpretation and inconsistent enforcement. In some instances, even though unlawfully, Russian tax authorities apply taxes retrospectively, issue tax claims for periods which, under the statute of limitations, have expired and review the same tax periods on multiple occasions. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. Most Russian tax laws, such as the Tax Code of the Russian Federation (the "**Tax Code**"), have been in force for a relatively short period of time (compared to tax laws in more developed market economies), and the Russian government's implementation of these tax laws is often unclear or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the Russian government and within the Russian government ministries and organisations, such as the former Ministry of Taxes and Duties (the functions of which have since 2004 been divided between the Federal Tax Service and the Ministry of Finance) and its various inspectorates, creating uncertainties and areas of conflict. Generally, tax declarations remain open and subject to inspection by tax authorities for a period of three years following the relevant tax year. The fact that a year has been reviewed by tax authorities does not preclude the tax authorities from carrying out further review of that year, or any tax declaration applicable to that year, during the three-year period. In addition, on 14 July 2005 the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three year term set forth in the tax laws if a court determines that the tax payer has obstructed or hindered a tax inspection. Because none of the relevant terms has been defined in the court practice or in the legislation, the tax authorities may have broad discretion to argue that a tax payer has "obstructed or hindered" an inspection and ultimately seek penalties beyond the three year term. In addition, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose B.I.N.BANK to significant fines and penalties and to enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden.

Until the adoption of the Tax Code, the system of tax collection was relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise state revenues. There can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system. These factors, plus the potential for state budget deficits, raise the risk of a sudden imposition of additional taxes which could adversely affect B.I.N.BANK.

The Russian tax system has been subject to continuous revision in the course of the past few years with the intention, in general, to reduce the number of taxes and the overall tax burden on businesses and to simplify the tax laws. However, the revised tax system relies heavily on the judgments of local tax officials and fails to address many of the existing problems. Local tax officials have recently made a number of



material tax claims against major Russian companies. Even if further reforms to tax legislation are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Moreover, these reforms may introduce additional tax collection measures. Accordingly, B.I.N.BANK may have to pay significantly higher taxes, which could lead to a material adverse impact on B.I.N.BANK's business.

B.I.N.BANK expects that Russian tax legislation will become more sophisticated, resulting in the introduction of additional revenue raising measures. Although it is unclear how these measures would operate, the introduction of these measures may affect B.I.N.BANK's overall tax efficiency and may result in significant additional taxes becoming payable. B.I.N.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 B.I.N.BANK's business, financial condition, results of operations or prospects.

### ***Corporate Governance and Disclosure***

The corporate affairs of B.I.N.BANK are regulated by the laws governing companies incorporated in Russia and by B.I.N.BANK's charter. The rights of shareholders and the responsibilities of members of the Board of Directors and the Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and certain other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom and certain other countries is to promote the full and fair disclosure of all material corporate information to the public. B.I.N.BANK is subject to Russian law requirements, which oblige it to publish, among other things, annual financial statements and information on material events relating to B.I.N.BANK (such as major acquisitions and increases in charter capital). However, there is less available information, public or otherwise, about B.I.N.BANK, than the information regularly published by or about listed companies in the United States, the United Kingdom or certain other jurisdictions.

### ***Lack of Reliable Official Data***

Official statistics and other data published by Russian federal, regional and local governments and agencies are substantially less complete and reliable than those of Western countries. Official statistics may also be produced using different methodologies than those used in Western countries. Any discussion of matters relating to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of the available official and public information.

The veracity of some official data released by the Russian government may be questionable. In the summer of 1998, the Director of the Russian State Committee on Statistics and several of his subordinates were arrested and charged in connection with misuse of economic data.

### **Risks Relating to Taxation of the Loan and the Notes**

#### ***Payments on the Loan May Become Subject to 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, B.I.N.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 Russia and the Grand Duchy of Luxembourg. 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 Luxembourg withholding tax, B.I.N.BANK will be obliged to increase the amounts payable as may be necessary to ensure that the recipient receives a net amount equal to the amount it would have received in the absence of such withholding taxes. In addition, payments in respect of the Notes will be made without deduction or withholding for or on account of Luxembourg taxes except as required by law. Based on professional advice, B.I.N.BANK believes that payments in respect of the Notes will only be subject to deduction or withholding for or on account of Luxembourg taxes as described in "*Taxation – Luxembourg Taxation*". 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 B.I.N.BANK under the Loan Agreement. While the Loan Agreement provides for B.I.N.BANK to pay such corresponding amounts in these circumstances, there are 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 B.I.N.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 B.I.N.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 B.I.N.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 B.I.N.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 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 B.I.N.BANK to the Trustee may 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 non-resident in Russia for tax purposes). 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 the Grand Duchy of Luxembourg 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 the Grand Duchy of Luxembourg) 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 B.I.N.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 the Grand Duchy of Luxembourg). 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 B.I.N.BANK to gross-up payments will be enforceable in Russia. If, in the case of litigation in Russia, 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 B.I.N.BANK under the Loan Agreement will be reduced by Russian income tax withheld by B.I.N.BANK at a rate of 20 per cent.

#### ***A Non-Resident Noteholder’s Disposal of the Notes in Russia May Be Subject to Russian Withholding Tax***

If a non-resident Noteholder that is a legal person or organisation disposes of the Notes and receives proceeds from a source within Russia, the part of the payment, if any, representing accrued interest may be subject to the Russian 20 per cent. withholding tax. If a non-resident Noteholder who is an individual disposes of the Notes and receives proceeds from a Russian source, such proceeds less any available cost deduction may be subject to a Russian 30 per cent. income tax that may be effected by way of withholding. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “*Taxation*” below.

#### **Risks Relating to the Loan, the Notes and the Trading Market**

##### ***B.I.N.BANK May Prepay the Loan, and the Issuer May Redeem the Notes Early, if Withholding Tax Becomes Payable***

B.I.N.BANK may prepay the Loan at its principal amount, in whole but not in part, together with accrued interest, if:

- B.I.N.BANK or the Issuer are required to deduct or withhold any such Russian or Luxembourg taxes from payments they make in respect of the Loan or the Notes;
- following enforcement of the security created in the Trust Deed, if the Trustee is required to deduct or withhold any Russian taxes or taxes of the jurisdiction in which the Trustee is then domiciled; or
- it becomes illegal for the Notes or the Loan to remain outstanding.

Upon such occurrence, the Issuer will, subject to the receipt of the relevant funds from B.I.N.BANK, prepay the principal amount of all Notes outstanding, together with accrued interest. See “*Loan Agreement – Repayment and Prepayment*”, “*Loan Agreement – Payments*”, “*Terms and Conditions of the Notes – Redemption and Purchase*”, “*Terms and Conditions of the Notes – Taxation*” and “*Taxation – Russian Taxation*”.

### ***Credit Rating***

Outstanding eurobonds of Russia have received a rating of “Baa3” from Moody’s, “BBB-” (outlook positive) from Standard & Poor’s and “BBB-” (outlook stable) from Fitch. B.I.N.BANK currently has the following ratings:

- *Fitch*: long-term and short-term ratings of “B-” and “B”, respectively, with a stable outlook and an individual national long-term rating of “BB(rus)”;
- *Standard & Poor’s*: long-term and short-term ratings of “B-” and “C”, respectively, with a stable outlook and an individual national long-term rating of “ruBBB-”.

A change in the credit rating of any of Russia or B.I.N.BANK could adversely affect the trading price for the Notes. See “*Risk Factors – Risks Relating to Russia*” above. A change in the credit rating of one or more corporate Russian borrowers could also adversely affect the trading price for the Notes.

A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the assigning rating organisation.

### ***Limited Recourse of the Noteholders to the Issuer***

The Issuer has an obligation under the Trust Deed to pay to the Noteholders an amount equal to principal, interest, and any additional amounts actually received by or for account of the Issuer under the Loan Agreement less any amounts in respect of the Reserved Rights. Consequently, if B.I.N.BANK fails to meet its payment obligations under the Loan Agreement in full, Noteholders will receive less than the scheduled amount of principal, interest and any additional amounts on the relevant due date.

### ***No Direct Recourse of the Noteholders to B.I.N.BANK***

Except as otherwise expressly provided in the Terms and Conditions of the Notes and in the Trust Deed, the Noteholders have no proprietary or other direct interest in the Issuer’s rights arising under the Loan Agreement.

Subject to the terms of the Trust Deed, no Noteholder can enforce any provision of the Loan Agreement or have direct recourse to B.I.N.BANK as borrower, except through action by the Trustee pursuant to the Security Interests (as defined in the Terms and Conditions of the Notes).

Neither the Issuer, nor the Trustee pursuant to the Assigned Rights (as defined in the Trust Deed) shall be required to monitor B.I.N.BANK’s financial performance or status, or to enter into proceedings to enforce payment 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 that may be incurred by it in connection therewith.

### ***No Existing Market for the Notes; Market Price of the Notes May Be Volatile***

There is no existing market for the Notes. B.I.N.BANK has applied to admit the Notes to listing on the Official List of the UK Listing Authority and to trading on the Regulated Market of the London Stock Exchange. However, an active trading market for the Notes may not develop, or if one does develop, it may not be maintained, each of which could adversely affect the market price and liquidity of the Notes. In addition, the exercise by certain Noteholders of their put option in accordance with the terms and conditions of the Notes may affect the liquidity of any outstanding Notes in respect of which such put option has not been exercised.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the operating results of B.I.N.BANK’s competitors, adverse business developments, changes to the regulatory environment in which B.I.N.BANK operates, changes in financial estimates by securities analysts, the actual or anticipated sale of a large number of Notes and other factors, including those set forth in “*Risk Factors*”. Historically, prices for non-investment grade debt securities, such as the Notes, have experienced substantial volatility. In addition, in recent years, the

global financial markets have experienced significant price and volume fluctuations that, if repeated in the future, could adversely affect the price of the Notes without regard to our results of operations, prospects or financial condition.

#### ***Noteholders' Claims May Be Subordinated to Other Creditors under Russian Insolvency Legislation***

The most recent Law on Insolvency (Bankruptcy) entered into force in late 2002. The relevant amendments to the Law on Insolvency (Bankruptcy) of Credit Organisations came into force in late 2004. As a result of limited court practice it is not possible to predict with certainty how claims of the Lender and/or the Trustee under the Loan Agreement against B.I.N.BANK would be resolved in case of B.I.N.BANK's bankruptcy. Under the new Law on Insolvency (Bankruptcy) and Law on Insolvency (Bankruptcy) of Credit Organisations, unsecured creditors' claims are generally subordinated to current liabilities (i.e., claims which arose after the initiation of bankruptcy proceedings and costs related to bankruptcy litigation) and the following claims ("**Priority Claims**"):

- claims in tort;
- claims of retail depositors and individuals holding current accounts with the insolvent bank;
- claims of the Agency for Insurance of Retail Deposits in respect of bank deposits and bank accounts transferred to it pursuant to the Retail Deposits Insurance Law;
- claims of the Central Bank transferred to it pursuant to applicable legislation in the event that the Central Bank 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; and
- claims under employment contracts and other social benefits and copyright claims.

Additionally, under the Law on Insolvency (Bankruptcy) of Credit Organisations proceeds from the sale of pledged assets are used to satisfy the claims of secured creditors in priority of other creditors, except for Priority Claims. Any claims of secured creditors that remain unsatisfied after the sale of the pledged assets rank *pari passu* with claims of unsecured creditors.

Generally, under the Law on Insolvency (Bankruptcy), taxes and other payment obligations to the Russian government rank *pari passu* with the claims of unsecured creditors. These provisions, however, contradict the Civil Code, and their application remains untested.

In the event of the insolvency of B.I.N.BANK, the existence of Priority Claims and secured claims may substantially decrease the amount of funds and assets that may be applied for making payments under the Loan, as could uncertainties surrounding Russian insolvency laws. In general, Russian bankruptcy laws often differ from bankruptcy laws in Western countries and are subject to varying interpretations. Little precedent exists to predict how a Russian court would resolve any claims by the Lender, the Trustee or the Noteholders against B.I.N.BANK to recover sums owed by B.I.N.BANK under the Loan Agreement in the event of B.I.N.BANK's insolvency.

#### **Luxembourg Insolvency Code**

The Issuer could be declared bankrupt upon petition by a creditor of the Issuer or at the initiative of a court or at the request of the Issuer in accordance with the relevant provisions of Luxembourg insolvency law. If such a petition or request were granted, the Luxembourg courts would appoint a bankruptcy trustee (*curateur*) who would be obliged to take such action as he deems to be in the best interest of the Issuer and of all creditors of the Issuer. Certain preferred creditors of the Issuer (including the Luxembourg tax authorities) may have a privilege that ranks senior to the rights of the holders of the Notes and as such, the Noteholders may not receive all of the sums due to them under the Notes in such circumstances. To mitigate the risk of potential preferred creditors, the Issuer will provide the Trustee with the benefit of covenants restricting the creation of further indebtedness and restricting its activities generally to those specified in the Trust Deed and described generally in this Prospectus. Other insolvency proceedings under Luxembourg law include controlled management, moratorium of payments (*gestion contrôlée et sursis de paiement*) of the Issuer, composition proceedings (*concordat*) and judicial liquidation proceedings (*liquidation judiciaire*).



## CAPITALISATION AND INDEBTEDNESS OF B.I.N.BANK

The following table sets forth (i) B.I.N.BANK's capitalisation and indebtedness as of 31 December 2005 and (ii) such capitalisation and indebtedness as adjusted to reflect B.I.N.BANK's borrowing under the Loan Agreement. This information should be read in conjunction with "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations of B.I.N.BANK" and the B.I.N.BANK Financial Statements included elsewhere in this Prospectus.

	As of 31 December 2005	
	(Actual)	(As adjusted)
	<i>(in RUR thousands)</i>	
<b>Equity</b>		
Share capital.....	4,959,052	4,959,052
Share premium .....	2,500,594	2,500,594
Accumulated deficit .....	(1,063,991)	(1,063,991)
Equity attributable to equity holders of the parent .....	6,395,655	6,395,655
<b>Total equity</b> .....	<b>6,779,351</b>	<b>6,779,351</b>
<b>Liabilities</b> <sup>(1)(2)</sup>		
Deposits of banks.....	1,366,212	1,366,212
Customer accounts.....	27,072,411	27,072,411
Debt securities issued .....	2,581,112	2,581,112
Provisions.....	22,086	22,086
Other liabilities.....	6,209	6,209
Loan Agreement .....	–	5,756,500
<b>Total liabilities</b> .....	<b>31,048,030</b>	36,804,530
<b>Total liabilities and equity</b> .....	<b>37,827,381</b>	43,583,881

(1) B.I.N.BANK's promissory note funding increased in 2006, primarily due to the issuance by B.I.N.BANK of additional Rouble denominated promissory notes freely tradable on the Russian market. B.I.N.BANK's issue of such promissory notes reduced its cost of funding from 11 per cent. to a range of 9.5 per cent. to 10.3 per cent. The net increase in B.I.N.BANK's promissory note portfolio was RUR1.4 billion as of 5 April 2006, as compared to 31 December 2005.

(2) In April 2006, B.I.N.BANK entered into a U.S.\$40 million syndicated facility agreement. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations of B.I.N.BANK – Subsequent Events".

Since 31 December 2005, there has been no material change in B.I.N.BANK's capitalisation and indebtedness, except as noted above.

## SELECTED FINANCIAL INFORMATION OF B.I.N.BANK

The following tables present selected financial information of B.I.N.BANK which has been extracted without material adjustment from and should be read in conjunction with the B.I.N.BANK Financial Statements and the notes thereto included elsewhere in this Prospectus, as well as the sections entitled “*Capitalisation and Indebtedness of B.I.N.BANK*” and “*Management’s Discussion and Analysis of Financial Condition and Results of Operations of B.I.N.BANK*”.

Solely for the convenience of the reader, translations of the corresponding 2005 Rouble amounts into U.S. Dollars was at a conversion rate of RUR28.7825 to U.S.\$1, which was the official exchange rate quoted by the Cental Bank on 31 December 2005.

### B.I.N.BANK Income Statements Data

	Years ended 31 December			
	2005	2005	2004	2003
	<i>(in U.S.\$ thousands)</i>	<i>(in RUR thousands)</i>		<b>(Restated)</b>
			<b>(Restated)</b>	<b>(Restated)</b>
Interest income .....	118,821	3,419,961	2,322,283	457,350
Interest expense.....	(72,129)	(2,076,040)	(1,141,078)	(851,555)
<b>Net interest income before provision for impairment losses .</b>	<b>46,692</b>	<b>1,343,921</b>	<b>1,181,205</b>	<b>605,795</b>
Provision for losses on interest-bearing assets .....	(8,281)	(238,349)	(178,454)	(5,439)
<b>Net interest income</b> .....	<b>38,411</b>	<b>1,105,572</b>	<b>1,002,751</b>	<b>600,356</b>
Net gain on assets held-for-trading .....	1,569	45,153	82,160	11,109
Net gain on foreign exchange operations .....	11,823	340,289	125,096	114,720
Fee and commission income .....	22,120	636,667	462,097	189,854
Fee and commission expense .....	(2,735)	(78,716)	(45,635)	(31,641)
Other income .....	1,733	49,877	37,013	27,104
<b>Net non-interest income</b> .....	<b>34,509</b>	<b>993,269</b>	<b>660,731</b>	<b>311,146</b>
<b>Operating income</b> .....	<b>72,921</b>	<b>2,098,842</b>	<b>1,663,482</b>	<b>911,502</b>
<b>Operating expenses</b> .....	<b>60,895</b>	<b>(1,752,714)</b>	<b>(1,334,401)</b>	<b>(873,298)</b>
<b>Operating profit</b> .....	<b>12,026</b>	<b>346,128</b>	<b>329,081</b>	<b>38,204</b>
Recovery of other provisions .....	769	22,138	1,730	34,175
<b>Profit before income tax</b>	<b>12,795</b>	<b>368,266</b>	<b>330,811</b>	<b>72,379</b>
Income tax expense .....	(3,549)	(102,157)	(50,077)	(41,171)
<b>Profit before expense from discontinued operations and disposal of subsidiaries</b> .....	<b>9,246</b>	<b>266,109</b>	<b>280,734</b>	<b>31,208</b>
(Expense)/Income from discontinued operations .....	-	-	(1,494)	15,034
Loss on disposal of subsidiaries .....	-	-	(17,511)	-
<b>Net profit</b> .....	<b>9,246</b>	<b>266,109</b>	<b>261,729</b>	<b>46,242</b>

**B.I.N.BANK Balance Sheets Data**

	<b>As of 31 December</b>			
	<b>2005</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>(in U.S.\$ thousands)</i>	<i>(in RUR thousands)</i>		
	<i>(Restated)</i>		<i>(Restated)</i>	
<b>ASSETS</b>				
Cash and balances with the Central Bank .....	116,820	3,362,359	3,633,616	3,342,783
Precious metals .....	865	24,899	25,351	7,448
Assets held-for-trading .....	30,341	873,280	1,184,880	154,958
Loans and advances to banks, less allowance for impairment losses .....	342,698	9,863,716	1,343,592	800,067
Loans to customers, less allowance for impairment losses ...	811,226	23,349,111	16,323,357	12,904,863
Investments available-for-sale .....	365	10,500	10,689	12,953
Fixed assets, less accumulated depreciation .....	9,090	261,633	248,030	265,125
Assets of discontinued operations .....	-	-	-	337,423
Current income tax assets .....	587	16,881	34,517	17,859
Other assets .....	2,258	65,002	14,769	53,878
<b>Total assets .....</b>	<b>1,314,250</b>	<b>37,827,381</b>	<b>22,818,801</b>	<b>17,897,357</b>
<b>LIABILITIES AND EQUITY:</b>				
<b>Liabilities</b>				
Deposits of banks .....	47,467	1,366,212	1,257,157	357,494
Customer accounts .....	940,586	27,072,411	15,911,085	12,345,516
Debt securities issued .....	89,676	2,581,112	1,812,140	1,538,228
Liabilities of discontinued operations .....	-	-	-	403,313
Provisions .....	767	22,086	44,224	45,954
Other liabilities .....	216	6,209	17,668	34,331
<b>Total liabilities .....</b>	<b>1,078,712</b>	<b>31,048,030</b>	<b>19,042,274</b>	<b>14,724,836</b>
<b>Equity</b>				
Share capital .....	172,294	4,959,052	3,584,052	3,584,052
Share premium .....	86,879	2,500,594	1,125,594	1,125,594
Accumulated deficit .....	(36,967)	(1,063,991)	(1,312,528)	(1,577,466)
Equity attributable to equity holders of the parent .....	222,206	6,395,655	3,397,118	3,132,180
Minority interest .....	13,332	383,696	379,139	40,341
<b>Total equity .....</b>	<b>235,538</b>	<b>6,779,351</b>	<b>3,776,527</b>	<b>3,172,521</b>
<b>Total liabilities and equity .....</b>	<b>1,314,250</b>	<b>37,827,381</b>	<b>22,818,801</b>	<b>17,897,357</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF B.I.N.BANK

*The following discussion and analysis of the financial condition and results of operations of B.I.N.BANK covers the years ended 31 December 2005, 2004 and 2003. Unless otherwise specified, the financial information presented in this discussion has been extracted or derived without material adjustments from the B.I.N.BANK Financial Statements. This section should be read in conjunction with the B.I.N.BANK Financial Statements and the notes thereto and the other financial information included elsewhere in this 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".*

*Solely for the convenience of the reader, translations of the corresponding 2005, 2004 and 2003 Rouble amounts into U.S. Dollars were calculated at a conversion rate of RUR28.7825 to U.S.\$1, which was the official exchange rate quoted by the Central Bank on 31 December 2005.*

### **Overview**

The principal business activity of B.I.N.BANK is providing corporate and retail banking services to state-owned and private commercial enterprises. As of 31 December 2005, B.I.N.BANK had over 15,900 corporate and over 85,000 private customers. Interest income represented the largest source of B.I.N.BANK's revenue for the years ended 31 December 2005, 2004 and 2003. As of 31 December 2005, corporate loans represented 92.1 per cent. of B.I.N.BANK's loans to customers less accrued interest income (gross of allowance for impairment losses), with the largest category within the corporate loan portfolio being companies operating in commercial real estate and oil sectors, and loans to individuals represented 7.9 per cent. of loans to customers less accrued interest income (gross of allowance for impairment losses). Corporate loans and loans to individuals represented 97.3 per cent. and 2.7 per cent. of B.I.N.BANK's loans to customers less accrued interest income (gross of allowance for impairment losses), respectively, as of 31 December 2004 and 97.2 per cent. and 2.8 per cent., respectively, as of 31 December 2003.

For the year ended 31 December 2005, B.I.N.BANK recorded net interest income of RUR1,105.6 million (U.S.\$38.4 million), net non-interest income of RUR993.3 million (U.S.\$34.5 million) and net profit of RUR266.1 million (U.S.\$9.2 million), compared with net interest income of RUR1,002.8 million (U.S.\$34.84 million), net non-interest income of RUR660.7 million (U.S.\$22.95 million) and net profit of RUR261.7 million (U.S.\$9.09 million) for the year ended 31 December 2004. For the year ended 31 December 2003, B.I.N.BANK recorded net interest income of RUR600.4 million (U.S.\$20.85 million), net non-interest income of RUR311.1 million (U.S.\$10.8 million) and net profit of RUR46.2 million (U.S.\$1.6 million).

As of 31 December 2005, B.I.N.BANK had total assets of RUR37,827.4 million (U.S.\$1,314.2 million) and loans to customers (less allowance for impairment losses) of RUR23,349.1 million (U.S.\$811.2 million), as compared to RUR22,818.8 million (U.S.\$792.8 million) and RUR16,323.4 million (U.S.\$567.1 million), respectively, as of 31 December 2004, and as compared to RUR17,897.4 million (U.S.\$621.8 million) and RUR12,904.9 million (U.S.\$448.4 million), respectively, as of 31 December 2003.

### **Risk Management and Other Significant Factors Affecting Results of Operations**

Management of risks arising from financial assets is fundamental to B.I.N.BANK's business and is an essential element of B.I.N.BANK's operations. The major risks faced by B.I.N.BANK are those related to credit exposures, liquidity and movements in interest rates and foreign exchange rates. These risks are managed in the following manner:

#### ***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. B.I.N.BANK has developed policies and procedures for the management of credit risk, including guidelines to limit the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry (and geographical) segments and the establishment of credit committees, which actively monitor B.I.N.BANK's credit risk.

### ***Cash flow interest rate risk***

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The majority of B.I.N.BANK's loan agreements and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. B.I.N.BANK monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The assets and liabilities management committee also manages interest rate and market risks by matching B.I.N.BANK's interest rate position, which provides B.I.N.BANK with a positive interest margin. The financial department conducts monitoring of B.I.N.BANK's current financial performance and estimates B.I.N.BANK's sensitivity to changes in interest rates and their influence on B.I.N.BANK's profitability.

### ***Liquidity risk***

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

B.I.N.BANK's assets and liabilities management committee controls liquidity risk by means of maturity analysis, determining B.I.N.BANK's strategy for the next financial period. Current liquidity is managed by the treasury department, which deals in the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, B.I.N.BANK performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

### ***Currency risk***

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. B.I.N.BANK is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

B.I.N.BANK's assets and liabilities management committee controls currency risk by managing B.I.N.BANK's open currency position on the estimated basis of Rouble devaluation and other macroeconomic indicators, which gives B.I.N.BANK an opportunity to minimise losses from significant currency rates fluctuations toward its national currency.

The treasury department monitors, on a daily basis, B.I.N.BANK's open currency position with an aim to match the requirements of the Central Bank.

### ***Taxation contingencies***

The taxation system in Russia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. Furthermore, tax years remain open for review by the tax authorities for three years, and on some practical occasions in the past this three year period has been extended by the authorities to earlier years. These facts may create tax risks in Russia substantially more significant than in other countries. The management of B.I.N.BANK believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations.

### **Key Accounting Policies**

B.I.N.BANK's financial condition and results of operations presented in its financial statements and notes to its financial statements, selected statistical and other information appearing elsewhere in this Prospectus are, to a large degree, dependent upon B.I.N.BANK's accounting policies which in some cases involve a significant amount of management discretion. B.I.N.BANK's significant accounting policies are described in Note 3 to the B.I.N.BANK Financial Statements on pages F-12 to F-19 of this Prospectus.

B.I.N.BANK has identified the following accounting policies that it believes are the most important to an understanding of its results of operations and financial condition.

### ***Allowance for impairment losses***

B.I.N.BANK establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment is recognised, the previously recognised impairment loss is reversed by an adjusted allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed. The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of B.I.N.BANK's management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that B.I.N.BANK considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods B.I.N.BANK may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of B.I.N.BANK's management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

### ***Income and expense recognition***

Interest income and interest expenses are recognised in the statement of income as they accrue, taking into account the effective interest rate. Interest income and interest expenses include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fee and commission income is recognised when the corresponding service is provided. Loan servicing fees and other fees that are considered to be integral to the overall profitability of the loan together with the related direct costs are deferred and recognised as an adjustment to the effective interest rate.

### ***Taxation***

Income tax expense represents the sum of current and deferred tax expenses. Current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. B.I.N.BANK's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Russia also has various other taxes, which are assessed on B.I.N.BANK's activities. These taxes are included as a component of operating expenses in the consolidated income statement.



## Results of operations for the years ended 31 December 2005, 2004 and 2003

The following tables set out B.I.N.BANK's net income and the principal components thereof for the years ended 31 December 2005, 2004 and 2003.

	Year ended 31 December		
	2005	2004	2003
		(Restated)	(Restated)
	<i>(in RUR thousands)</i>		
Interest income .....	3,419,916	2,322,283	1,457,350
Interest expense .....	(2,076,040)	(1,141,078)	(851,555)
<b>Net interest income before provision for impairment losses on interest bearing assets</b> .....	<b>1,343,921</b>	<b>1,181,205</b>	<b>605,795</b>
Provision for impairment losses on interest bearing assets .....	(238,349)	(178,454)	(5,349)
<b>Net interest income</b> .....	<b>1,105,572</b>	<b>1,002,751</b>	<b>600,356</b>
Net gain on assets held-for-trading .....	45,153	82,160	11,109
Net gain on foreign exchange operations .....	340,289	125,096	114,720
Fee and commission income .....	636,667	462,097	189,854
Fee and commission expense .....	(78,716)	(45,635)	(31,641)
Other income .....	49,877	37,013	27,104
<b>Net non-interest income</b> .....	<b>993,269</b>	<b>660,731</b>	<b>311,146</b>
<b>Operating income</b> .....	<b>2,098,841</b>	<b>1,663,482</b>	<b>911,502</b>
<b>Operating expenses</b> .....	<b>(1,752,714)</b>	<b>(1,334,401)</b>	<b>(873,298)</b>
Operating profit .....	<b>346,128</b>	<b>329,081</b>	<b>38,204</b>
Recovery of other provisions .....	22,138	1,730	34,175
<b>Profit before income tax</b> .....	<b>368,266</b>	<b>330,811</b>	<b>72,379</b>
Income tax expense .....	(102,157)	(50,077)	(41,171)
<b>Profit before expense from discontinued operations and disposal of subsidiaries</b> .....	<b>266,109</b>	<b>280,734</b>	<b>31,208</b>
(Expense)/Income from discontinuing operations .....	–	(1,494)	15,034
Loss on disposal of subsidiaries .....	–	(17,511)	–
<b>Net profit</b> .....	<b>266,109</b>	<b>261,729</b>	<b>46,242</b>
Attributable to: .....			
Equity holders of the parent .....	248,267	258,473	41,979
Minority interest .....	17,842	3,256	4,263

The following table summarises B.I.N.BANK's, interest income, interest expense and total assets as of the dates indicated:

	Years ended 31 December		
	2005	2004	2003
		(Restated)	(Restated)
	<i>(in RUR thousands)</i>		
Interest income .....	3,419,961	2,322,283	1,457,350
Interest expense .....	(2,076,040)	(1,141,078)	(851,555)
Total assets .....	<u>37,827,381</u>	<u>22,818,801</u>	<u>17,897,357</u>



## Year ended 31 December 2005 compared to year ended 31 December 2004

### Net interest income

For the year ended 31 December 2005, interest income was RUR3,420 million (U.S.\$118.9 million), an increase of 47.3 per cent. compared to RUR2,322.3 million (U.S.\$80.7 million) for the year ended 31 December 2004. This increase was primarily attributable to growth in B.I.N.BANK's loans and advances to banks (gross of allowance for impairment losses) as well as to growth in B.I.N.BANK's loans to customers (gross of allowance for impairment losses), which grew by 42.5 per cent. (or 85.5 per cent including loans and advances to banks (gross of allowance for impairment losses)) for the same period. As of 31 December 2005, loans to customers (less allowance for impairment losses) amounted to RUR23,349.1 million (U.S.\$811.2 million) as compared to RUR16,323.4 million (U.S.\$567.1 million) as of 31 December 2004. The bulk of interest income derives from B.I.N.BANK's corporate lending activities. In addition, interest income also comprises interest earned on debt and other fixed income instruments held by B.I.N.BANK and interest income from banks and other financial institutions that have borrowed funds from B.I.N.BANK. B.I.N.BANK's average margin has decreased from 5 per cent. to 3.85 per cent. during the last three years primarily due to increasing competition in the Russian banking market. See "Risk Factors – B.I.N.BANK Faces Competition From Russian and Foreign Banks".

The following table sets out the principal components of B.I.N.BANK's interest income for the years ended 31 December 2005 and 2004.

	Years ended 31 December	
	2005	2004
	<i>(in RUR thousands)</i>	
Interest on loans to customers .....	2,633,317	2,458,655
Interest on loans and advances to banks.....	648,078	71,031
Interest on debt securities.....	79,115	51,638
Interest on reverse repurchase transactions.....	1,186	–
Amortisation of/(discount) of loans to customers.....	58,265	(259,041)
<b>Total interest income.....</b>	<b>3,419,961</b>	<b>2,322,283</b>

### Interest Expense

For the year ended 31 December 2005, B.I.N.BANK's interest expense was RUR2,076 million (U.S.\$72.1 million), an increase of 81.9 per cent. compared with interest expense of RUR1,141.1 million (U.S.\$39.6 million) for the year ended 31 December 2004. This increase was primarily attributable to growth in B.I.N.BANK's deposit base.

In addition, B.I.N.BANK recorded the provision for impairment losses on interest bearing assets which amounted to RUR238.3 million (U.S.\$8.3 million) for the year ended 31 December 2005 as compared to the provision for impairment losses on interest bearing assets of RUR178.5 million (U.S.\$6.2 million) for the year ended 31 December 2004, reflecting the significant increase in the size of B.I.N.BANK's loan portfolio.

As a result of foregoing, for the year ended 31 December 2005, B.I.N.BANK's net interest income was RUR1,105.6 million (U.S.\$38.4 million) compared with net interest income of RUR1,002.8 million (U.S.\$34.8 million) for the year ended 31 December 2004, an increase of 10.3 per cent.

### Net non-interest income

Net non-interest income amounted to RUR993.3 million (U.S.\$34.5 million) for the year ended 31 December 2005, compared to RUR660.7 million (U.S.\$23 million) for the year ended 31 December 2004. This 50.3 per cent. increase in non-interest income was primarily due to an increase in net fee and commission income as a result of an increase in B.I.N.BANK's customer base.

B.I.N.BANK's fee and commission income was RUR636.7 million (U.S.\$22.1 million) for the year ended 31 December 2005 compared with fee and commission income of RUR462.1 million (U.S.\$16.05 million) for the year ended 31 December 2004, an increase of 37.8 per cent. Fee and commission income is derived from services related to organisation of financing for clients, settlements, cash and documentary operations. The major components of the increase of fees and commissions income for the year ended 31 December 2005 as compared with the year ended 31 December 2004 were from the increase of settlements and payment operations for B.I.N.BANK's clients.

B.I.N.BANK's net gain on assets held-for-trading was RUR45.2 million (U.S.\$1.6 million) for the year ended 31 December 2005, compared with net gain on assets held-for-trading of RUR82.2 million (U.S.\$2.9 million) for the year ended 31 December 2004, a decrease of 45 per cent. The primary reason for the decrease was the decrease of B.I.N.BANK's securities portfolio.

#### ***Fee and commission income***

Fee and commission income primarily comprises fees and commissions generated by B.I.N.BANK's corporate business including settlements and organisation of financing for B.I.N.BANK's corporate customers.

The following table sets out the principal components of B.I.N.BANK's fee and commission income for the years ended 31 December 2005 and 2004.

	<b>Years ended 31 December</b>	
	<b>2005</b>	<b>2004</b>
	<i>(in RUR thousands)</i>	
Settlements .....	202,964	110,522
Cash operations .....	160,935	107,492
Organisation of financing for clients .....	140,125	149,595
Documentary operations .....	75,620	64,871
Other operations .....	57,023	29,617
<b>Total fee and commission income .....</b>	<b>636,667</b>	<b>462,097</b>

Fee and commission income increased by RUR174.6 million (U.S.\$6.1 million or 37.8 per cent.) for the year ended 31 December 2005. This increase was primarily due to a 83.6 per cent. increase in fee and commission income from settlement operations from RUR110.52 million (U.S.\$3.8 million) for the year ended 31 December 2004 to RUR202.96 million (U.S.\$7.1 million) for the year ended 31 December 2005. B.I.N.BANK's fee and commission income from cash operations increased 49.7 per cent. from RUR107.49 million (U.S.\$3.7 million) for the year ended 31 December 2004 to RUR160.94 million (U.S.\$5.59 million) for the year ended 31 December 2005. The increase in fee and commission income from settlement operations and cash operations of B.I.N.BANK were primarily due to the growths of B.I.N.BANK's customer base, which was largely driven by B.I.N.BANK's regional expansion.

#### ***Fee and commission expense***

The following table sets out the principal components of B.I.N.BANK's fee and commission expenses for the years ended 31 December 2005 and 2004.

	<b>Years ended 31 December</b>	
	<b>2005</b>	<b>2004</b>
	<i>(in RUR thousands)</i>	
Settlements .....	39,278	13,715
Cash operations .....	12,513	16,327
Organisation of financing .....	7,527	-
Plastic card operations .....	6,720	-
Documentary operations .....	3,866	3,233
Other operations .....	8,812	12,360
<b>Total fee and commission expenses .....</b>	<b>78,716</b>	<b>45,635</b>

For the year ended 31 December 2005, fee and commission expenses increased by RUR33.1 million (U.S.\$1.15 million) from 31 December 2004, which represented a 72.5 per cent. increase in B.I.N.BANK's total fee and commission expenses. This increase was largely due to the growth in the fees and commissions paid in connection with the increased number of transactions and payments for management NOSTRO accounts in U.S. Dollars and Euros.

### **Operating expenses**

The following table sets out the principal components of B.I.N.BANK's operating expenses for the years ended 31 December 2005 and 2004.

	<b>Years ended 31 December</b>	
	<b>2005</b>	<b>2004</b>
	<i>(in RUR thousands)</i>	
Staff costs.....	823,978	500,608
Operating lease expenses.....	299,674	243,711
Taxes, other than income tax.....	102,428	81,391
Advertising and marketing expenses.....	89,714	63,364
Repairs and maintenance expenses.....	78,527	51,938
Depreciation charge on fixed assets less amortisation of negative goodwill ...	77,345	58,344
Insurance expenses.....	50,191	177,470
Security expenses.....	47,080	45,265
Professional services fees.....	38,656	12,267
Telecommunication service expenses.....	32,910	26,892
Charity expenses.....	29,157	–
Transportation and business trip expenses.....	19,516	15,525
Expenses on stationery and other office expenses.....	16,288	12,722
Loss on disposal of fixed assets.....	12,510	1,446
Loss on partial disposal of interest in a subsidiary.....	–	32,732
Other.....	34,740	10,726
<b>Total operating expenses.....</b>	<b>1,752,714</b>	<b>1,334,401</b>

Operating expenses increased 31.3 per cent. to RUR1,752.7 million (U.S.\$60.9 million) for the year ended 31 December 2005 from RUR1,334.4 million (U.S.\$46.3 million) for the year ended 31 December 2004. This increase was principally due to B.I.N.BANK's expansion of its branch network and overall operations.

Staff costs increased 64.6 per cent. to RUR823.98 million (U.S.\$28.63 million) for the year ended 31 December 2005 from RUR500.6 million (U.S.\$17.4 million) for the year ended 31 December 2004, as a result of B.I.N.BANK's growing branch network and operations as well as due to inflation and the general growth of staff costs in Russia.

Operating lease expenses increased 23 per cent. to RUR299.7 million (U.S.\$10.4 million) for the year ended 31 December 2005 from RUR243.7 million (U.S.\$8.5 million) for the year ended 31 December 2004 due to B.I.N.BANK's expansion of its branch network primarily in Moscow.

Insurance expenses decreased from RUR177.5 million (U.S.\$6.2 million) to RUR50.2 million (U.S.\$1.74 million) for the year ended 31 December 2005. This decrease was due to outsourcing by B.I.N.BANK of cash collection services and, consequently, such outsourcers' responsibility to insure cash-in-transit risk, which used to be insured by B.I.N.BANK.

### **Net profit**

For the year ended 31 December 2005, B.I.N.BANK's net profit increased to RUR266.1 million (U.S.\$9.4 million) from RUR261.7 million (U.S.\$9.0 million) for the year ended 31 December 2004, an increase of 1.7 per cent. The increase in net profit was due to growth in B.I.N.BANK's lending and fee generating activity, which was offset slightly by B.I.N.BANK's total expenses, which rose due to B.I.N.BANK's investment in infrastructure (the strategic investments in building network of regional and Moscow-based branches for business expansion) and expenses of B.I.N.BANK's rebranding, scoring system implementation and improvement of IT systems.

### **Income Tax Expenses**

B.I.N.BANK's income tax expenses amounted to RUR102.2 million (U.S.\$3.6 million) for the year ended 31 December 2005 compared to RUR50.1 million (U.S.\$1.7 million) for the year ended 31 December 2004, an increase of 104 per cent. The statutory rate for current and deferred tax was

24 per cent. The statutory tax rate for income from governmental securities was 15 per cent. or 9 per cent. depending on the type of securities.

### **Total assets**

B.I.N.BANK's total assets increased 65.7 per cent. to RUR37,827.4 million (U.S.\$1,314.2 million) as of 31 December 2005 from RUR22,818.8 million (U.S.\$792.8 million) as of 31 December 2004, principally reflecting an increase in loans to customers (less allowance for impairment losses) to RUR23,349.1 million (U.S.\$811.2 million) as of 31 December 2005 from RUR16,323.4 million (U.S.\$567.1 million) as of 31 December 2004, an increase of 43 per cent. Below is the analysis of changes in the major assets categories during the year ended 31 December 2005.

#### *Cash and balances with the Central Bank*

As of 31 December 2005, B.I.N.BANK's total cash and balances with the Central Bank amounted to RUR3,362.36 million (U.S.\$116.8 million) representing a decrease of RUR271.26 million (U.S.\$9.4 million or 7.5 per cent.) from the corresponding figure as of 31 December 2004. The cause for the decrease was the implementation by B.I.N.BANK of a more reasonable approach to liquidity management and the placement of temporarily available resources in diverse interest-bearing assets.

#### *Assets held-for-trading*

As of 31 December 2005, B.I.N.BANK's assets held-for-trading totalled RUR873.28 million (U.S.\$30.34 million) representing a decrease of RUR311.6 million (U.S.\$10.83 million or 26.3 per cent.) from the corresponding figure as of 31 December 2004, as a result of the substitution of a part of B.I.N.BANK's securities portfolio with other short term instruments (such as securities repurchase agreements) for liquidity management purposes.

#### *Loans to banks*

As of 31 December 2005, B.I.N.BANK's total loans and advances to banks amounted to RUR9,863.7 million (U.S.\$342.7 million) representing an increase of RUR8,520.1 million (U.S.\$296.02 million or 643.1 per cent.) over the corresponding figure as of 31 December 2004. This increase was due to the growth of B.I.N.BANK's interbank lending operations.

As at 31 December 2005, B.I.N.BANK had loans and advances amounting to RUR4,196.6 million (U.S.\$145.8 million) placed by B.I.N.BANK with 3 foreign subsidiary banks of Russian state financial institutions (*roszagranbanks*) located in Austria, Germany and Switzerland, which represented a concentration of 42.4 per cent. of B.I.N.BANK's loans and advances to banks. These loans mature in 2006 and are part of B.I.N.BANK's Liquidity Diversification programme.

#### *Loans to customers*

As of 31 December 2005, B.I.N.BANK's total loans to customers (gross of allowance for impairment losses) amounted to RUR24,372.7 million (U.S.\$846.79 million) representing a RUR7,264.19 million (U.S.\$252.38 million or 42.5 per cent.) increase over the corresponding figure as of 31 December 2004. This increase was primarily attributable to the growth and diversification of B.I.N.BANK's customer base (particularly, in the regions) and was funded by retail and corporate deposits and international funding.

### **Total liabilities**

B.I.N.BANK's total liabilities amounted to RUR31,048 million (U.S.\$1,078.7 million) as of 31 December 2005 representing a 63 per cent. increase from RUR19,042.27 million (U.S.\$661.6 million) as of 31 December 2004. Below is the analysis of changes in the major liability categories during the year ended 31 December 2005.

#### *Deposits of banks*

Amounts of deposits of banks totaled RUR1,366.21 million (U.S.\$47.5 million) as of 31 December 2005 representing a 8.7 per cent. increase from RUR1,257.12 million (U.S.\$43.7 million) as of 31 December 2004.

#### *Customer accounts*

Customers accounts grew 70 per cent. to RUR27,072.41 million (U.S.\$940.6 million) as of 31 December 2005 from RUR15,911.1 million (U.S.\$552.8 million) as of 31 December 2004. This increase was primarily due to the increase of retail deposits.

### *Debt securities issued*

Debt securities issued were RUR2,581.11 million (U.S.\$89.7 million) as of 31 December 2005 representing a 42.4 per cent. increase from RUR1,812.1 million (U.S.\$63 million) as of 31 December 2004. This increase was primarily due to the fact that B.I.N.BANK's promissory notes became more liquid in the Russian banking market and B.I.N.BANK took advantage of such favourable conditions for issue.

### **Year ended 31 December 2004 compared to year ended 31 December 2003**

#### ***Net interest income***

For the year ended 31 December 2004, interest income was RUR2,322.3 million (U.S.\$80.68 million), an increase of 59.3 per cent. compared to RUR1,457.4 million (U.S.\$50.63 million) for the year ended 31 December 2003. This increase was primarily attributable to growth in B.I.N.BANK's loans and advances to banks (gross of allowance for impairment losses) as well as to growth in B.I.N.BANK's loans to customers (gross of allowance for impairment losses), which grew by 26.49 per cent. for the same period. As of 31 December 2004, loans to customers (less allowance for impairment losses) amounted to RUR16,323.4 million (U.S.\$567.1 million) as compared to RUR12,904.9 million (U.S.\$448.4 million) as of 31 December 2003. The bulk of interest income derives from B.I.N.BANK's corporate lending activities. In addition, interest income also comprises interest earned on debt and other fixed income instruments held by B.I.N.BANK and interest income from banks and other financial institutions that have borrowed funds from B.I.N.BANK.

The following table sets out the principal components of B.I.N.BANK's interest income for the years ended 31 December 2004 and 2003.

	<b>Years ended 31 December</b>	
	<b>2004</b>	<b>2003</b>
	<i>(in RUR thousands)</i>	
Interest on loans to customers .....	2,458,655	1,408,456
Interest on loans and advances to banks.....	71,031	23,893
Interest on debt securities.....	51,638	25,001
Discount on loans to customers.....	(259,041)	–
<b>Total interest income.....</b>	<b>2,322,283</b>	<b>1,457,350</b>

#### *Interest Expense*

For the year ended 31 December 2004, B.I.N.BANK's interest expense was RUR1,141.1 million (U.S.\$39.65 million), an increase of 34 per cent. compared with interest expense of RUR851.56 million (U.S.\$29.59 million) for the year ended 31 December 2003. This increase was primarily attributable to growth in B.I.N.BANK's deposit base.

In addition, B.I.N.BANK recorded an increase in the provision for impairment losses on interest bearing assets which amounted to RUR178.5 million (U.S.\$6.2 million) for the year ended 31 December 2004 as compared to the provision for loan impairment of RUR5.44 million (U.S.\$0.19 million) for the year ended 31 December 2003 reflecting the significant increase in the size of B.I.N.BANK's loan portfolio.

As a result of foregoing, for the year ended 31 December 2004, B.I.N.BANK's net interest income was RUR1,002.8 million (U.S.\$34.84 million) compared with net interest income of RUR600.4 million (U.S.\$20.86 million) for the year ended 31 December 2003.

#### ***Net non-interest income***

Net non-interest income amounted to RUR660.7 million (U.S.\$22.95 million) for the year ended 31 December 2004, compared to RUR311.1 million (U.S.\$10.8 million) for the year ended 31 December 2003. The increase in non-interest income was primarily due to an increase in net fee and commission income as a result of an increase in B.I.N.BANK's customer base.

B.I.N.BANK's fee and commission income was RUR462.1 million (U.S.\$16.05 million) for the year ended 31 December 2004 compared with fee and commission income of RUR189.9 million (U.S.\$6.6 million) for the year ended 31 December 2003. Fee and commission income is derived from services related to organisation of financing for clients, settlements, cash and documentary operations. The major components of the increase of fees and commissions income for the year ended 31 December



2004 as compared with the year ended 31 December 2003 were from the increase of settlements and payment operations for B.I.N.BANK's clients.

#### **Fee and commission income**

The following table sets out the principal components of B.I.N.BANK's fee and commission income for the years ended 31 December 2004 and 2003.

	<b>Years ended 31 December</b>	
	<b>2004</b>	<b>2003</b>
	<i>(in RUR thousands)</i>	
Organisation of financing for clients .....	149,595	–
Settlements .....	110,522	82,352
Cash operations .....	107,492	67,217
Documentary operations .....	64,871	34,119
Other operations .....	29,617	6,166
<b>Total fee and commission income .....</b>	<b>462,097</b>	<b>189,854</b>

Fee and commission income increased by RUR272.24 million (U.S.\$9.46 million or 143.4 per cent.) for the year ended 31 December 2004. This increase was primarily due to fees and commissions for organisation of financing for B.I.N.BANK's clients which totalled RUR149.6 million (U.S.\$5.2 million) for the year ended 31 December 2004. In such financings B.I.N.BANK acted as an agent and financial consultant.

B.I.N.BANK's fee and commission income from settlement operations increased 34.2 per cent. from RUR82.35 million (U.S.\$2.86 million) for the year ended 31 December 2003 to RUR110.52 million (U.S.\$3.84 million) for the year ended 31 December 2004. B.I.N.BANK's fee and commission income from cash operations increased 59.9 per cent. from RUR67.22 million (U.S.\$2.34 million) for the year ended 31 December 2003 to RUR107.49 million (U.S.\$3.73 million) for the year ended 31 December 2004. The increase in settlement operations and cash operations of B.I.N.BANK were primarily due to the growth of B.I.N.BANK's customer base.

#### **Fee and commission expense**

The following table sets out the principal components of B.I.N.BANK's fee and commission expenses for the years ended 31 December 2004 and 2003.

	<b>Years ended 31 December</b>	
	<b>2004</b>	<b>2003</b>
	<i>(in RUR thousands)</i>	
Cash operations .....	16,327	9,567
Settlements .....	13,715	14,985
Documentary operations .....	3,233	291
Other operations .....	12,360	6,798
<b>Total fee and commission expenses .....</b>	<b>45,635</b>	<b>31,641</b>

For the year ended 31 December 2004, fee and commission expenses increased by RUR14 million (U.S.\$0.49 million), which represented a 44.2 per cent. increase in B.I.N.BANK's total fee and commission expenses. This increase was largely due to the growth of B.I.N.BANK's customer base and an increase of its trade finance operations.



### **Operating expenses**

The following table sets out the principal components of B.I.N.BANK's fee and commission expenses for the years ended 31 December 2004 and 2003.

	Years ended 31 December	
	2004	2003
	<i>(in RUR thousands)</i>	
Staff costs.....	500,608	312,392
Operating lease expenses.....	243,711	96,724
Taxes, other than income tax.....	81,391	60,372
Advertising and marketing expenses.....	63,364	34,247
Repairs and maintenance expenses.....	51,938	20,063
Depreciation charge on fixed assets less amortisation of negative goodwill ...	58,344	46,630
Insurance expenses.....	177,470	102,150
Security expenses.....	45,265	42,294
Professional services fees.....	12,267	28,626
Telecommunication service expenses.....	26,892	25,217
Charity expenses.....	–	10,174
Transportation and business trip expenses.....	15,525	12,911
Loss on disposal of fixed assets.....	1,446	14,965
Loss on partial disposal of interest in a subsidiary.....	32,732	–
Expenses on stationery and other office expenses.....	12,722	17,530
Other.....	10,726	49,003
<b>Total operating expenses.....</b>	<b>1,334,401</b>	<b>873,298</b>

Operating expenses increased 52.8 per cent. to RUR1,334.4 million (U.S.\$46.36 million) for the year ended 31 December 2004 from RUR873.3 million (U.S.\$30.34 million) for the year ended 31 December 2003. This increase was principally due to B.I.N.BANK's expansion of its branch network and overall operations.

Staff costs increased 60.2 per cent. to RUR500.6 million (U.S.\$17.39 million) for the year ended 31 December 2004 from RUR312.4 million (U.S.\$10.85 million) for the year ended 31 December 2003 for the same reason.

Operating lease expenses increased 152 per cent. to RUR243.7 million (U.S.\$8.47 million) for the year ended 31 December 2004 from RUR96.7 million (U.S.\$3.36 million) for the year ended 31 December 2003 due to B.I.N.BANK's expansion of its branch network.

Insurance expenses increased by 73.7 per cent. to RUR177.5 million (U.S.\$6.2 million) from RUR102.15 million (U.S.\$3.5 million) for the year ended 31 December 2004 due to an increase in cash collection operations requiring insurance.

### **Net profit**

For the year ended 31 December 2004, B.I.N.BANK's net profit increased to RUR261.7 million (U.S.\$9.09 million) from RUR46.2 million (U.S.\$1.6 million) for the year ended 31 December 2003. The increase of total income was due to an increase in lending and fee generating activity.

### **Income Tax Expenses**

B.I.N.BANK's income tax expenses amounted to RUR50.1 million (U.S.\$1.74 million) for the year ended 31 December 2004 compared to RUR41.17 million (U.S.\$1.43 million) for the year ended 31 December 2003, representing an increase of 21.7 per cent. The statutory rate for current and deferred tax was 24 per cent. The statutory tax rate for income from governmental securities was 15 per cent. or 9 per cent. depending on the type of securities.

### **Total assets**

B.I.N.BANK's total assets increased 27.5 per cent. to RUR22,818.8 million (U.S.\$792.8 million) as of 31 December 2004 from RUR17,897.4 million (U.S.\$621.8 million) as of 31 December 2003, principally reflecting an increase in loans to customers (less allowance for impairment losses) to RUR16,323.4 million (U.S.\$567.1 million) as of 31 December 2004 from RUR12,904.9 million

(U.S.\$448.4 million) as of 31 December 2003, an increase of 26.5 per cent. Below is the analysis of changes in the major assets categories during the year ended 31 December 2004.

#### *Cash and balances with the Central Bank*

As of 31 December 2004, B.I.N.BANK's total cash and balances with the Central Bank amounted to RUR3,633.6 million (U.S.\$126.24 million) representing an increase of RUR290.8 million (U.S.\$10.1 million or 8.7 per cent.) from the corresponding figure as of 31 December 2003. The cause for the increase was the general growth of B.I.N.BANK's banking operations.

#### *Assets held-for-trading*

As of 31 December 2004, B.I.N.BANK's assets held-for-trading totalled RUR1,184.9 million (U.S.\$41.17 million) representing an increase of RUR1,029.9 million (U.S.\$35.78 million or 664.8 per cent.) from the corresponding figure as of 31 December 2003. This increase was due to the planned increase of B.I.N.BANK's operations on this market.

#### *Loans to banks*

As of 31 December 2004, B.I.N.BANK's total loans and advances to banks amounted to RUR1,343.6 million (U.S.\$46.68 million) representing an increase of RUR543.5 million (U.S.\$18.88 million or 67.9 per cent.) over the corresponding figure as of 31 December 2003. This increase is attributable to the increase of interbank operations of B.I.N.BANK.

#### *Loans to customers*

As of 31 December 2004, B.I.N.BANK's total loans to customers (less allowance for impairment losses) amounted to RUR16,323.4 million (U.S.\$567.1 million) representing a RUR3,418.5 million (U.S.\$118.77 million or 26.5 per cent.) increase over the corresponding figure as of 31 December 2003. This increase is attributable to the growth and diversification of B.I.N.BANK's customer base and was primarily funded by liabilities of the same term including retail deposits, term corporate deposits and international funding.

#### **Total liabilities**

B.I.N.BANK's total liabilities amounted to RUR19,042.3 million (U.S.\$661.6 million) as of 31 December 2004 representing a 29.3 per cent. increase from RUR14,724.8 million (U.S.\$511.59 million) as of 31 December 2003. Below is the analysis of changes in the major liability categories during the year ended 31 December 2004.

#### *Deposits of banks*

Amounts of deposits of banks totaled RUR1,257.2 million (U.S.\$43.7 million) as of 31 December 2004 representing a 251.7 per cent. increase from RUR357.5 million (U.S.\$12.42 million) as of 31 December 2003. This increase is primarily due to the growth of interbank operations of B.I.N.BANK.

#### *Customer accounts*

Customers accounts grew 28.9 per cent. to RUR15,911.1 million (U.S.\$552.8 million) as of 31 December 2004 from RUR12,345.5 million (U.S.\$428.92 million) as of 31 December 2003. This increase is primarily due to the growth of B.I.N.BANK's customer base.

#### *Debt securities issued*

Debt securities issued were RUR1,812.1 million (U.S.\$63 million) as of 31 December 2004 representing a 17.8 per cent. increase from RUR1,538.2 million (U.S.\$53.4 million) as of 31 December 2003. This increase is primarily due to the growth of B.I.N.BANK's operations on this market.

#### **Off-Balance Sheet Risk**

In the normal course of business B.I.N.BANK has outstanding commitments to extend credit. These commitments take the form of unused credit lines and credit card limits and overdraft facilities. B.I.N.BANK provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category as of the dates indicated. The amounts reflected in the table for commitments assume that

amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	As of 31 December					
	2005		2004		2003	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
	<i>(in RUR thousands)</i>					
<b>Contingent liabilities and credit commitments</b>						
Guarantees issued and similar commitments .....	3,298,260	3,298,260	1,283,393	1,283,393	1,240,461	1,240,461
Letters of credit and other transaction related contingent obligations.....	1,294,549	647,275	1,057,991	528,996	74,621	37,311
Commitments on loans and unused credit lines....	1,481,862	74,093	3,501,166	175,458	939,408	46,439
<b>Total contingent liabilities and credit commitments..</b>	<b>6,074,671</b>	<b>4,019,629</b>	<b>5,850,550</b>	<b>1,987,847</b>	<b>2,254,490</b>	<b>1,324,211</b>

### Capital Adequacy

B.I.N.BANK's capital adequacy ratio is calculated under the methodology set by the Basle Committee on Banking Regulations and Supervisory Practices using the definition of capital adopted by the Central Bank. Tier I capital of B.I.N.BANK is represented by net assets attributable to participants. The following table sets out principal components of B.I.N.BANK's capital adequacy ratios.

Capital amounts and ratios	Actual	For Capital Adequacy Purposes	CAR	Minimum Ratio Required
	<i>(in RUR thousands)</i>			
<b>At 31 December 2003</b>				
Total capital .....	3,172,521	3,218,523	21.2%	8%
Tier 1 capital .....	3,172,521	3,172,521	20.9%	4%
<b>At 31 December 2004</b>				
Total capital .....	3,776,527	3,776,527	17.7%	8%
Tier 1 capital .....	3,776,527	3,776,527	17.7%	4%
<b>At 31 December 2005</b>				
Total capital .....	6,779,351	6,779,351	23.5%	8%
Tier 1 capital .....	6,779,351	6,799,351	23.5%	4%

### Subsequent events

In April 2006, B.I.N.BANK entered into a U.S.\$40 million syndicated facility agreement with Bankgesellschaft Berlin AG, Raiffeisen Zentralbank Österreich AG and JSC Vneshtorgbank as mandated lead arrangers and the financial institutions named therein as lenders. This loan bears an annual interest rate of LIBOR plus 3.2 per cent. and has a one-year maturity with a possibility of extension for an additional year at the request of B.I.N.BANK.

B.I.N.BANK's promissory note funding increased in 2006, primarily due to the issuance by B.I.N.BANK of additional Rouble denominated promissory notes freely tradable on the Russian market. B.I.N.BANK's issue of such promissory notes reduced its cost of funding from 11 per cent. to a range of 9.5 per cent. to 10.3 per cent. The net increase in B.I.N.BANK's promissory note portfolio was RUR1.4 billion as of 5 April 2006, as compared to 31 December 2005.

## DESCRIPTION OF B.I.N.BANK

### OVERVIEW

B.I.N.BANK is a commercial bank organised as an open joint stock company under the laws of the Russian Federation. B.I.N.BANK's registered and principal office is at 5a, Grodnenskaya street, Moscow, 121471, Russia and its website is [www.binbank.ru](http://www.binbank.ru).

According to *Profile*, a Russian business magazine, as of 31 December 2005, B.I.N.BANK was:

- the 26th largest Russian bank in terms of shareholders' equity;
- the 29th largest Russian bank in terms of net assets;
- the 22nd largest Russian bank in terms of loans advanced to private companies; and
- the 20th largest Russian bank in terms of retail deposits,

in each case based on RAS.

In October 2005, B.I.N.BANK was ranked 7th among Russian banks in the "Transparency and Disclosure Survey" rating prepared by *Standard & Poor's*.

In December 2005, *The Banker* magazine, a banking industry publication, included B.I.N.BANK in its rating of the 50 biggest banks in Russia.

B.I.N.BANK offers corporate and retail banking services, including lending, deposit taking and payment and account services, international settlements, trade finance and export credit agency ("ECA") backed financing, payroll services, precious metals transactions, securities trading and custody services, retail financing, plastic cards issuance and express money transfers. See "*Banking Services and Activities*" below.

*Solely for the convenience of the reader, translations of the corresponding 2005, 2004 and 2003 Rouble amounts into U.S. Dollars were calculated at a conversion rate of RUR28.7825 to U.S.\$1, which was the official exchange rate quoted by the Central Bank on 31 December 2005.*

B.I.N.BANK has prepared financial statements in accordance with IFRS since 1995. For the year ended 31 December 2005, B.I.N.BANK's operating income was RUR2,098.8 million (U.S.\$72.92 million) and its net profit was RUR266.1 million (U.S.\$9.2 million) compared to RUR1,663.5 million (U.S.\$57.8 million) and RUR261.7 million (U.S.\$9.09 million), respectively, for the year ended 31 December 2004 and RUR911.5 million (U.S.\$31.67 million), and RUR46.24 million (U.S.\$1.6 million), respectively, for the year ended 31 December 2003. B.I.N.BANK's net interest income for the year ended 31 December 2005 was RUR1,105.6 million (U.S.\$38.4 million), compared to RUR1,002.8 million (U.S.\$34.84 million) and RUR600.36 million (U.S.\$20.86 million) for the years ended 31 December 2004 and 2003, respectively.

As of 31 December 2005, B.I.N.BANK's total assets were RUR37,827.4 million (U.S.\$1,314.2 million) and its total equity was RUR6,779.4 million (U.S.\$235.54 million) compared to RUR22,818.8 million (U.S.\$792.8 million) and RUR3,776.5 million (U.S.\$131.2 million), respectively, as of 31 December 2004 and RUR17,897.36 million (U.S.\$621.8 million) and RUR3,172.5 million (U.S.\$110.22 million), respectively, as of 31 December 2003.

B.I.N.BANK currently operates under a full (general) banking licence from the Central Bank and is also authorised by the Central Bank to trade in precious metals. On 29 December 2004, B.I.N.BANK was admitted by the Committee of Banking Supervision of the Central Bank to the obligatory deposit insurance system. B.I.N.BANK holds licences issued by the Federal Commission for the Securities Market of the Russian Federation (the "FCSM", later renamed the FSFM) to act as a broker, dealer, custodian and securities manager in the Russian securities market. In addition, B.I.N.BANK is accredited with the State Customs Committee of the Russian Federation to act as guarantor in dealings with customs authorities.

B.I.N.BANK is a part of the B.I.N. Group which is jointly controlled by several direct or indirect individual shareholders who are relatives of each other. The B.I.N. Group also comprises companies operating in the Russian commercial real estate and oil sectors, including Russneft oil company headed by Mr. Mikhail Gutseriev, a relative of two of the Principal Shareholders. B.I.N.BANK manages a large proportion of the B.I.N. Group's cash flows and also lends to companies owned by the B.I.N. Group. See "*Related Party Transactions*" below and "*Risk Factors – Risks Relating to B.I.N.BANK and the Russian*

*Banking Sector – The Interests of B.I.N.BANK’s Principal Shareholders may conflict with those of Noteholders.”*

B.I.N.BANK has more than ten shareholders, each of which is a legal entity resident in Russia. The principal beneficial shareholders of B.I.N.BANK are Mr. Mikail Shishkhanov and Mr. Sait-Salam Gutseriev who currently indirectly own approximately 64.58 per cent. and 6.19 per cent. of the issued and outstanding share capital of B.I.N.BANK, respectively. In November 2005, OJSC GNK Nafta Moskva, a securities investment company, historically active in the oil sector, acquired a 19.99 per cent. interest in B.I.N.BANK for the Rouble equivalent of U.S.\$50 million. See “*Shareholding*” below.

B.I.N.BANK is a principal member of both VISA International and MasterCard Europe. B.I.N.BANK is also a member of major industry organisations in the Russian financial markets, including the Association of Russian Banks, the Association of North-West Banks, the Moscow Interbank Union, the Moscow Interbank Currency Exchange (MICEX), the Russian Trade System (RTS), the Moscow Stock Exchange, the National Association of Securities Market Participants (NAUFOR), the Association of Promissory Notes Market Participants (AUVER), the Russian National Association of S.W.I.F.T. Members and the National Russian Managers’ Association.

B.I.N.BANK currently has the following ratings:

- *Fitch*: long-term and short-term ratings of “B-” and “B”, respectively, with a stable outlook and an individual national long-term rating of “BB(rus)”;
- *Standard & Poor’s*: long-term and short-term ratings of “B-” and “C”, respectively, with a stable outlook and an individual national long-term rating of “ruBBB-”.

## **HISTORY**

B.I.N.BANK was established on 23 April 1993, registered with the Central Bank on 1 November 1993 and received a full (general) banking licence No. 2562 on the same date. On 27 August 2002, B.I.N.BANK was re-registered in the Russian Unified Register of Legal Entities under registration number 1027700159442.

B.I.N.BANK was established with the primary purpose of providing financing, lending and banking services to other companies within the B.I.N. Group.

In 2000, B.I.N.BANK began to diversify its strategy and business and, in particular, develop its lending to small and medium-size enterprises (“**SMEs**”) and retail banking operations as well as to extend its corporate operations beyond the B.I.N. Group. To facilitate this diversification of its business, B.I.N.BANK also began to expand its branch network with the result that, as of 31 December 2005, B.I.N.BANK had 19 regional branches (*filialy*), 5 representative offices (*predstavitelstva*), 13 regional sub-branches (*dopolnitelnye offisy*) and 15 full service offices (*otdeleniya*) in Moscow.

## **STRATEGY**

B.I.N.BANK’s primary strategic objective is to increase its market share and value and become the bank of choice for a growing number of both retail and corporate clients. In particular, among B.I.N.BANK’s medium and long-term strategic objectives are the diversification of its funding base and business; further expansion of its branch network; increasing the tenor of its loans; improvement of its information technology (“**IT**”) systems and reduction of non-operational expenses, as more fully described below:

### *Diversification of Funding Base and Business*

B.I.N.BANK plans to diversify its funding base through both the domestic and international finance markets. In particular, B.I.N.BANK intends to continue accessing domestic and international capital markets and to attract syndicated facilities on the domestic and international markets, both in Roubles and U.S. Dollars, to satisfy its short, medium and long-term funding needs. In addition, B.I.N.BANK has diversified into retail deposits as an increasing source of funding and plans to expand the portion of its funding comprising retail deposits. B.I.N.BANK expects that such a strategy will allow it to achieve a more stable funding base and to reduce its exposure to liquidity risks.

B.I.N.BANK plans to reduce the extent to which its business depends on corporate customers (including members of the B.I.N. Group) and aims to increase the share of retail and SME loans in its portfolio. As of 31 December 2005, the shares of loans to individuals, SMEs and large corporates represented 7.89 per cent., 23.62 per cent. and 68.49 per cent., respectively, of B.I.N.BANK’s loan portfolio. B.I.N.BANK intends to expand its operations beyond the provision of corporate banking services and increase the



amount of fee income it earns from retail banking, trade finance and leasing. In particular, it plans to develop new retail banking products and extend its distribution channels by expanding its network and investing in its personnel and further development of its IT systems.

B.I.N.BANK also intends to provide services 24 hours a day, seven days a week to its retail and corporate customers.

#### *Network Expansion*

B.I.N.BANK focuses on expansion into the principal industrial regions outside of Moscow. B.I.N.BANK believes that it can compete successfully with its peers in the provision of a wide range of banking services to both retail and corporate customers in these regions, that banking services in these regions generally carry less risk (and that margins on its products in these regions are generally higher) than in Moscow. As part of its network expansion strategy, B.I.N.BANK plans to open new branches, sub-branches, full service offices and representative offices in the principal industrial regions in Russia. In 2005, B.I.N.BANK opened branches in Volgograd, Ekaterinburg, Novosibirsk and Perm and expects to open regional branches and sub-branches in Chelyabinsk, Saratov, Tomsk, Togliatti and Tyumen in 2006 to increase the number of its regional branches from 19 as at 31 December 2005 to 24 as at 31 December 2006.

#### *Increasing Tenor of Loans*

B.I.N.BANK plans to increase the average tenor of loans (which is currently approximately 1 year) provided to its customers. In February 2006, B.I.N.BANK launched its mortgage-lending programme for retail customers, which provides for longer tenor, secured loans to retail customers. It also plans to increase the share of medium- to long-term lending to its SME and corporate customers. In order to fund longer maturities in its lending operations, B.I.N.BANK intends to increase its foreign-currency, medium and long-term borrowing from banks and from the international capital markets.

#### *Improvement of IT Systems*

B.I.N.BANK considers IT an integral part of its operations and is committed to continued investment in IT to support the efficient growth of its operations. B.I.N.BANK has actively promoted its proprietary remote access services such as iBank2 system for corporate customers and Rapida system for retail customers. In 2005, B.I.N.BANK implemented the SalesLogix Customer Relationships Management System (CRM), which improved its internal management reporting and corporate governance processes. B.I.N.BANK plans to continue investing in its IT systems and expand the range of remote access services to its clients.

#### *Reduction of Non-Operational Expenses*

B.I.N.BANK intends to improve its internal operational efficiency by reducing non-operational expenses and by further strengthening its internal management systems and controls. In 2003, B.I.N.BANK implemented a budgeting system to control and manage effectively its non-operational expenses. In 2005, B.I.N.BANK restructured its chain of full service offices in Moscow by closing under-performing offices and reducing the space occupied by its offices. As part of its strategy to reduce non-operational expenses, B.I.N.BANK has, since 2004, been reducing its rental expenses by acquiring premises occupied by its offices, incentivising its clients to use its remote access systems, ATMs and cash-in machines, outsourcing certain services (such as security) and, to the extent possible, adopting common forms for legal and other documents.

#### *Brand Marketing*

B.I.N.BANK intends to create a brand platform and promote it in the market, thus attracting new customers from market competitors and enhancing existing customers' loyalty. With this objective in mind, in 2005, B.I.N.BANK effected a rebranding of its network of branches and full service offices with the aim of further enhancing its brand.

### **MARKET POSITION, COMPETITION AND COMPETITIVE STRENGTHS**

According to the Central Bank, as of 1 January 2006, 1,253 banks and non-banking credit organisations were operating in Russia, with most of the large Russian banks' operations being based in Moscow.

B.I.N.BANK's principal competitors are among the 30 biggest banks in Russia. B.I.N.BANK believes that its main competitors are Alfa Bank, Bank of Moscow, Bank Soyuz, Globex Bank and Impexbank in



the corporate banking sector, and Alfa Bank, Avangard Bank, Citibank, Impexbank and Sobinbank in the retail banking sector.

Despite increasing competition, B.I.N.BANK believes that it has a number of competitive strengths both in the retail and corporate banking market, including:

#### *Positive Perception of B.I.N.BANK*

B.I.N.BANK has established a long-term and stable relationship with many of its clients. Its relationships were enhanced by its performance during the 1998 financial crisis and the mini-liquidity crisis in August 2004. In early 1998, B.I.N.BANK liquidated its portfolio of state securities (GKO/OFZs) and managed to avoid material losses resulting from the Russian government's default thereunder that affected many of the other Russian banks. In 2004, effective liquidity management and a guarantee of financial support from its shareholders allowed B.I.N.BANK to counter successfully the adverse consequences of the temporary, although quite substantial, reduction of retail deposits that it experienced.

#### *Strong Support from the B.I.N. Group*

As a member of the B.I.N. Group, B.I.N.BANK is able to benefit from financial support of the B.I.N. Group to expand and strengthen its business. The B.I.N. Group is strategically focused on expanding B.I.N.BANK's operations in the high-growth Russian banking market and is committed to ensuring that B.I.N.BANK remains at all times in compliance with Central Bank and BIS capital adequacy ratios as the loan portfolio of B.I.N.BANK expands. In particular, the expansion of B.I.N.BANK has been supported by equity contributions from the B.I.N. Group, including equity contributions of U.S.\$50 million in each of 2005 and 2001, and it is anticipated that the B.I.N. Group will make further equity contributions in the short to medium term to support further growth. B.I.N.BANK also benefits from deposits from members of the B.I.N. Group as part of its funding. See "*Related Party Transactions*".

#### *Operational Flexibility*

Although state-owned banks and larger privately-owned competitors may typically offer lower interest rates on their credit products, B.I.N.BANK believes that it has developed a more rapid and less burdensome credit approval procedure that allows B.I.N.BANK to respond to customer needs quicker than such competitors, without compromising the quality of the credit decisions.

#### *Wide Distribution Network*

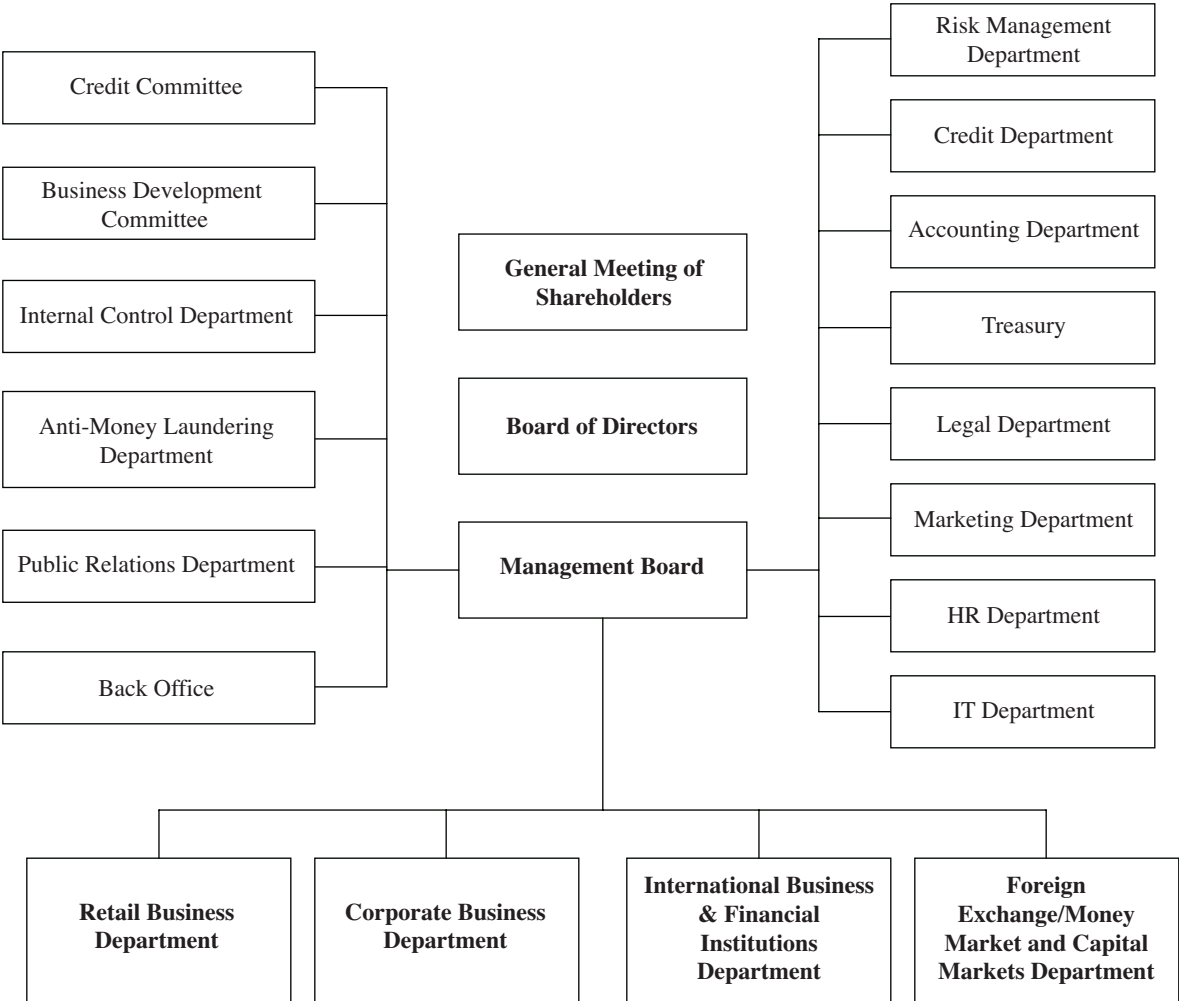
B.I.N.BANK's already wide branch network helps it to compete effectively for business in the principal industrial regions of Russia.

#### *Wide Range of Banking Services Offered to New Customer Segments*

Since 2000, B.I.N.BANK has offered tailored services to its SME customers, including short- and medium-term lending, documentary operations and international trade finance, leasing services, cash and settlement services in Roubles and foreign currencies. Since the middle of 2005, B.I.N.BANK has also offered a wide range of banking products to its retail customers including a variety of deposits and savings accounts as well as certain retail lending products (such as overdrafts, car loans and mortgage loans). B.I.N.BANK intends to expand actively its SME and retail-lending portfolio in the future. B.I.N.BANK expects that a wide range of services it can offer to such clients will help it to compete successfully with its peers, primarily in the Russian industrial regions it has targeted for expansion. See "*Strategy-Network Expansion*".

**ORGANISATIONAL STRUCTURE**

The following table sets out B.I.N.BANK’s management and internal business divisions:



**BANKING SERVICES AND ACTIVITIES**

**Overview**

B.I.N.BANK’s principal activities comprise corporate banking services (including lending to large corporate clients, SME lending, deposit taking and payment and account services international settlements, trade finance and ECA-backed finance payroll services and leasing), retail banking services (including deposits, credit and debit cards, overdraft facilities, car loans and mortgage loans) and financial markets activities (including transactions with securities and custody services).

**Corporate Banking**

B.I.N.BANK provides corporate banking services to large privately-owned companies, SMEs and companies owned by the Russian state as well as regional or municipal authorities. B.I.N.BANK’s corporate customer base increased from approximately 8,400 corporate customers as of 31 December 2003 to 14,000 and 15,900, respectively, corporate customers as of 31 December 2004 and 2005. B.I.N.BANK’s corporate clients operate in key sectors of the Russian economy, including oil and gas, mining, construction and commercial real estate, trade and investment activities. As of 31 December 2005, corporate loans represented 92.1 per cent. of B.I.N.BANK’s loan portfolio, as compared to 97.3 per cent. and 97.2 per cent., respectively, as of 31 December 2004 and 2003.

As of 31 December 2005, B.I.N.BANK’s total gross loans to corporate customers less accrued interest income amounted to RUR22,294.27 million (U.S.\$774.58 million), and time deposits and repayable on demand deposits from corporate customers (less accrued interest expense on customer accounts) amounted to RUR13,318.2 million (U.S.\$462.72 million), as compared to RUR16,551.39 million (U.S.\$575.05 million) and RUR9,957.5 million (U.S.\$345.96 million), respectively, as of 31 December 2004 and RUR13,066.59 million (U.S.\$453.98 million) and RUR6,787.29 (U.S.\$235.81 million), respectively, as of 31 December 2003.

In addition, B.I.N.BANK has offered mass banking services to SMEs since 2000 and to retail customers since 2002. While B.I.N.BANK expects revenues from its large corporate clients to continue to account for a significant proportion of its total revenues, it expects that the contribution of SME and retail lending to its revenues will increase.

#### *Corporate Customer Segmentation*

The following table sets forth the industry concentration of loans and advances to corporate customers as of 31 December 2005, 2004 and 2003:

	<b>As of 31 December</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>(in RUR thousands)</i>		
<b>Analysis by sector:</b>			
Retail trade .....	3,897,928	2,034,491	659,151
Office property holding .....	3,317,342	2,964,549	1,762,144
Supermarkets property holding.....	2,994,025	1,886,079	898,147
Warehouse property holding .....	2,629,561	2,577,461	329,100
Manufacturing.....	2,480,580	335,535	586,628
Investing activities (loans to investment companies) .....	1,563,455	966,704	795,272
Oil refinery products trade .....	1,442,134	1,159,766	3,163,347
Services (restaurants, logistics, consulting, etc.).....	1,013,360	–	–
Production and marketing of soda .....	889,847	–	–
Construction .....	822,756	718,137	243,778
Agriculture .....	544,456	1,097,700	584,619
Government .....	435,114	144,211	106,530
Insurance .....	92,534	–	–
Hotel business.....	73,371	–	–
Coal mining industry .....	–	1,230,766	476,752
Oil production and refining .....	–	949,546	2,710,527
Gold mining .....	–	394,209	446,221
Other .....	97,810	92,232	304,373
<b>Total loans to corporate customers less accrued interest income, gross.....</b>	<b><u>22,294,273</u></b>	<b><u>16,551,386</u></b>	<b><u>13,066,589</u></b>

See “Risk Factors – Risks Relating to B.I.N.BANK and the Russian Banking Sector – B.I.N.BANK Holds a Loan and Deposit Portfolio with a Relatively High Level of Industry and Key Client Concentration”.

#### **Services to Corporate Clients**

B.I.N.BANK’s services to corporate clients include commercial lending, deposit taking and payment and account services, international settlements, trade finance and ECA-backed finance, payroll services and leasing.

#### **Corporate Lending**

B.I.N.BANK’s corporate lending business offers a range of Rouble-, U.S. Dollar, Euro and other foreign currency-denominated credit products to its corporate clients. As at 31 December 2005, B.I.N.BANK’s corporate lending business represented approximately 75 per cent. of B.I.N.BANK’s total loan portfolio. B.I.N.BANK’s principal loan products are short- and medium-term loans with tenors of up to 1 year and up to 2 years, respectively, and lending limits dependant on a customer’s financial performance and conditions and bank guarantees. B.I.N.BANK also provides long-term loans with a tenor of up to 7 years and a lending limit dependant on a customer’s financial performance and conditions to certain large corporate clients. B.I.N.BANK provides medium and long-term financing mostly with an ECA backing. B.I.N.BANK’s average margin in 2005 on its corporate banking business was approximately 3.85 per cent., with margins being generally higher in the regions than in Moscow.

B.I.N.BANK’s interests are protected by requiring borrowers to provide adequate collateral to secure the performance of its obligations. Such collateral generally has a value which is greater than the amount of the relevant loan. Eligible collateral includes property, plant and equipment, liquid securities or inventory or bank guarantees and third party guarantees. The value of the collateral must cover the principal amount of the loan and interest, as well as expenses that may arise when enforcing posted collateral. The

value at which B.I.N.BANK accepts collateral envisages a discount to market value of the collateral. These discounts vary depending on the type of collateral in question and range from 20 per cent. to 70 per cent. As of 31 December 2005, 16.9 per cent. of B.I.N.BANK's loans were collateralised by mortgages of real property, 8.59 per cent., by pledge of equipment, 4.91 per cent., by guarantees and 4.37 per cent., by pledge of goods in turnover. Approximately 10.16 per cent. of B.I.N.BANK's loans to corporate customers were unsecured. Enforcement of security can in practice be very difficult in Russia. See "*Risk Factors – Risks Relating to B.I.N.BANK and the Russian Banking Sector – B.I.N.BANK May Have Difficulty Enforcing Security under Russian Law*".

As of 31 December 2005, gross loans to corporate customers less accrued interest income of B.I.N.BANK amounted to RUR22,294.27 million (U.S.\$774.58 million) compared to RUR16,551.39 million (U.S.\$575.05 million) as of 31 December 2004 and RUR13,066.6 million (U.S.\$453.98 million) as of 31 December 2003. The amount of gross loans to related parties in B.I.N.BANK's loan portfolio increased from RUR1,415.6 million (U.S.\$49.18 million) to RUR1,648.4 million (U.S.\$57.27 million) for the year ended 31 December 2005 but the portion of the gross loans to related parties decreased from 8.3 per cent. to 6.8 per cent. of B.I.N.BANK's total loan portfolio for the same period. See "*Related Party Transactions*".

The following table sets forth B.I.N.BANK's exposure to ten largest borrowers by industry as of 31 December 2005.

<b>Exposure (in RUR thousands)</b>	<b>Industry</b>
1,580,000	Office property holding
1,278,460	Warehouse property holding
1,227,400	Warehouse property holding
800,000	Oil refinery products trading
789,460	Warehouse
787,371	Office property holding
778,688	Office property holding
741,320	Production and marketing of soda
682,628	Office property holding
630,000	Office property holding

B.I.N. Bank's corporate lending services also include term loans, overdraft facilities, financial leasing (see "Leasing"), bank guarantees and letters of credit. B.I.N.BANK also provides financing by purchasing promissory notes issued by its corporate customers:

#### ***Deposit Taking and Payment and Account Services***

B.I.N.BANK offers its corporate customers a range of term and on-demand deposits in Roubles, U.S. Dollars and Euros with average interest rates of 8 to 9 per cent. payable on term deposits in Roubles, 6 to 7 per cent. payable on term deposits in U.S.Dollars and Euros and 0.01 per cent. payable on on-demand deposits in any currency. B.I.N.BANK's corporate customers are also paid 3 to 7 per cent. and 3 to 6 per cent. for the applicable minimum balance on their Rouble and U.S.Dollar current accounts, respectively.

B.I.N.BANK provides payment and account services to and on behalf of its corporate customers through its branches, sub-branches, full service offices and correspondent banking network. See "*Distribution – Branch Network*". B.I.N.BANK also provides current and term accounts and accepts deposits in Roubles and certain foreign currencies. B.I.N.BANK's corporate customers are also able to conduct banking operations and manage their accounts through the iBank 2 remote access system. See "*IT Infrastructure*".

The following table sets out amounts of term deposits of B.I.N.BANK's corporate customers and term deposits of banks and other financial institutions as of 31 December 2005, 2004 and 2003.

	<b>As of 31 December</b>								
	<b>2005</b>			<b>2004</b>			<b>2003</b>		
	<i>RUR million</i>	<i>U.S.\$ million</i>	<i>% of total liabilities</i>	<i>RUR million</i>	<i>U.S.\$ million</i>	<i>% of total liabilities</i>	<i>RUR million</i>	<i>U.S.\$ million</i>	<i>% of total liabilities</i>
Term and repayable on demand deposits of corporate customers (less accrued interest income).....	13,318.2	462.7	42.9	9,957.5	345.96	52.3	6,787.3	235.81	46.1
Deposits of banks.....	1,366.2	47.47	4.4	1,257.2	43.7	6.6	357.5	12.42	2.4

### ***International Settlements, Trade Finance and ECA-backed Finance***

B.I.N.BANK supports its clients' foreign trade operations by providing payment and settlement services in connection with their import and export operations and by issuing letters of credit and guarantees. The partner banks of B.I.N.BANK include AKA AG (Germany), American Express Bank (USA), BBVA (Spain), BPH S.A. (Poland), Banca Nazionale del Lavoro (Italy), Bank Austria Creditanstalt (Austria), Bank Turanalem (Kazakhstan), Bankgesellschaft Berlin (Germany), Banque de Commerce et de Placements (Switzerland), Bayerische Hypo- und Vereinsbank AG (Germany), Commerzbank AG (Germany), Credit Suisse (Switzerland), Donau Bank (Austria), Finansbank (Holland), Kazkommertsbank (Kazakhstan), Monte dei Paschi di Siena, NordLB Polste (Poland), Raiffeisen Zentralbank AG (Austria), Sachsen LB (Germany), San Paolo IMI, UBS (Switzerland) and other international banks.

B.I.N.BANK has established long-term relationships with major ECAs, including US EximBank (USA), Euler-Hermes (Germany), SACE (Italy), ERG (Switzerland), OeKB (Austria) KUKI (Poland) CESCE (Spain) and Atradius (the Netherlands). As a result, B.I.N.BANK has developed various financing structures aimed at arranging medium- to long-term (with tenors of 3 to 7 years) financing with ECA cover for the export and import operations of B.I.N.BANK's customers in Russia. B.I.N.BANK also undertakes short-term (with a term of up to 2 years) financing without ECA cover for its customers in Russia. The amount of trade finance and ECA-backed transactions completed by B.I.N.BANK as at 31 December 2005 amounted to approximately U.S.\$150 million compared to approximately U.S.\$110 million as at 31 December 2004 and approximately U.S.\$25 million as at 31 December 2003. B.I.N.BANK's net average margin as at 31 December 2005 amounted to 3.85 per cent. As at 31 December 2005, B.I.N.BANK's trade finance business represented approximately 18 per cent. of B.I.N.BANK's total loan portfolio.

By 2008, B.I.N.BANK plans to be admitted to the Trade Facilitation Programme of the European Bank for Reconstruction and Development to provide additional support for the foreign trade activity of its clients.

### ***Payroll Services and Corporate Credit Cards***

B.I.N.BANK offers payroll and remittance services to its corporate clients. Payroll services enable employers to reduce the costs of paying salaries to their employees, who are able to withdraw cash using payroll cards at all B.I.N.BANK branches, sub-branches, full service offices and ATMs. As of 31 December 2005, B.I.N.BANK was providing payroll services to approximately 440 companies. B.I.N.BANK also offers its corporate clients corporate Eurocards/Mastercards using the MasterCard International and Visa International systems for employees' business travel and related expenses.

### ***Leasing***

B.I.N.BANK, in cooperation with Politeks, an affiliated leasing company, offers a range of services in connection with structuring and funding leasing operations of its clients for which B.I.N.BANK generates fee income as well as providing loans to Politeks to fund its operations. B.I.N.BANK intends to expand its leasing operations as a means of diversifying its range of services and increasing its fee income by attracting new customers, primarily through its regional branches and based on a high demand of regional medium-sized enterprises for credit resources.

### ***Correspondent Banking***

B.I.N.BANK considers other banks to be an important client segment. B.I.N.BANK provides various services to its correspondents, including settlement services, transactions in the securities markets, documentary operations and plastic cards servicing.

### ***Corporate Finance Consultancy***

As a non-core activity, B.I.N.BANK offers its corporate clients advice on mergers and acquisitions, corporate restructurings and reorganisations, disposals of non-core assets and development of financing structures. B.I.N.BANK also advises its clients in their negotiations with rating agencies. B.I.N.BANK's revenues from its corporate finance services accounted for 6.68 per cent. of B.I.N.BANK's operating income as of 31 December 2005.



## **Retail Banking**

As of 31 December 2005, B.I.N.BANK's total gross loans to individuals less accrued interest income amounted to RUR1,924.1 million (U.S.\$66.85 million), and time deposits and repayable on demand deposits from individuals (less accrued interest expense on customer accounts) amounted to RUR13,344.95 million (U.S.\$463.65 million), as compared to RUR463.76 million (U.S.\$16.11 million) and RUR5,800.5 million (U.S.\$201.5 million), respectively, as of 31 December 2004 and RUR379.69 million (U.S.\$13.19 million) and RUR5,431.6 (U.S.\$188.71 million), respectively, as of 31 December 2003.

As at 31 December 2005, B.I.N.BANK had approximately 85,000 retail customer accounts.

Since 2002, B.I.N.BANK's strategy has focused on mass retail banking services, in particular, initially on deposit taking and payment and account services, and later on consumer finance and credit and debit cards.

B.I.N.BANK has provided mass retail deposit taking services since 2002, as part of B.I.N.BANK strategy to further diversify its funding base and increase its liquidity base through the growth of its retail deposit taking services.

B.I.N.BANK has provided consumer finance services since 2005 and intends to increase revenues from its consumer finance business as a proportion of its total revenues from lending services. In particular, from the middle of 2005, B.I.N.BANK has provided car loans to its retail customers and in February 2006, B.I.N.BANK launched a mortgage-lending programme.

To support such expansion, during 2004 and 2005, B.I.N.BANK has been developing the Strategic Risk Management Plan for Retail Banking based on the Experian Scorex solutions, thus starting to implement its own scoring system in its retail business.

### ***Deposit Taking and Payment and Account Services***

B.I.N.BANK offers its retail customers a range of term and on-demand deposits in Roubles, U.S. Dollars and Euros, with terms varying from 31 to 1,095 days and with average interest rates of 11 per cent. payable on term deposits in Roubles, 8 per cent. payable on term deposits in U.S. Dollars and 0.01 per cent. payable on on-demand deposits. While B.I.N.BANK seeks to accept deposits on a term basis, as a consequence of Russian law, all deposits are re-payable by B.I.N.BANK on demand. See "*Risk Factors – Risks Relating to B.I.N.BANK and the Russian Banking Sector – Interest Rate, Liquidity and Exchange Rate Sensitivity of B.I.N.BANK*"

As of 31 December 2005, B.I.N.BANK's retail customer accounts totalled RUR13,344.95 million (U.S.\$463.65 million), representing 43 per cent. of its total liabilities, compared to RUR5,800.46 million (U.S.\$209.04 million), representing 30.5 per cent. of its total liabilities, as of 31 December 2004 and RUR5,431.62 million (U.S.\$184.4 million), representing 36.9 per cent. of its total liabilities, as of 31 December 2003.

B.I.N.BANK's retail customers can access and operate their accounts through B.I.N.BANK's branches, sub-branches, ATMs, self-service points of sale, "cash-in" machines or through B.I.N.BANK's remote access systems.

### ***Loans to Individuals***

B.I.N.BANK offers loans to individuals in Roubles, U.S. Dollars and Euros. B.I.N.BANK has developed the following types of loan products for individuals:

- ***Car Loans***

B.I.N.BANK launched its car loan programme in 2005. B.I.N.BANK's car loans, which are denominated in Roubles, are generally limited to a maximum amount of RUR1.5 million (approximately U.S.\$50,000) per loan, have a maximum tenor of 60 months and an average fixed interest rate of 20 per cent. per annum and are secured by the cars purchased. Car loans amounted to RUR665.52 million (U.S.\$23.12 million) being approximately 2.7 per cent. of B.I.N.BANK's gross loan portfolio as of 31 December 2005.

- ***Mortgage Loans***

B.I.N.BANK launched its mortgage-lending programme in February 2006. B.I.N.BANK provides mortgage loans to borrowers aged between 21 and 55 years of age who have permanent



employment and who live in a region in which B.I.N.BANK operates. B.I.N.BANK's mortgage loans, which are denominated in Roubles or U.S. Dollars, are generally limited to a maximum amount of RUR12 million or U.S.\$400,000, have a tenor of 5 to 15 years and a fixed interest rate (on average 13 per cent. per annum for U.S. Dollar-denominated loans and 14.5 to 15 per cent. per annum for Rouble-denominated loans). Given the recent launch of the programme, the share of B.I.N.BANK's mortgage loans portfolio is currently not significant although B.I.N.BANK intends to increase its portion of the loan portfolio going forward.

- *Overdraft Facilities*

B.I.N.BANK offers overdraft facilities in Roubles, U.S. Dollars and Euros to holders of its plastic cards. B.I.N.BANK offers its depositors overdraft facilities in the amount of 25 to 80 per cent. of the amount of their deposits. These facilities bear an interest of 19 to 25 per cent. per annum. B.I.N.BANK also offers overdraft facilities in connection with payroll services. Such overdraft facilities do not exceed two monthly wages of an employee and have an interest rate of 19 to 25 per cent. per annum. See "*Credit and Debit Cards*" below.

B.I.N.BANK's portfolio of retail loans increased from RUR69.96 million or approximately 0.45 per cent. of B.I.N.BANK's loan portfolio as of 31 December 2004 to RUR230.15 million or approximately 1 per cent. of B.I.N.BANK's total loans as of 31 December 2005.

### ***Credit and Debit Cards***

B.I.N.BANK issues credit and debit cards, including VISA and MasterCard, to retail customers. Credit and debit cards are also issued in connection with payroll services provided by B.I.N.BANK.

In 2004, B.I.N.BANK commenced issuance of credit cards with agreed overdrafts (overdraft financing) to retail customers. B.I.N.BANK offers credit card overdraft financing to Russian citizens between 20 and 54 years of age who have permanent employment and who live in a region in which B.I.N.BANK operates. Credit card overdraft financing is provided in Roubles, U.S. Dollars or Euros, generally has a limit of RUR300,000 or U.S.\$10,000 or EUR10,000 (alternatively, the limit may be established by reference to the amount of the customer's deposit with B.I.N.BANK or the customer's salary) and a fixed interest rate ranging from 15 to 24 per cent. per annum for Rouble facilities and from 12 to 19 per cent. for U.S. Dollar/Euro facilities. The average interest rate payable on such overdrafts was 19 per cent. per annum as of 31 December 2005 and 22 per cent. per annum as of 31 December 2004. The value of B.I.N.BANK's credit card portfolio was RUR230 million (U.S.\$8 million), representing 1 per cent. of its total loan portfolio, as of 31 December 2005 and RUR70 million (U.S.\$2.43 million), representing 0.3 per cent. of its total loan portfolio, as of 31 December 2004.

As of 31 December 2005, B.I.N.BANK had approximately 100,000 debit cards in circulation, compared to approximately 45,000 debit cards in circulation as of 31 December 2004.

As part of its Credit Card Business Development Programme, B.I.N.BANK increased the number of its ATMs and cash-in machines from 95 as at 31 December 2004 to 171 as at 31 December 2005. In addition, credit and debit card holders can now obtain on-line information with respect to their card account transactions through B.I.N.BANK's SMS-service, by e-mail and on B.I.N.BANK's web site ([www.binbank.ru](http://www.binbank.ru)).

B.I.N.BANK operates a processing centre and constantly expands its cooperation with international processing companies. B.I.N.BANK's processing centre is certified by Visa International and MasterCard Europe. In 2004, B.I.N.BANK signed an agreement with EuroProcessing International ("**EPI**") (operating in 9 European countries) which provided for the cooperation of EPI and the "Obshchaya Karta" processing company controlled by B.I.N.BANK.

### ***Other Retail Banking Services***

B.I.N.BANK also provides a number of other banking services to individuals, including buying, selling and exchanging foreign currencies, individual safety deposit box rentals and express money transfers. B.I.N.BANK also offers its retail customers securities trading, portfolio asset management and custody services, as well as transactions with precious metals. In addition, B.I.N.BANK operates its own network of more than 170 ATMs in Moscow and other Russian regions.

### **Financial Markets Activities**

B.I.N.BANK's financial markets activities include transactions with securities and custody services.

### ***Transactions with Securities***

B.I.N.BANK trades in securities, including corporate promissory notes and Russian government and municipal debt instruments. B.I.N.BANK does not consider its securities portfolio to be part of its core business. B.I.N.BANK's financial markets activities are supplementary to its primary activities and generate additional revenues and liquidity for its corporate and retail operations. As of 31 December 2005, the total amount of B.I.N.BANK's assets held-for-trading equalled RUR873.3 million compared to RUR1,184.9 million as of 31 December 2004.

B.I.N.BANK's assets held-for-trading represented 2.31 per cent. of its total assets as of 31 December 2005, 5.19 per cent., as of 31 December 2004 and 0.87 per cent. as of 31 December 2003, in comparison to B.I.N.BANK's loans to customers (less allowance for impairment losses) which represented 61.7 per cent. of its total assets as of 31 December 2005, 71.54 per cent., as of 31 December 2004 and 72.1 per cent. as of 31 December 2003.

The following table sets out B.I.N.BANK's portfolio of assets held-for-trading as of 31 December 2005, 2004 and 2003:

	As of 31 December		
	2005	2004	2003
	<i>(in RUR thousands)</i>		
Promissory notes of financial institutions.....	322,659	385,146	23,410
Government bonds.....	550,621	685,025	101,273
Municipal bonds.....	–	114,709	8,755
Bonds of banks.....	–	–	17,973
Corporate bonds.....	–	–	3,547
<b>Total assets held-for-trading.....</b>	<b>873,280</b>	<b>1,184,880</b>	<b>154,958</b>

### ***Custody Services***

B.I.N.BANK offers its customers custody services with respect to a wide range of securities, including shares, state, municipal and corporate bonds and promissory notes for which it generates fee income.

### **Distribution**

#### ***Branch Network***

B.I.N.BANK has a wide network of 52 outlets, comprising: 15 full service offices in Moscow and 19 regional branches, each offering a comprehensive range of corporate and retail banking services, 5 representative offices and 13 regional sub-branches. In addition, B.I.N.BANK operates more than 170 ATMs in Moscow and the Russian regions.

To increase its market share and develop its SME and retail banking business, as well as move away from any focus on Moscow, B.I.N.BANK plans to continue the expansion of its branch network by opening new branches and sub-branches in industrially developed, highly populated Russian regions.

#### ***Internet***

B.I.N.BANK has been developing the use of the Internet as a tool to reach retail customers, B.I.N.BANK's existing retail customers are invited to submit their loan applications via B.I.N.BANK's public web site. See "*Lending Policies and Procedures – Retail Lending*".

### **Funding**

B.I.N.BANK's principal sources of funding are equity, retained earnings, corporate and retail deposits, loans and, to a lesser extent, promissory notes and bonds issued by B.I.N.BANK.

In 2003, B.I.N.BANK entered into its first syndicated loan in an aggregate amount of U.S.\$10 million with a tenor of one year and in relation to which Citibank acted as arranger.

In April 2004, B.I.N.BANK entered the Russian debt capital markets with its debut two-year bond issue in an aggregate amount of RUR1 billion (U.S.\$34.7 million) with an interest rate of 14 per cent. of par per annum and a maturity date of 13 June 2006. During the years 2004 and 2005, B.I.N.BANK made an early

redemption of RUR948.6 million (U.S.\$33 million) of such issue in order to reduce its cost of funding. The RUR51.4 million (U.S.\$1.8 million) outstanding as of 31 December 2005 is expected to be repaid on 15 April 2006.

In August 2005, B.I.N.BANK established a U.S.\$50 million programme for loan participation notes and placed its first U.S.\$11.5 million 9 per cent. per annum tranche of loan participation notes due August 2006 thereunder. A second tranche of U.S.\$13 million 8 per cent. per annum loan participation notes due December 2006 was issued in December 2005.

In April 2006, B.I.N.BANK entered into a U.S.\$40 million syndicated facility agreement. This loan bears an annual interest rate of LIBOR plus 3.2 per cent. and has a one-year maturity with a possibility of extension for an additional year at the request of B.I.N.BANK.

B.I.N.BANK's promissory note funding increased in 2006, primarily due to the issuance by B.I.N.BANK of additional Rouble denominated promissory notes freely tradable on the Russian market. B.I.N.BANK's issue of such promissory notes reduced its cost of funding from 11 per cent. to a range of 9.5 per cent. to 10.3 per cent. The net increase in B.I.N.BANK's promissory note portfolio was RUR1.4 billion as of 5 April 2006, as compared to 31 December 2005.

The following table sets out B.I.N.BANK's sources of funding (other than equity and retained earnings) as of 31 December 2005, 2004 and 2003:

	<b>As of 31 December</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>
	<i>(in RUR thousands)</i>		
<b>Liabilities</b>			
Deposits of banks.....	1,366,212	1,257,157	357,494
Corporate deposits, less accrued interest expense.....	13,318,191	9,957,521	6,787,281
Deposits of individuals, less accrued interest expense.....	13,344,953	5,800,465	5,431,622
Debt securities issued.....	2,581,112	1,812,140	1,538,228
Accrued interest expense on customers accounts.....	409,267	153,099	126,609
Provisions.....	22,086	44,224	45,954
Liabilities of discontinued operations.....	-	-	403,313
Other.....	6,209	17,668	34,331
<b>Total Liabilities</b> .....	<b>31,048,030</b>	<b>19,042,274</b>	<b>14,724,836</b>

## SUBSIDIARIES

The consolidated financial statements of B.I.N.BANK for the year ended 31 December 2005 consolidate Joint Stock Commercial Bank "Vyatka-Bank" ("**Vyatka-Bank**"), which is 4.98 per cent. owned by B.I.N.BANK. Vyatka-Bank is headquartered in Kirov and is focused on retail and SME lending.

B.I.N.BANK acquired control over Vyatka-Bank in 2002 and the financial statements of Vyatka-Bank were consolidated into the B.I.N.BANK financial statements starting from the acquisition date. During 2004, as part of a reorganisation exercise within the B.I.N. Group, B.I.N.BANK sold 85.05 per cent. of the share capital of Vyatka-Bank to shareholders of B.I.N.BANK. Although B.I.N.BANK retained only 4.92 per cent. of the voting shares of Vyatka-Bank, 95.08 per cent. of the voting shares of Vyatka-Bank belong to affiliated companies and shareholders of B.I.N.BANK. On the basis of the degree of control that B.I.N.BANK exercises over Vyatka-Bank through such shareholdings of affiliated companies and shareholders of B.I.N.BANK, Vyatka-Bank is currently consolidated within the financial statements of B.I.N.BANK.

## EMPLOYEES

As of 31 December 2005, the number of people employed by B.I.N.BANK was 1,671 (compared to 1,200 as of 31 December 2004). Approximately 588 employees are located in the head office and full service offices of B.I.N.BANK in Moscow and 1,083 employees are located in the regions.

As of 31 December 2005, staff costs of B.I.N.BANK amounted to RUR823.98 million, or approximately 47.7 per cent. of B.I.N.BANK's operating expenses, compared to RUR500.6 million, or about 37.5 per cent. of B.I.N.BANK's operating expenses, as of 31 December 2004. The Russian market is currently highly competitive for certain banking professional staff. Therefore, B.I.N.BANK is implementing a

human resources strategy aimed at attracting and retaining the qualified personnel it requires for the successful development of its business.

### **IT INFRASTRUCTURE**

IT is an integral part of B.I.N.BANK's daily operations. B.I.N.BANK is continuously implementing new technologies in order to ensure information support for its present and future business. B.I.N.BANK has developed a centralised information and data processing system linking together B.I.N.BANK's Moscow head office, its branches, sub-branches and full service offices allowing for the synchronised implementation of B.I.N.BANK's operational, lending and risk management policies.

B.I.N.BANK's corporate customers are able to conduct banking operations and manage their accounts through the iBank 2 remote access system. The iBank 2 remote access system allows B.I.N.BANK's corporate customers to make payments in Roubles and foreign currencies, obtain extracts from their bank accounts, keep records and communicate with B.I.N.BANK through a Web-browser 24 hours a day, seven days a week.

In 2004, B.I.N.BANK launched the installation of an automated risk management system for its retail banking based on the Experian Scorex software.

In 2005, B.I.N.BANK implemented its Customer Relationships Management System (CRM), SalesLogix, to improve the corporate governance and information flows of B.I.N.BANK.

In 2005, to increase the level of IT support to its business B.I.N.BANK decided to move to a centralised IT system. As the first step to such a system, B.I.N.BANK plans to implement BEA Web Logic middleware solutions. Following its implementation, B.I.N.BANK expects to acquire a new Automated Banking System to unify scoring, processing and data warehouse systems.

### **LITIGATION**

There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which B.I.N.BANK is aware) during the previous twelve months in relation to B.I.N.BANK, which may have, or have had in the recent past, significant effects on B.I.N.BANK's financial position or profitability.

## RISK MANAGEMENT

### Introduction

The purpose of B.I.N.BANK's asset, liability and risk management (collectively, "risk management") strategy is to evaluate, monitor and manage the size and concentration of the risks arising in the context of B.I.N.BANK's activities. The principal categories of risk inherent in B.I.N.BANK's business are credit risk, interest rate risk, currency risk, liquidity risk and operational risk. B.I.N.BANK has designed its risk management policy to manage these risks by establishing procedures and setting limits which are monitored by the relevant departments of B.I.N.BANK.

### Risk Management Organisational Structure

Risk management functions are divided between bodies that are responsible for establishing risk management policies and procedures, including the establishment of limits, and those whose function is to implement those policies and procedures, including monitoring and controlling risks and limits on a continuous basis.

### Policy Setting

The Board of Directors, the Management Board and the credit committees set B.I.N.BANK's risk management policy. These bodies have the following functions:

- *Board of Directors.* The Board of Directors has overall responsibility for B.I.N.BANK's risk management operations and assessment of risks affecting the operations of B.I.N.BANK. The Board of Directors also approves certain decisions that fall outside the scope of the credit committees' and the Management Board's authority. See "*Lending Policies and Procedures*" below.
- *Management Board.* The Management Board approves B.I.N.BANK's lending policy, appoints the credit committees and approves certain decisions that fall outside the scope of the credit committees' authority. The Management Board has also approved policies with respect to interest rate risk, currency risk, liquidity risk and operational risk management. Before 2006, B.I.N.BANK's assets and liabilities management committee performed certain cash flow interest rate, liquidity and currency risk management functions. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations of B.I.N.BANK*". The functions of the assets and liabilities management committee have been transferred to the Management Board and certain departments of B.I.N.BANK.
- *Credit Committees.* Credit committees of B.I.N.BANK supervise and manage B.I.N.BANK's credit risks. In particular, credit committees set credit limits and approve individual credit transactions.

### Policy Implementation

The risk management department, the financial committee, the economic planning department, the treasury department and the internal control department implement B.I.N.BANK's risk management policy.

- *Risk Management Department.* Risk management department is responsible for the monitoring and management of operational risks, calculation of limits and assessment of risks related to interest rates and currency positions. The activities of the risk management department are governed by B.I.N.BANK's charter, risk management policies and the bylaws of the risk management department.
- *Financial Committee.* The financial committee is responsible for implementation of interest rate and liquidity management policy. B.I.N.BANK's financial committee sets limits on assets and liabilities of B.I.N.BANK as well as interest rate risk limits.
- *Economic Planning Department.* The economic planning department assists the risk management department in calculation of limits and assessment of risks related to interest rates and currency positions.
- *Treasury Department.* The treasury department is primarily responsible for managing B.I.N.BANK's short-term and current liquidity within the applicable requirements and limits.
- *Internal Control Department.* The activities of the internal control department are governed by B.I.N.BANK's charter and the bylaws of the internal control department. The internal control



department is responsible for B.I.N.BANK's compliance with all applicable legislation and internal regulations and resolutions, including the credit policy of B.I.N.BANK. The internal control department reports to the Board of Directors (who appoints the head of the internal control department), the Management Board and the President of B.I.N.BANK.

### **Credit Risk**

In the normal course of business, B.I.N.BANK is exposed to credit risk, which is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligations. Credit risk arises, therefore, in the context of B.I.N.BANK's corporate lending activities, interbank operations, retail lending activities, debt capital market underwriting arrangements, trading and off-balance sheet activities, such as granting letters of credit or guarantees to a third party.

B.I.N.BANK has developed policies and procedures for the management of credit exposures, including the establishment of a credit committee, which actively monitors B.I.N.BANK's credit risk. The general principles of B.I.N.BANK's credit risk management policy are outlined in its Credit Risk Management Policy and supporting policies approved by B.I.N.BANK's Management Board.

Credit risk is evaluated on the basis of expected losses as a result of counterparty default risk, credit exposure and loss given default.

With corporate lending, the level of counterparty default risk is evaluated on the basis of B.I.N.BANK's internal credit rating system, under which credit risk is determined by reference to the credit history of companies in a particular industry sector and other available information, including reports by international and national credit rating agencies. B.I.N.BANK is currently developing its own counterparty default statistics. The internal credit ratings are assigned by the Risk Management Department.

With retail lending, B.I.N.BANK is developing a scoring system to determine the credit risk of retail customers, which will be applied in the context of B.I.N.BANK's consumer product programmes. B.I.N.BANK plans to implement this system in all its branches by the end of 2006.

The main instrument of credit risk management is establishing limits on the amount of risk accepted with respect to different types of transactions depending on markets, currencies, counterparties and terms together with control over the decision making process with respect to transactions which bear credit risk. Other instruments of credit risk management include insurance, hedging, provisioning and financial planning (diversification of loan portfolio).

Credit limits are established by the finance committee or the credit committee on the basis of the recommendations of the various banking business departments which enter into lending transactions and on the basis of recommendations of the risk management department. These limits are reviewed on a quarterly basis.

B.I.N.BANK's compliance with exposure limits is monitored by the back-office and the internal control department on a real-time basis. The risk management department also proposes amendments to such limits and to B.I.N.BANK's internal counterparty credit ratings.

### ***Non-Performing Loans Recovery***

B.I.N.BANK has developed a set of procedures which apply to non-performing loans. If a borrower does not perform its obligations under a loan agreement, it is the responsibility of the relevant B.I.N.BANK credit officer to initially determine whether the cause of late payment is administrative or credit related in nature. If the relevant credit officer determines the cause of the non-performance is anything other than administrative in nature, or the non-performance exceeds 90 days, the loan is referred to B.I.N.BANK's committee for non-performing loans.

The committee for non-performing loans decides on an action plan in relation to a non-performing loan, which details the specific steps deemed necessary to resolve the non-performance of the loan. Several approaches are available to the committee for non-performing loans to enforce problem loans including negotiations, court or other legal proceedings.

B.I.N.BANK also cooperates with Sequoia debt collection agency ("**Sequoia**") in dealing with non-performing retail loans. If a retail loan is 30 days overdue, B.I.N.BANK may assign it to Sequoia to recover the overdue amounts using a number of methods, including claiming the overdue amounts in court or restructuring the outstanding indebtedness of the borrowers.



The volume of non-performing loans in B.I.N.BANK's portfolio was less than 0.5 per cent. as at 31 December 2005.

### ***Provisioning policy***

#### *IFRS Provisioning*

B.I.N.BANK establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discontinued at the financial asset's original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed. The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that B.I.N.BANK considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees.

These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods B.I.N.BANK may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Under IFRS, as of 31 December 2005 B.I.N.BANK's average provisioning allowance amounted to 4.2 per cent. of its customer loan portfolio.

#### *RAS Provisioning*

For Central Bank regulatory purposes, B.I.N.BANK applies a methodology based on RAS to calculate loan provisioning and determine expected losses.

Under Central Bank regulations, provisions for loan impairment are established following a borrower's default under a loan or where there is objective evidence of the potential inability of the borrower to repay the loan. B.I.N.BANK creates provisions by reference to homogenous credit portfolios (i.e., groups of loans consolidated on the basis of a certain credit risk criteria (e.g., type of a credit product or the borrowers' industry sector or region of operation)) as well as by reference to individual credit products. Provisions with respect to homogenous credit portfolios are created by reference to the aggregate of the amount of actual and expected losses. Provisions with respect to individual credit products are calculated based on the borrower's financial condition and debt service quality. B.I.N.BANK has developed a policy for classification of loans into loss potential categories depending on the internal credit rating of the borrower and the quality of the credit product.

The table below sets out the loan classification of individual credit products that B.I.N.BANK applies for Central Bank regulatory purposes:

Loan Classification	Loss Potential	Provisioning Range (per cent.)
Standard.....	Almost None	0
Substandard.....	Relatively Low	1-20
Doubtful.....	Distinct	21-50
Problem.....	High	51-100
Loss.....	Uncollectable	100

**Market Risk**

Market risk arises from potential changes in the value of financial instruments, due to changes in market prices, rates, volatilities and mismatches between market positions which are intended to offset one another. B.I.N.BANK’s limits on market risks are set and managed by the treasury department.

The general principles of B.I.N.BANK’s market risk management policy are set out in the Market Risk Policy approved by the Management Board of B.I.N.BANK. The key techniques that B.I.N.BANK uses to manage market risk exposure are nominal market limits and stop loss limits.

The Market Risk Policy contains principles for establishing market limits that are based on the setting of direct limits on B.I.N.BANK’s exposure to a particular type of financial instrument and loss limits for each type of instrument, diversification of financial instruments’ and projections of future market conditions. B.I.N.BANK’s policy also restricts it from involvement in speculative market operations.

**Interest Rate Risk**

In the normal course of business B.I.N.BANK is exposed to interest rate risk, principally as a result of lending and making advances to customers and other banks at fixed interest rates in amounts and for periods which differ from those of term borrowings and term deposits at fixed interest rates. Interest rate risk is measured by the extent to which changes in market interest rates impact on margins and net interest income. To the extent the maturities of interest-bearing assets differ from those of liabilities, net interest income will increase or decrease as a result of movements in interest rates.

B.I.N.BANK’s Interest Rate Risk Management Policy is based on fundamental principles set forth in “*Principles for the Management and Supervision of the Interest Rate Risk*” of the Basel Committee on Banking Supervision.

B.I.N.BANK’s principles of interest rate risk management include, among others:

- The Management Board approves strategies and policies with respect to interest rate risk management, which senior management takes all steps necessary to monitor and control. The Management Board is regularly informed of the interest rate exposure of B.I.N.BANK.
- Senior management of B.I.N.BANK ensures that the level of interest rate risk it assumes is effectively managed, that appropriate policies and procedures are established to control and limit these risks, and that resources are available for evaluating and controlling interest rate risk.
- B.I.N.BANK identifies the risks inherent in new products and activities and ensures these are subject to adequate procedures and controls before being introduced or undertaken. The Management Board or appropriate delegated committee approves major hedging or risk management initiatives in advance.
- B.I.N.BANK measures its vulnerability to loss under stressful market conditions and takes those results into account when establishing or reviewing its policies and limits for interest rate risk.
- B.I.N.BANK releases to the public information on the level of interest rate risk and its policies for interest rate risk management.

B.I.N.BANK’s strategy and policy of managing interest rate risk are subject to approval by the Management Board. The credit committee is responsible for implementing B.I.N.BANK’s interest rate risk policy with respect to the requisite identification, assessment, supervision and management of such risks. The other subdivisions of B.I.N.BANK responsible for policy implementation are the risks department, the treasury department and the economic planning department.

B.I.N.BANK uses certain derivative instruments to hedge interest rate risk. Please see “*Management Discussion and Analysis of Financial Condition and Results of Operations of B.I.N.BANK – Cash Flow Interest Rate Risk*”.

The following table presents an analysis of interest rate risk and, thus, B.I.N.BANK’s potential exposure. Interest rates effective in 2005 and 2004 are analysed by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by B.I.N.BANK.

	As of 31 December								
	2005			2004			2003		
	RUR	U.S.\$	Other currencies	RUR	U.S.\$	Other currencies	RUR	U.S.\$	Other currencies
	(per cent.)								
<b>ASSETS</b>									
Time deposit with the Central Bank .....	–	–	–	1	–	–	1	–	–
Assets held-for-trading .....	7-11	3	–	7-12	3	–	10-18	3	–
Loans and advances to banks, less allowance for impairment losses.....	5-14	4.5-8	2.5	0.3-14	0.3-11	–	10-24	11-24	6-22
Loans to customers, less allowance for impairment losses.....	10-20	9-18	9-10	10-23	10-18	7.8-18	5-6.7	9-16	–
Investments available-for-sale	10-11	–	–	6.7-15	–	–	–	–	–
<b>LIABILITIES</b>									
Deposits of banks.....	–	–	3.3-5	0.5-11	0.5-9	–	4	2-5	3-4
Customer accounts.....	2.5-11	2.3-9	2.1-9	2-14	2.5-12	2.2-12	5-21	6-18	9-14
Debt securities issued.....	0-23	4-7	6	4-14	3-10	2.3-10	0-18	0-10.5	–

### Currency Risk

B.I.N.BANK has assets and liabilities denominated in several foreign currencies, predominantly in Roubles, U.S. Dollars and Euros. Currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

B.I.N.BANK is exposed to fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and cash flows, primarily in the context of B.I.N.BANK’s foreign currency lending and trading in foreign currency securities and money market instruments.

The Management Board of B.I.N.BANK has adopted the Currency Risk Management Policy. The main method used to restrict, supervise and manage currency risks at B.I.N.BANK is a system of limits.

The Credit and Stock Market Department analyses the open currency positions of B.I.N.BANK, monitors exchange rate fluctuations, calculates and sets limits. The Risks Department develops the methodology for such calculations, approves, implements and supervises compliance with the limits, and engages in day-to-day monitoring of decisions of the credit committee with respect to the limits relating to B.I.N.BANK’s currency positions.

B.I.N.BANK uses swaps, options and certain other derivative financial instruments to hedge against fluctuations in the U.S. dollar/Rouble exchange rate.

B.I.N.BANK's exposure to currency risk as of 31 December 2005 is presented in the table below.

	<u>RUR</u>	<u>U.S.\$</u>	<u>EUR</u>	<u>Other currencies</u>	<u>Total</u>
	<i>(in RUR thousands)</i>				
<b>ASSETS</b>					
Cash and balances with the Central Bank	3,030,970	269,032	57,571	4,786	3,362,359
Precious metals.....	–	–	–	24,899	24,899
Assets held-for-trading.....	871,643	1,637	–	–	873,280
Loans and advances to banks.....	4,129,872	5,027,674	685,873	20,297	9,863,716
Loans to customers, less allowance for impairment losses.....	20,235,770	1,498,485	1,560,559	54,297	23,349,111
Investments available-for-sale.....	10,500	–	–	–	10,500
Fixed assets, less accumulated depreciation.....	261,633	–	–	–	261,633
Current income tax assets.....	16,881	–	–	–	16,881
Other assets.....	62,985	518	91	1,408	65,002
<b>TOTAL ASSETS</b>	<u>28,620,254</u>	<u>6,797,346</u>	<u>2,304,084</u>	<u>105,687</u>	<u>37,827,381</u>
<b>LIABILITIES</b>					
Deposits of banks.....	21,901	3,104	1,285,108	56,099	1,366,212
Customer accounts.....	19,149,286	6,849,957	1,069,881	3,287	27,072,411
Debt securities issued.....	2,292,625	243,867	44,620	–	2,581,112
Provisions.....	22,086	–	–	–	22,086
Other liabilities.....	6,209	–	–	–	6,209
<b>TOTAL LIABILITIES</b>	<u>21,492,107</u>	<u>7,096,928</u>	<u>2,399,609</u>	<u>59,386</u>	<u>31,048,030</u>
<b>OPEN SHEET POSITION</b>	<u>7,128,147</u>	<u>(299,582)</u>	<u>(95,515)</u>	<u>46,301</u>	

### Liquidity Risk

Liquidity risk may arise due to a mismatch of assets and liabilities. The Management Board determines B.I.N.BANK's policy with respect to the management of liquidity within the framework of the Development Strategy approved by the General Meeting of Shareholders and approves current and future business plans specifying a liquidity index.

Pursuant to the Liquidity Management Policy, it is within the authority of the Management Board of B.I.N.BANK to take decisions on the following measures in support of liquidity:

- reduction of B.I.N.BANK's expenses;
- sale of real property;
- entering into subordinated facilities and loans; and
- establishment of a special regime for managing liquidity in the event of material deterioration of current or anticipated liquidity.

The Finance Committee of B.I.N.BANK also takes decisions on the management of liquidity, including:

- approval of caps on assets and liabilities; and
- approval of plans for allocation and attraction of resources.

The Treasury Department of B.I.N.BANK performs analysis, forecasts and regulates short-term (*mgnovennaya likvidnost*) liquidity and the Economic Planning Department conducts analysis, forecasts and regulates B.I.N.BANK's medium-term and long-term liquidity.

The match and/or controlled mismatch of asset and liability maturity periods and interest rates are crucial for managing the financial condition of B.I.N.BANK. Effective liquidity management is increasingly important to B.I.N.BANK due to its growing retail deposit base which has led to a recent increase in the proportion of its assets held in liquid securities or held on deposit with banking subsidiaries of the Central Bank. The following table presents an analysis of interest rate risk and liquidity risk of B.I.N.BANK as of 31 December 2005. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are repriced only at maturity.

	<b>Up to 1 month</b>	<b>1 to 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Maturity undefined</b>	<b>Total</b>
<i>(in RUR thousands)</i>							
<b>ASSETS</b>							
Assets held-for-trading .....	873,280	-	-	-	-	-	873,280
Loans and advances to banks.....	5,184,228	200,000	3,050,945	-	-	-	8,435,173
Loans to customers, less allowance for impairment losses.....	1,119,139	4,876,322	12,026,234	4,322,670	1,004,746	-	23,349,111
Investments available-for-sale .....	-	-	7,695	-	-	-	7,695
<b>Total interest-bearing assets .....</b>	<b>7,176,647</b>	<b>5,076,322</b>	<b>15,084,874</b>	<b>4,322,670</b>	<b>1,004,746</b>	<b>-</b>	<b>32,665,259</b>
Cash and balances with the Central Bank.....	2,554,510	-	-	-	-	807,849	3,362,359
Precious metals.....	24,899	-	-	-	-	-	24,899
Loans and advances to banks.....	1,370,585	-	57,958	-	-	-	1,428,543
Investments available-for-sale .....	-	-	2,805	-	-	-	2,805
Fixed assets, less accumulated depreciation.....	-	-	-	-	-	261,633	261,633
Current income tax assets.....	-	-	16,881	-	-	-	16,881
Other assets.....	-	65,002	-	-	-	-	65,002
<b>TOTAL ASSETS .....</b>	<b>11,126,641</b>	<b>5,141,324</b>	<b>15,162,518</b>	<b>4,322,670</b>	<b>1,004,746</b>	<b>1,069,482</b>	<b>37,827,381</b>
<b>LIABILITIES</b>							
Deposits of banks.....	9,837	-	-	288,604	1,043,922	-	1,342,363
Customer accounts.....	448,867	4,473,051	10,513,131	922,256	-	-	16,357,305
Debt securities issued .....	326,500	137,713	783,088	924,701	-	-	2,172,002
<b>Total interest bearing liabilities ....</b>	<b>785,204</b>	<b>4,610,764</b>	<b>11,296,219</b>	<b>2,135,561</b>	<b>1,043,922</b>	<b>-</b>	<b>19,871,670</b>
Deposits of banks.....	23,849	-	-	-	-	-	23,849
Customer accounts.....	10,715,106	-	-	-	-	-	10,715,106
Debt securities issued .....	79,423	4,241	318,094	7,352	-	-	409,110
Provisions.....	-	-	22,086	-	-	-	22,086
Other liabilities.....	6,209	-	-	-	-	-	6,209
<b>TOTAL LIABILITIES .....</b>	<b>11,609,791</b>	<b>4,615,005</b>	<b>11,636,399</b>	<b>2,142,913</b>	<b>1,043,922</b>	<b>-</b>	<b>31,048,030</b>
Liquidity gap.....	(483,150)	526,319	3,526,119	2,179,757	(39,176)	-	-
Interest sensitivity gap.....	6,391,443	465,558	3,788,655	2,187,109	(39,176)	-	-
Cumulative interest sensitivity gap	6,391,443	6,857,001	10,645,656	12,832,765	12,793,589	-	-
Cumulative interest sensitivity gap as a percentage of total assets...	16.9%	18.1%	28.1%	33.9%	33.8%	-	-

## Operational Risk

B.I.N.BANK is exposed to operational risk, which is the risk of losses resulting from employee mistakes and abuse by employees of their positions, technical failures and criminal acts.

The Management Board of B.I.N.BANK has approved the Operational Risk Management Policy which provides for operational risk evaluation and management techniques. This policy has been developed in accordance with recommendations of “*The New Basel Capital Accord*” and “*Sound Practices for the Management and Supervision of Operational Risk*” of the Basel Committee on Banking Supervision.

The subdivision of B.I.N.BANK responsible for assessing and administering the operational risk management system is the Risks Department. Each quarter, the Risks Department on the basis of information provided by other subdivisions analyses occurrences of operational risk, the results of which are used to improve B.I.N.BANK’s operational risk minimisation system.

## LENDING POLICIES AND PROCEDURES

### ***Priorities***

B.I.N.BANK's lending policy and procedures are set out in its lending policy approved by the Management Board as well as in a number of B.I.N.BANK's internal regulations. B.I.N.BANK's lending policy is based on the following priorities:

*Clients.* B.I.N.BANK's priority is to conduct business with clients having a good financial condition, positive credit history and offering marketable security.

*Industry.* B.I.N.BANK focuses on lending to corporate clients operating in the growth sectors of the Russian economy including oil and gas, energy, ferrous metallurgy, non-ferrous metallurgy, chemical and petrochemical industry, engineering, construction and real estate management, trade and food processing.

*Regions.* As part of its expansion policy, B.I.N.BANK plans to target developed regions where it can service leading corporates, such regions including the Central and the Northwest regions, the Urals, Siberia and the Volga region.

*Standard products.* B.I.N.BANK's lending policy establishes a set of standard lending products for individuals, corporates and banks, which facilitates prompt decision-making and mitigates operational risks.

*New products.* B.I.N.BANK expects to keep developing a range of products and services to meet the expectations of its clients.

### **Corporate Lending**

#### ***General***

B.I.N.BANK provides credit products to a wide range of corporate customers. B.I.N.BANK's traditional customer base consists of companies in the oil and gas, mining, construction and commercial real estate, trade and investment sectors, as well as governmental and municipal authorities.

B.I.N.BANK offers its corporate customers short-, medium- and long-term financing. Short-term financing has a tenor of up to one year with a lending limit dependant on a customer's financial conditions and performance, and medium- and long-term financings have a tenor of over one year with a lending limit dependant on a customer's financial conditions and performance. B.I.N.BANK provides medium and long-term financing mostly with an ECA backing. The range of available corporate lending products includes term loans, overdraft facilities, financial leasing, bank guarantees and letters of credit. B.I.N.BANK also provides financing by purchasing promissory notes issued by its corporate customers.

Loans are available in Roubles, U.S. Dollars, Euros and certain other foreign currencies. B.I.N.BANK's interests are protected by requiring borrowers to provide adequate collateral to secure the performance of its obligations. Such collateral generally has a value which is greater than the amount of the relevant loan. Eligible collateral includes property, plant and equipment, liquid securities or inventory or bank guarantees and third party guarantees. The value of the collateral must cover the principal amount of the loan and interest, as well as expenses that may arise when enforcing posted collateral. The value at which B.I.N.BANK accepts collateral envisages a discount to market value of the collateral. These discounts vary depending on the type of collateral in question and range from 20 per cent. to 70 per cent.

Unsecured loans are available under certain circumstances under B.I.N.BANK's programmes for retail lending approved by a credit committee of B.I.N.BANK.

#### ***Corporate Lending Procedures***

##### ***Review of Corporate Loan Applications***

Prospective borrowers are invited to submit corporate loan applications to B.I.N.BANK's corporate business department. Copies of the prospective borrower's constituent documents, financial statements and certain other documents must generally accompany loan applications. Before review by a relevant credit committee, all loan applications must be approved by the risk management department, the legal department, the collateral department and the information and economic security department.



Decisions relating to borrowings can only be taken by certain, selected branch credit committees up to preset limits or by one of the three credit committees at head office. For loan amounts which exceed the variable lending authority of branch credit committees, decisions relating to borrowings can only be taken by one of the three credit committees at head office. The following lending limits per borrower have been established for each of the credit committees:

- small credit committee: loans up to RUR15 million;
- credit committee: loans up to RUR100 million;
- large credit committee: loans above RUR100 million.

B.I.N.BANK's lending policy provides that decisions relating to borrowings should generally be taken within 10 days of the provision by the borrower of all necessary documents.

Upon approval of a loan by the relevant credit committee, the set of documents in respect of the prospective borrower is submitted to the credit products administration department (“CPAD”). CPAD is authorised to sign all standard form loan agreements on behalf of B.I.N.BANK. In the event that a loan agreement is not in standard form, CPAD agrees its execution with the legal department of B.I.N.BANK.

The offering and extension of products involving credit risk are sanctioned by one of the three credit committees of B.I.N.BANK and are subject to approval by the Board of Directors in cases where (i) the borrower is a party unrelated to B.I.N.BANK and the value of the transaction exceeds 5 per cent. of B.I.N.BANK's equity capital, or (ii) the borrower is a party related to B.I.N.BANK and the value of the transaction exceeds 3 per cent. of B.I.N.BANK's equity capital. Any loan whose approval is not within the authority of one of the credit committees of B.I.N.BANK must be submitted for approval to the Management Board or the Board of Directors together with a recommendation from the relevant head office's credit committee.

#### *Branch-Level Corporate Loan Applications*

The credit committees at B.I.N.BANK's branches and other credit subdivisions are assigned credit limits on autonomous lending. The parameters of autonomous lending are set for branches that meet a number of requirements, including expertise of the branch-level credit committee, requisite amount of repaid loans and a requisite low level of defaulted loans.

Before review by the branch-level credit committee, corporate loan applications must be approved by the legal department, the collateral department and the security department of the branch. Upon approval of a loan by the branch-level credit committee, the relevant loan agreement can generally be signed by the head of the branch acting on the basis of a power of attorney.

#### *Monitoring of Corporate Loans*

B.I.N.BANK monitors the financial condition and creditworthiness of its borrowers throughout the life of the loan. Monitoring of corporate loans involves CPAD, the collateral department, the information and economic security department and the corporate business department. B.I.N.BANK's departments evaluate credit risks in respect of each loan

by a:

- quarterly review of the borrower's compliance with the terms of the loan agreement;
- quarterly review of the financial statements of the borrower;
- quarterly review of financial and market position of the borrower; and
- regular assessment of the sufficiency of posted collateral or other security for the loan.

The volume of non-performing loans in B.I.N.BANK's portfolio was less than 0.5 per cent. as at 31 December 2005. See “*Risk Management – Credit Risk – Non-Performing Loans Recovery*”.

## **Retail Lending**

### ***General***

B.I.N.BANK offers car loans, mortgage loans and credit card overdraft financing to its retail customers.

B.I.N.BANK offers credit card overdraft financing to Russian citizens between 20 and 54 years of age who have permanent employment and are living in a region in which B.I.N.BANK operates. Credit card overdraft financing is provided in Roubles, U.S. Dollars or Euros, generally has a limit of RUR300,000 or

U.S.\$10,000 or EUR10,000 (alternatively, the limit may be established by reference to the amount of the customer's deposit with B.I.N.BANK or the customer's salary) and a fixed interest rate.

B.I.N.BANK offers consumer car loans to finance the purchase of new or used Russian or foreign-manufactured cars. B.I.N.BANK's car loans, which are denominated in Roubles, are generally limited to a maximum amount of RUR1.5 million and have a maximum tenor of 60 months and an average fixed interest rate of 20 per cent. per annum. They generally require a deposit payment and must be repaid in monthly instalments. Car loans are secured by the car purchased. B.I.N.BANK requires borrowers to obtain car insurance from an accredited insurance company.

B.I.N.BANK offers mortgage loans to finance the purchase of real estate as well as mortgage-backed loans for general purposes (together, the "**mortgage loans**"). B.I.N.BANK's mortgage loans are offered to borrowers aged between 21 and 55 years of age who have permanent employment and who live in a region in which B.I.N.BANK operates. B.I.N.BANK's mortgage loans, which are denominated in Roubles or U.S. Dollars, are generally limited to a maximum amount of RUR12 million or U.S.\$400,000 and have a tenor of 5 to 15 years and a fixed interest rate ranging from 13 to 15 per cent. per annum. The mortgage loans are usually repaid in monthly instalments and security is taken over the real estate purchased.

### ***Retail Lending Procedures***

#### *Review of Retail Loan Applications*

Retail loan applications are submitted to B.I.N.BANK's branches, sub-branches and full service offices or, in the case of existing customers only, through the Internet for existing customers. There are a number of internal regulations setting out the procedures for advancing loans to retail customers depending on the type and purpose of the loan and available credit support.

Most loans are approved at the branch level. Branches have different, variable limits on the maximum amount of a loan which may be disbursed to an individual borrower. These vary depending on the loan product, any collateral (on car loans and mortgages) and its quality. The limits are approved by the credit committees. The credit committees of B.I.N.BANK's head office take decisions on the provision of loans in excess of such limits.

B.I.N.BANK's existing customers are also invited to submit their loan applications for car loans, mortgage loans and overdraft facilities using the services available on B.I.N.BANK's public web site. Such applications are further processed by B.I.N.BANK's credit officers in accordance with general rules and regulations applicable to retail loans.

#### *Monitoring of Retail Loans*

Monitoring of retail loans involves the credit officers at the head office and at B.I.N.BANK's branches. The evaluation of credit risks is generally based on income certificates provided by the borrower on a regular basis.

## SELECTED STATISTICAL AND OTHER INFORMATION

Certain information included in this section has been extracted or derived from the B.I.N.BANK Financial Statements. Prospective investors should read this information in conjunction with “Management’s Discussion and analysis of Financial Condition and Results of Operations of B.I.N.BANK” and the B.I.N.BANK Financial Statements included elsewhere in this Prospectus.

The following table shows the range of interest rates on B.I.N.BANK’s interest bearing assets and liabilities by type for each of the periods indicated:

	31 December								
	2005			2004			2003		
	<i>RUR</i>	<i>U.S.\$</i>	<i>Other currencies</i>	<i>RUR</i>	<i>U.S.\$</i>	<i>Other currencies</i>	<i>RUR</i>	<i>U.S.\$</i>	<i>Other currencies</i>
<b>ASSETS</b>									
Time deposit with the Central Bank .....	–	–	–	1%	–	–	1%	–	–
Assets held-for-trading .....	7-11%	5.3%	–	7-12%	4.1%	–	10-18%	4.7%	–
Loans and advances to banks, less allowance for impairment losses.....	5-14%	4.5-8%	2.5%	0.3-14%	0.3-11%	–	10-24%	11-24%	6-22%
Loans to customers, less allowance for impairment losses.....	10-20%	9-18%	9-10%	10-23%	10-18%	7.8-18%	5-6.7%	9-16%	–
Investments available-for-sale	10-11%	–	–	6.7-15%	–	–	–	–	–
<b>LIABILITIES</b>									
Deposits of banks.....	–	–	3.3-5%	0.5-11%	0.5-9%	–	4%	2.5%	3-4%
Customer accounts.....	2.5-11%	2.3-9%	2.1-9%	2-14%	2.5-12%	2.2-12%	5-21%	6-18%	9-14%
Debt securities issued.....	0-23%	4-7%	6%	4-14%	3-10%	2.3-10%	0-18%	0-10.5%	–

### Liabilities by Maturity

The following table sets forth an analysis of B.I.N.BANK’s liabilities by contractual maturity as of the dates indicated:

	As of 31 December		
	2005	2004	2003
	<i>(in RUR thousands)</i>		
Up to 1 month.....	11,609,791	9,188,879	8,244,099
1 month to 3 months.....	4,615,005	3,461,183	1,411,393
3 months to 1 year .....	11,636,399	5,292,389	4,376,634
1 year to 5 years .....	2,142,913	949,577	405,973
Over 5 years.....	1,043,922	150,246	286,737
<b>Total liabilities</b> .....	<b>31,048,030</b>	<b>19,042,274</b>	<b>14,724,836</b>

### Liabilities by Currency

The following tables set out B.I.N.BANK’s liabilities by Roubles and foreign currency as of 31 December 2005, 2004 and 2003:

	RUR	U.S.\$	EUR <sup>(1)</sup>	Other currency	31 December 2005
	<i>Total (in RUR thousands)</i>				
<b>LIABILITIES</b>					
Deposits of banks.....	21,901	3,104	1,285,108	56,099	1,366,212
Customer accounts.....	19,149,286	6,849,957	1,069,881	3,287	27,072,411
Debt securities issued .....	2,292,625	243,867	44,620	–	2,581,112
Provisions.....	22,086	–	–	–	22,086
Other liabilities.....	6,209	–	–	–	6,209
<b>Total Liabilities</b> .....	<b>21,492,107</b>	<b>7,096,928</b>	<b>2,399,609</b>	<b>59,386</b>	<b>31,048,030</b>

(1) Solely for the convenience of the reader, translations of the corresponding Euro amounts into Roubles were at a conversion rate of EUR 1 = RUR34.7850

	<u>RUR</u>	<u>U.S.\$</u>	<u>EUR<sup>(1)</sup></u>	<u>Other currency</u>	<u>31 December 2004</u>
					<i>Total (in RUR thousands)</i>
<b>LIABILITIES</b>					
Deposits of banks.....	259,124	45,742,	874,662	77,629	1,257,157
Customer accounts.....	11,421,544	3,545,394	941,023	3,124	15,911,085
Debt securities issued.....	1,715,108	97,032	–	–	1,812,140
Provisions.....	1,965	14,465	27,794	–	44,224
Other liabilities.....	17,668	–	–	–	17,668
<b>Total Liabilities .....</b>	<b><u>13,415,409</u></b>	<b><u>3,702,633</u></b>	<b><u>1,843,479</u></b>	<b><u>80,753</u></b>	<b><u>19,042,274</u></b>

(1) Solely for the convenience of the reader, translations of the corresponding Euro amounts into Roubles were at a conversion rate of EUR1 = RUR34.7850

	<u>RUR</u>	<u>U.S.\$</u>	<u>EUR<sup>(1)</sup></u>	<u>Other currency</u>	<u>31 December 2003</u>
					<i>Total (in RUR thousands)</i>
<b>LIABILITIES</b>					
Deposits of banks.....	229,440	14,796	113,162	96	357,494
Customer accounts.....	5,305,370	5,727,458	1,310,639	2,049	12,345,516
Debt securities issued.....	1,211,464	322,757	4,007	–	1,538,228
Liabilities of discontinued operations...	403,313	–	–	–	403,313
Provisions.....	45,954	–	–	–	45,954
Other liabilities.....	31,968	2,350	–	13	34,331
<b>Total Liabilities .....</b>	<b><u>7,227,509</u></b>	<b><u>6,067,361</u></b>	<b><u>1,427,808</u></b>	<b><u>2,158</u></b>	<b><u>14,724,836</u></b>

(1) Solely for the convenience of the reader, translations of the corresponding Euro amounts into Roubles were at a conversion rate of EUR1 = RUR34.7850

### Loan Portfolio

As at 31 December 2005, B.I.N.BANK's total loans to customers (net of provision for impairment losses) amounted to RUR23,349.1 million (U.S.\$811.2 million) and total customer accounts amounted to RUR27,072.4 million (U.S.\$940.6 million). As at 31 December 2004, B.I.N.BANK's total loans to customers (net of provision for impairment losses) amounted to RUR16,323.4 million (U.S.\$567.13 million) and total customer accounts amounted to RUR15,911 million (U.S.\$592.8 million). As at 31 December 2003, B.I.N.BANK's total loans to customers (net of provision for impairment losses) amounted to RUR12,904.9 million (U.S.\$448.36 million) and total customer accounts amounted to RUR12,345.5 million (U.S.\$428.92 million).

## Loans by Type

The following table sets out details of B.I.N.BANK's loans by type, as at 31 December 2005, 2004 and 2003:

	As of 31 December		
	2005	2004	2003
	<i>(in RUR thousands)</i>		
<b>Analysis by sector:</b>			
<b>Individuals</b> .....	<b>1,924,074</b>	<b>463,757</b>	<b>379,689</b>
Retail trade .....	3,897,928	2,034,491	659,151
Office property holding .....	3,317,342	2,964,549	1,762,144
Supermarkets property holding .....	2,994,025	1,886,079	898,147
Warehouse property holding .....	2,629,561	2,577,461	329,100
Manufacturing .....	2,480,580	335,535	586,628
Investing activities .....	1,563,455	966,704	795,272
Oil refinery Services .....	1,442,134	1,159,766	3,163,347
Services .....	1,013,360	–	–
Production and marketing of soda .....	889,847	–	–
Construction .....	822,756	718,137	243,778
Agriculture .....	544,456	1,097,700	584,619
Government .....	435,114	144,211	106,530
Insurance .....	92,534	–	–
Hotel business .....	73,371	–	–
Coal mining industry .....	–	1,230,766	476,752
Oil production and refining .....	–	949,546	2,710,527
Gold mining .....	–	394,209	446,221
Other .....	97,810	92,232	304,373
<b>Total corporate loans</b> .....	<b>22,294,273</b>	<b>16,551,386</b>	<b>13,066,589</b>
Accrued interest income on loans to customers .....	154,387	93,401	59,665
	24,372,734	17,108,544	13,505,943
Less allowance for impairment losses .....	(1,023,623)	(785,187)	(601,080)
<b>Total loans to customers, net</b> .....	<b>23,349,111</b>	<b>16,323,357</b>	<b>12,904,863</b>

## Credit related commitments

B.I.N.BANK has commitments in respect of, *inter alia*, guarantees and letters of credit on behalf of its customers. These instruments bear a credit risk similar to that of loans granted to customers.

The following table sets out the details of B.I.N.BANK's commitments on guarantees, letters of credit and other transaction-related contingent obligations and commitments on loans and unused lines of credit, as of the dates indicated.

As of 31 December

	2005		2004		2003	
	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount	Nominal amount	Risk weighted amount
	<i>(in RUR thousands)</i>					
<b>Contingent liabilities and credit commitments.....</b>						
Guarantees issued and similar commitments.....	3,298,260	3,298,260	1,283,393	1,283,393	1,240,461	1,240,461
Letter of credit and other transaction related contingent obligations.....	1,294,549	647,275	1,057,991	528,996	74,621	37,311
Commitments on loans and unused credit lines .....	1,481,862	74,093	3,509,166	175,458	939,408	46,439
<b>Total contingent liabilities and credit commitments.....</b>	<b>6,074,671</b>	<b>4,019,628</b>	<b>5,850,550</b>	<b>1,987,847</b>	<b>2,254,490</b>	<b>1,324,211</b>

**Loans by currency**

The following table sets out an analysis of the exposure by currency of B.I.N.BANK's customer loan portfolio (net of allowance for impairment losses), as of the dates indicated.

	2005		2004		2003	
	<i>(in RUR thousands)</i>	%	<i>(in RUR thousands)</i>	%	<i>(in RUR thousands)</i>	%
RUR.....	20,235,770	86.67	12,316,181	75.45	6,998,406	54.23
U.S.\$.....	1,498,485	6.42	2,600,345	15.93	4,435,323	34.37
EUR, .....	1,560,559	6.68	1,331,753	8.16	1,471,134	11.40
Other currency.....	54,297	0.23	75,078	0.46	–	–
<b>Total .....</b>	<b>23,349,111</b>	<b>100.00</b>	<b>16,323,357</b>	<b>100.00</b>	<b>12,904,863</b>	<b>100.00</b>

U.S.\$ 1 = RUR28.7825 EUR1 = RUR34.7850

**Loans by maturity**

In common with most other Russian banks, B.I.N.BANK's loan portfolio is predominantly short-term. The following table sets out the contractual maturity structure of B.I.N.BANK's loans to customers (net of allowance for impairment losses), as of the dates indicated.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2005
	<i>(in RUR thousands)</i>					
Loans to customers, less allowance for impairment losses.....	1,119,139	4,876,322	12,026,234	4,322,670	1,004,746	23,349,111
	<i>(in RUR thousands)</i>					
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2004
Loans to customers, less allowance for impairment losses .....	1,077,851	3,327,947	9078,188	2,207,676	631,695	16,323,357
	<i>(in RUR thousands)</i>					
	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2003
Loans to customers, less allowance for impairment losses.....	1,688,379	1,650,839	7,410,702	1,927,284	227,659	12,904,863

**Geographical concentration of loans**

B.I.N.BANK has a significant geographical concentration of loans issued to borrowers in the Moscow region. B.I.N.BANK's loans to customers in Moscow and the Moscow region represented approximately



84.9 per cent. of the total loan portfolio as of 31 December 2005, 86.5 per cent. of the total loan portfolio as of 31 December 2004 and 88.1 per cent. of the total loan portfolio as of 31 December 2003. See *Strategy - Network Expansion*".

### Exposure to Ten Largest Borrowers

The following table represents a list of B.I.N.BANK's ten largest borrowers by industry as of 31 December 2005.

No.	Exposure size (in RUR thousands)	Per cent. of B.I.N.BANK's loans to customers (gross of allowance for impairment)	Industry in that the borrower operates
1	1,580,000	6.48	Office property holding
2	1,278,460	5.25	Warehouse property holding
3	1,227,400	5.04	Warehouse property holding
4	800,000	3.28	Oil refinery products trading
5	789,460	3.24	Warehouse
6	787,371	3.23	Office property holding
7	778,688	3.19	Office property holding
8	741,320	3.04	Production and marketing of soda
9	682,628	2.80	Office property holding
10	630,000	2.58	Office property holding
Total Top 10 Borrowers	9,295,327	38.14	

## MANAGEMENT

For a chart outlining the management structure of B.I.N.BANK, see “Business – Organisational Structure”.

The management of B.I.N.BANK is separated into various levels and sub-levels, each responsible for different aspects of B.I.N.BANK’s overall activities. The highest level of management, and ultimate decision-making body, is the General Meeting of Shareholders. This is followed by the Board of Directors which is responsible for the general management of B.I.N.BANK, including strategy coordination and general supervision. The Board of Directors appoints the Management Board which is the collective executive body of B.I.N.BANK and the President (Chairman of the Management Board) who is the sole executive officer of B.I.N.BANK. The President presides at meetings of the Management Board and, together with the latter, is responsible for the day-to-day operations of B.I.N.BANK. A brief description of each of the General Meeting of Shareholders, the Board of Directors and the Management Board is set out below.

### **General Meeting of Shareholders**

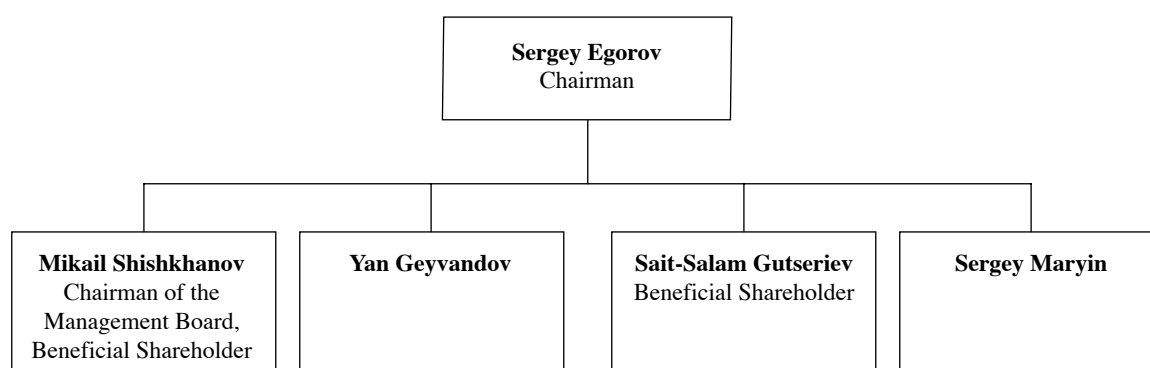
The General Meeting of Shareholders is B.I.N.BANK’s supreme governance body. General Meetings of Shareholders are convened by the Board of Directors at least once a year. The following matters can only be dealt with by the General Meeting of Shareholders and may not be delegated to other managing bodies of B.I.N.BANK:

- alteration of B.I.N.BANK’s charter (other than in connection with establishment and closing of branches and representative offices of B.I.N.BANK);
- reorganisation and liquidation of B.I.N.BANK, appointment of a liquidation committee and approval of interim and final liquidation balance sheets;
- determination of the composition of the Board of Directors, election of its members and early termination of their powers;
- determination of the amount, nominal value and type of authorised shares;
- increases and reductions in B.I.N.BANK’s share capital (other than in limited number of circumstances when the Board of Directors is entitled to increase the share capital of B.I.N.BANK);
- election of the audit committee and appointment of B.I.N.BANK’s auditor;
- approval of the annual statutory accounting and reports;
- approval of dividends;
- approval of B.I.N.BANK’s participation in financial groups, holdings and associations; and
- certain other matters provided for by law and under B.I.N.BANK’s charter.

### **Board of Directors**

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law and by B.I.N.BANK’s charter as being the exclusive responsibility of the General Meeting of Shareholders. B.I.N.BANK’s Board of Directors meets when necessary and adopts its decisions by simple majority provided that a quorum of half of the elected members of the Board of Directors is present, unless otherwise required by law or B.I.N.BANK’s charter. Members of B.I.N.BANK’s Board of Directors are elected until the next annual General Shareholders’ Meeting and may be re-elected an unlimited number of times.

The following chart sets out the composition of B.I.N.BANK's board of directors.



There are 5 members of B.I.N.BANK's Board of Directors. The current members of the Board of Directors were elected by B.I.N.BANK's shareholders at a General Meeting of Shareholders held on 7 April 2006. The name, position and certain other information for each member of the Board of Directors of B.I.N.BANK are set out below.

*Sergey Egorov* has been Chairman of the Board of Directors of B.I.N.BANK since 2002. Prior to that Mr. Egorov was the President of the Association of Russian Banks (1991-2002) and the Chairman of the Executive Board of the Central Bank (1973-1989). Mr. Egorov graduated from the Saratov State University and the Leningrad Financial Academy. He is also a Vice-President of the Russian Union of Industrialists and Entrepreneurs, a Deputy Chairman of the Executive Board and a member of the Presidium of the Russian Chamber of Trade and Industry, a Member of the Business Council attached to the Government of Moscow, a former Member of the board of directors of ARCO (the Agency for Restructuring of Credit Organisations).

*Mikail Shishkhanov* has been a Member of the Board of Directors of B.I.N.BANK since 2004 and the President of B.I.N.BANK since 1996. He is also a beneficial shareholder of 64.58 per cent. of B.I.N.BANK's share capital and a relative of another Member of the Board of Directors, Mr. Gutseriev. Mr. Shishkhanov graduated from the Peoples Friendship University in 1993 (faculty of law) and 1995 (faculty of economics). In 2000 Mr. Shishkhanov graduated from the Russian Institute of Finance and Economy with a degree in economics. Mr. Shishkhanov holds a PhD degree both in Jurisprudence and Economy.

*Yan Geyvandov* has been a Member of the Board of Directors of B.I.N.BANK since 2006. Mr. Geyvandov graduated from the faculty of law of the Military Institute of the Ministry of Defense. Mr. Geyvandov is a professor of Jurisprudence. He was previously an adviser to the Chairman of the Central Bank. Mr. Geyvandov was nominated by OJSC GNK Nafta Moskva to sit on the Board of Directors of B.I.N.BANK.

*Sait-Salam Gutseriev* has been a Member of the Board of Directors of B.I.N.BANK since 2006. He is also a beneficial shareholder of 6.19 per cent. of B.I.N.BANK's share capital and a relative of another Member of the Board of Directors, Mr. Mikail Shishkhanov. Mr. Gutseriev graduated from the Petroleum Institute of the City of Grozny and the Financial Academy. Mr. Gutseriev holds a PhD degree both in Jurisprudence and Economy. Mr. Gutseriev is also a deputy of the State Duma of Russia, a member of the Board of Directors of Russneft oil company and the Chairman of the Board of Directors of OJSC "TTC na Varshavskom shosse".

*Sergey Maryin* has been a Member of the Board of Directors of B.I.N.BANK since 2005. Prior to that he was a Deputy Chairman of the Management Board of CJSC "Guta-Bank" and the President of LLC "Payment System "Rapida". Mr. Maryin graduated from the Financial Academy in 1995 with a degree in economics and banking. He is also a First Vice-President and an Adviser to the President of B.I.N.BANK.

### **Management Board**

The Management Board is B.I.N.BANK's collective executive body and is elected by the Board of Directors. The Management Board meets biweekly and otherwise as necessary and makes its decisions by simple majority provided that a quorum of half of the elected members of the Management Board is

present. The Management Board is responsible for B.I.N.BANK's day-to-day management and administration. The President (Chairman of the Management Board) represents B.I.N.BANK and acts as its Chief Executive Officer.

There are 5 members of B.I.N.BANK's Management Board. The name, position and certain other information for each member of the Management Board is set out below.

*Mikhail Shishkhanov* has been the President of B.I.N.BANK since 1996 and a Member of the Board of Directors of B.I.N.BANK since 2004. He is also a beneficial shareholder of 64.58 per cent. of B.I.N.BANK's share capital and a relative of a Member of the Board of Directors, Mr Sait-Salam Gutseriev. Mr. Shishkhanov graduated from the Peoples Friendship University in 1993 (faculty of law) and 1995 (faculty of economics). In 2000 Mr. Shishkhanov graduated from the Russian Institute of Finance and Economy with a degree in economics. Mr. Shishkhanov holds a PhD degree both in Jurisprudence and Economy.

*Grigory Gusselnikov* has been a First Vice-President of B.I.N.BANK since 2003. Prior to that, he was a Senior Vice-President and Director of Retail Business Department (2002-2003), a Vice-President and Director of Retail Business Department (2001-2002). Mr. Gusselnikov graduated from the Tomsk Polytechnic University with a degree in economics.

*Oleg Kharitonov* has been a Senior Vice-President of B.I.N.BANK responsible for international business, financial institutions, and financial and capital markets since 2003. Prior to that he was a Vice-President, Director of Finance and Capital Markets Division (2002 – 2003), a Deputy Director of Currency Operations Division (2001 – 2002) and a Deputy Director of International Relations and Currency Operations Division, Head of Currency Operations Department (1999 – 2001). Mr. Kharitonov graduated from the Moscow State Institute of International Relations (MGIMO University) with a degree in international economic relations.

*Natalia Lazareva* has been a Senior Vice-President since 2003. Prior to that she was a Vice-President, Director of HR, Economics Department and Legal Department (2002 – 2003). Ms. Lazareva graduated from the Lomonosov Moscow State University (MGU University) with a degree in psychology.

*Sergey Goraschenko* has been a Senior Vice-President since 2005. Prior to that he occupied various positions in the retail business department and the marketing department of B.I.N.BANK. Mr. Goraschenko graduated from the Tomsk Polytechnic University.

The business address of each member of the Board of Directors and the Management Board is 5a, Grodnenskaya street, Moscow, 121471, Russia.

There are no conflicts of interest between the Board of Directors of B.I.N.BANK or the Management Board of B.I.N.BANK in their official capacity and their private interests.

## SHAREHOLDERS

As of 31 March 2006, the share capital of B.I.N.BANK was RUR3,415,000,000, comprised of 17,075,000 ordinary registered shares with a nominal value of RUR200 each.

The following table sets forth B.I.N.BANK's principal shareholders (as of 31 March 2006) appearing on B.I.N.BANK's register of shareholders:

Shareholder	Percentage
OJSC GNK Nafta Moskva .....	19.99
LLC Tradevest.....	19.99
LLC Business Centre "Zubarevsky" .....	11.92
OJSC IK Nordfest.....	11.92
OJSC IK Garant-Invest.....	5.96
CJSC Chaika Plaza .....	2.96
OJSC IK Uran-Invest.....	5.93
OJSC IK AMI-Invest .....	5.90
OJSC IK Nadezhnost .....	3.23
CJSC PFK B.I.N.....	2.96
LLC Spetsstroyavtomatika.....	2.96
CJSC Russian Oil Export .....	2.93
LLC Russtroy .....	2.50
Others (less than 0.5% each) .....	0.85
<b>Total</b> .....	<b>100</b>

As of 31 March 2006, Mikail Shishkhanov, Suleiman Kerimov and Sait-Salam Gutseriev beneficially owned 64.58 per cent, 19.99 per cent. and 6.19 per cent, respectively, of the share capital of B.I.N.BANK. The rest of the shares are held by minority shareholders of B.I.N.BANK.

### **Rights of B.I.N.BANK's Shareholders**

Under B.I.N.BANK's charter and the Russian legislation, B.I.N.BANK's shareholders have the following rights:

- to participate and vote in the General Meeting of Shareholders on all the matters which fall under the competence of the latter;
- to receive information on B.I.N.BANK's activity;
- to receive dividends;
- to receive a liquidation quota upon B.I.N.BANK's liquidation; and
- the benefit of certain other rights provided for by Russian law and B.I.N.BANK's charter.

## RELATED PARTY TRANSACTIONS

For the purposes of the B.I.N.BANK Financial Statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

B.I.N.BANK is a member of the B.I.N. Group, which is jointly controlled by several shareholders that have common economic interests, mostly in the oil industry, banking, real estate management and retail. The B.I.N. Group made equity contributions of U.S.\$50 million in 2005 and 2001 to B.I.N.BANK. B.I.N.BANK had the following transactions outstanding with related parties:

	For the year ended 31 December 2005		For the year ended 31 December 2004	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
	<i>(in RUR thousands)</i>			
Loans to customers, gross .....	1,684,372	24,372,734	1,415,555	17,108,544
Allowance for impairment losses on loans to customers.....	(69,321)	(1,023,623)	(52,619)	(785,187)
Customer Accounts.....	1,763,556	27,072,411	291,995	15,911,085

During the years ended 31 December 2005 and 2004, B.I.N.BANK originated loans and advances to related party customers amounting to RUR869.7 million and RUR1,415.6 million, respectively.

During the years ended 31 December 2005 and 2004, B.I.N.BANK received advances from related party customers amounting to RUR1,763.6 million and RUR251.7 million, respectively.

Included in the profit and loss account for the years ended 31 December 2005 and 2004 are the following amounts, which arose due to transactions with related parties:

	For the year ended 31 December 2005		For the year ended 31 December 2004	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
	<i>(in RUR thousands)</i>			
Interest income .....	59,819	3,419,961	232,467	2,322,283
Fee and commission income.....	117,902	636,667	149,595	462,097
Operating lease and security expenses .....	(82,996)	(346,754)	(102,260)	(288,976)

Transactions with related parties entered by B.I.N.BANK during the years ended 31 December 2005 and 2004 and outstanding as at these dates were made in the normal course of business and mostly on an arm's length basis.



## THE ISSUER

### General

The Issuer is a public limited liability company (*société anonyme*), incorporated on 5 April 2006 in the Grand Duchy of Luxembourg (“Luxembourg”), for an unlimited period under the Luxembourg Law of 10 August 1915 on Commercial Companies, as amended. The Issuer operates under Luxembourg law. The Issuer has its registered office at 2, boulevard Konrad Adenauer, L-1115 Luxembourg, with telephone number +352 421 22 243 and fax number +352 421 22 718. The Issuer is registered with the Luxembourg Register of Commerce and Companies under number B115654 and the Articles of Incorporation (“**statuts**” or the “**Articles**”) will be published in the Mémorial C Recueil des Sociétés et Associations.

### Corporate Purpose of the Issuer

Article 3 of the Articles provides that the corporate object of the Issuer is:

- the issue of notes and loan participation notes for the purpose of financing loans to B.I.N.BANK;
- the granting of loans to B.I.N.BANK;
- the granting of security interests over its assets in relation to the issuance of the notes and loan participation notes;
- the making of deposits (including fiduciary deposits) at banks or with other depositaries; and
- the entering into all ancillary transactions, documents and agreements.

The Issuer may carry out any transactions, whether commercial or financial, which are directly or indirectly connected with its corporate object, excluding any banking activity.

In general, the Issuer may carry out any operation, which it may deem useful or necessary in the accomplishment and the development of its corporate purpose.

### Business Activity

The Issuer has not commenced operations or carried on any activities other than those incidental to its incorporation, the issue of the Notes, the Loan, the authorisation and the issue of the Notes.

### Corporate Administration

The Directors (as defined in “Management” below) have been appointed as directors (“*administrateurs*”) of the Issuer. Certain administrative and corporate and related services will be provided to the Issuer by Deutsche Bank Luxembourg S.A. in its capacity as corporate administrator (“*société de domiciliation*”) pursuant to a corporate services and domiciliation agreement dated 11 April 2006.

### Capital

As of the date of this Prospectus, the subscribed share capital of the Issuer amounts to fifty thousand U.S. Dollars (U.S.\$50,000) divided into five hundred (500) registered shares with a par value of one hundred U.S. Dollars (U.S.\$100) each. All of the shares are fully paid up.

### Shareholders

The issued and outstanding shares in the Issuer’s share capital are owned and controlled as follows: Stichting B.I.N. Capital owns 499 shares and Stichting Participatie DITC Amsterdam owns 1 share.

### Management

The Issuer is managed by its board of directors, who are appointed by the shareholders. The current directors (the “**Directors**”) of the Issuer are:

- Rolf Caspers, banker, with professional address at 2, boulevard Konrad Adenauer, L-1115 Luxembourg;
- Vincent de Rycke, banker, with professional address at 2, boulevard Konrad Adenauer, L-1115 Luxembourg; and

- Tom Verheyden, banker, with professional address at 2, boulevard Konrad Adenauer, L-1115 Luxembourg.

None of the directors of the Issuer have any conflict or potential conflict between their duties to the Issuer and their other activities.

### **Real Estate Assets**

The Issuer does not own any real estate assets.

### **Business Year**

The business year of the Issuer begins on the first day of January and ends on the last day of December of each year. The first business year of the Issuer begins on the date of incorporation of the Issuer and ends on 31 December 2006.

The annual general meeting of the Issuer shall be held at the registered office of the Issuer or at such other place as may be specified in the notice convening the meeting on the third Friday of May of each year, at 3 p.m. If such day is a public holiday, the meeting will be held on the next following business day.

The annual general meeting shall be held for the first time in 2007.

### **Statutory Auditors**

The statutory auditors of the Issuer are AACO (ACCOUNTING, AUDITING, CONSULTING & OUTSOURCING), S.à.r.l., with registered office at 28, rue Michel Rodange L-2430 Luxembourg and registered with the Luxembourg Register of Commerce and Companies under number B-88.833. No external auditor has been appointed.

### **Financial Statements**

Financial statements will be published by the Issuer on an annual basis. These statements will not be approved by an external auditor.

Since its incorporation on 5 April 2006, the Issuer has not commenced operations and no financial statements have been made up as at the date of the Prospectus. The Issuer intends to publish its first annual financial statements in respect of the year ending 2006. Any future published financial statements prepared by the Issuer (which will be in respect of the period ending on 31 December in each year) will be available from the Paying Agent in Luxembourg.

The Issuer will not produce interim financial statements.

### **Capitalisation**

The following table sets forth the unaudited capitalisation of the Issuer as at the date of this Prospectus:

	<u>Actual</u>	<u>As adjusted</u>
	<i>(Unaudited)</i>	
	<i>(in U.S.\$ thousands)</i>	
<b>Liabilities</b>		
The Notes .....	–	200,000
<b>Shareholders' equity</b>		
Issued and fully subscribed share capital .....	50	50
<b>Total capitalisation</b> .....	<u>50</u>	<u>200,050</u>

Other than as detailed above, the Issuer does not have any loan capital or borrowings (whether secured or unsecured, guaranteed or unguaranteed), contingent liabilities or guarantees.

### **Litigation**

There are no, and have not been, any legal or arbitration proceedings against or affecting the Issuer, nor is the Issuer aware of any pending or threatened proceedings of such kind, which may have, or have had, since its incorporation on 5 April 2006, prior to the date of this Prospectus a significant effect on the financial position of the Issuer.

**No Conflict of Interests**

There are no potential conflicts of interests between any duties to the Issuer, of the Directors, of the statutory auditors and their private interests and or other duties.

## THE LOAN AGREEMENT

**LOAN AGREEMENT**, dated 11 May 2006 **between:**

- (1) **JOINT-STOCK BANK “B.I.N.”**, a joint stock company established under the laws of the Russian Federation whose registered office is 5a Grodnenskaya Street, 121471 Moscow, Russia (“**B.I.N.BANK**”); and
- (2) **B.I.N. CAPITAL S.A.**, a *société anonyme* incorporated in Luxembourg with limited liability whose registered office is at 2, Boulevard Konrad Adenauer, L-1115 Luxembourg, Grand Duchy of Luxembourg, registered with the Register of Commerce and Companies of Luxembourg under number B 115654 (the “**Lender**”, which expression, where the context so admits, includes any successor Lender pursuant to the terms of this Agreement and the Lender acting in its capacity as issuer of the Notes).

**Whereas**, the Lender has at the request of B.I.N.BANK agreed to make available to B.I.N.BANK a loan facility in the amount of U.S.\$200,000,000 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:

“**Advance**” means the advance to be made by the Lender under Clause 3 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 common 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) 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.

“**Agreed Form**” means that the form of the document in question has been agreed between the proposed parties thereto and that either a copy thereof has been signed for the purpose of identification on behalf of each of Linklaters and Clifford Chance, or such document has been signed on behalf of the parties thereto and delivered to Linklaters to be held in escrow pending release on the Closing Date.

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

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

“**Authorised Signatory**” means, in relation to B.I.N.BANK, 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 B.I.N.BANK 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 Basel Capital Accord, published by the Basel 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 on which commercial banks generally are open for business in the Russian Federation.

“**Capital**” means B.I.N.BANK’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**” has the meaning given to it in the Subscription Agreement.

“**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.

“**Event of Default**” has the meaning assigned to such term in sub-Clause 11.1 hereof.

“**Exposure**” means:

- (a) the aggregate principal or nominal amount (net of specific provisions for losses) owed to B.I.N.BANK, 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 B.I.N.BANK’s commercial and consumer lending business; less
- (b) any such amount which is fully secured by rights of set-off against the Liquid Assets in equivalent amounts and comparable maturities placed with B.I.N.BANK.

“**Facility**” means the facility specified in Clause 2.

“**Fitch**” means Fitch Ratings Ltd.

“**Group**” means B.I.N.BANK and its consolidated Subsidiaries (in accordance with IFRS) 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 purposes 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.

“**IFRS**” means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time).

“**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, without duplication, 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 for cash or cash equivalents; 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 expert in the matter to be determined of international standing appointed by B.I.N.BANK pursuant to Clause 10.4 and approved by the Trustee (such approval not to be unreasonably withheld), provided, however, that such Independent Appraiser is not an Affiliate of the Group.

“**Interest Payment Date**” means 18 May and 18 November of each year, commencing on 18 November 2006.

“**Lender Account**” means account no. 924997 8401 with the Principal Paying Agent.

“**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 B.I.N.BANK’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**”, at any time, means 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 B.I.N.BANK or any of its Subsidiaries; (b) B.I.N.BANK’s ability to perform or comply with its obligations under this Agreement or (c) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder.

“**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 (less any net assets attributable to participants, as the case may be), as defined in accordance with IFRS.

“**Noteholder**” means the holder of a Note.

“**Notes**” means the U.S.\$200,000,000 9.5 per cent. loan participation notes due 2009 proposed to be issued by the Lender pursuant to the Trust Deed.

“**Officers’ Certificate**” means a certificate signed by two officers of B.I.N.BANK at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of B.I.N.BANK.

“**Opinion of Counsel**” means a written opinion from international legal counsel who is acceptable to the Lender.

“**Original Financial Statements**” mean the most recent audited consolidated financial statements of B.I.N.BANK.

“**Paying Agency Agreement**” means the paying agency agreement to be dated 11 May 2006 as amended, varied or supplemented relating to the Notes.

“**Payment Business Day**” means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Luxembourg, New York City and in the city where the Specified Office (as defined in the Agency Agreement) of the Principal Paying Agent is located.

“**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; and



- (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;
- (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; and
  - (ii) the amount thereby secured has not been increased in contemplation of, or since the date of, the acquisition of such company;
- (c) any 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, 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 B.I.N.BANK prepared in accordance with IFRS;
- (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;
- (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 B.I.N.BANK has set aside in its books of account reserves to the extent required by IFRS, as consistently applied;
- (i) any Lien granted by any Subsidiary of B.I.N.BANK in favour of B.I.N.BANK;
- (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.\$30,000,000;
- (m) any liens existing on the date of this Agreement;
- (n) any other Lien where the aggregate value of the assets or revenues subject to such Lien does not exceed U.S.\$10,000,000; and
- (o) any extension, renewal of or substitution for any Lien permitted by any of the preceding paragraphs (a) through (n), provided, however, that such extension, renewal or replacement shall be no more restrictive in any material respect than the original Lien; with respect to Liens incurred pursuant to this paragraph (o) the principal amount secured has not increased (other than any increase representing costs, fees, expenses or commission associated with such extension, renewal or substitution) and the Liens have not been extended to any additional property or assets (other than proceeds of the property or assets in question).

“**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.

“**Principal Paying Agent**” means The Bank of New York.

“**Prospectus**” means the prospectus dated 11 May 2006 relating to the issue of the Notes.

“**Rate of Interest**” has the meaning assigned to such term in sub-Clause 4.1.

“**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 18 May 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 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.

“**Single Party**” means with respect to any counter-party such counter-party and all Related Parties of such counter-party.

“**Standard & Poor’s**” means Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc.

“**Subscription Agreement**” means the agreement dated the date hereof providing for the issuance 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 IFRS, 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, Grand-Duchy of Luxembourg or any tax authority thereof or therein provided, however, that for the purposes of this definition the references to the Grand-Duchy of Luxembourg shall, upon the occurrence of a Relevant Event (as this term is 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 B.I.N.BANK’s Tier 1 capital, 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 The Bank of New York, as trustee under the Trust Deed and any successor thereto as provided thereunder.

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

“**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 Paying 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 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, the Lender hereby agrees to lend B.I.N.BANK, and B.I.N.BANK hereby agrees to borrow from the Lender, U.S.\$200,000,000.

### 2.2 **Purpose**

The proceeds of the Advance will be used by B.I.N.BANK for funding its lending activities and general banking purposes.

### 2.3 **Arrangement Fee**

B.I.N.BANK shall pay a fee of U.S.\$3,284,573.08 to the Lender in connection with the arrangement of the Facility (the “**Arrangement Fee**”).

## 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 B.I.N.BANK and B.I.N.BANK shall make a single drawing in the full amount of the Facility (less any amount to be deducted (if any) in accordance with sub-Clause 3.2).

### 3.2 **Arrangement Fee**

B.I.N.BANK agrees to pay the Arrangement Fee to the Lender in Same-Day Funds by 3:00 p.m. (London time) on the Payment Business Day two Payment Business Days prior to the Closing Date. In the event that the Lender has not received from B.I.N.BANK by 3:00 p.m. (London time) on the Payment Business Day two Payment Business Days prior to the Closing Date an amount in respect of the Arrangement Fee, B.I.N.BANK agrees that an amount equal to the Arrangement 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 sub-Clause 3.2 above) to B.I.N.BANK's account number with American Express Bank Ltd, New York, USA, SWIFT: BINORUMM, Account No. 00743625.

### 3.4 **Ongoing Fees and Expenses**

In consideration of the Lender making available the Facility hereunder, B.I.N.BANK shall pay on demand to the Lender each year all properly documented ongoing commissions and costs related to the Loan and the Notes and the administration of the Lender as set forth to B.I.N.BANK in an invoice or invoices from the Lender.

## 4. **INTEREST**

### 4.1 **Rate of Interest**

B.I.N.BANK will pay interest in Dollars to the Lender on the outstanding principal amount of the Loan from time to time hereunder at the rate of 9.5 per cent. per annum (the "**Rate of Interest**").

### 4.2 **Payment**

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid in arrear not later than 11:30 a.m. (New York City time) one Payment 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 pursuant to Clause 5.2 or 5.3) unless payment of principal is improperly withheld or refused, in which event interest will continue to accrue (before or after any judgment) at the Rate of Interest to but excluding the date on which payment in full of the principal thereof is made. If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month the number of days elapsed.

## 5. **REPAYMENT AND PREPAYMENT**

### 5.1 **Repayment**

Except as otherwise provided herein, B.I.N.BANK shall repay the Loan not later than 11:30 a.m. (New York City time) one Payment 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 the Grand-Duchy of Luxembourg or the laws or regulations of the Russian Federation or the Grand-Duchy of Luxembourg or of any 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 provided for in the Trust Deed, B.I.N.BANK would thereby be required to make or increase any payment due hereunder as provided in sub-Clauses 6.2 or 6.3 (save where such payment or increase in payment is in respect of the Arrangement Fee), or (c) if (for whatever reason) B.I.N.BANK would have to or has been required to pay additional amounts pursuant to Clause 8, then B.I.N.BANK may (without premium or penalty), upon not less than 10 days' notice to the Lender (which notice shall be irrevocable), prepay the Loan in whole (but not in part).

### 5.3 **Illegality**

If, at any time the Lender reasonably determines (such determination being accompanied, if so requested by B.I.N.BANK by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by B.I.N.BANK) that it is or would be unlawful or contrary to 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 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 B.I.N.BANK in writing (setting out in reasonable detail the nature and extent of the relevant circumstances),

B.I.N.BANK 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 B.I.N.BANK. If such a basis has not been determined within the 30 days, then upon notice by the Lender to B.I.N.BANK in writing, B.I.N.BANK shall prepay the Loan in whole (but not in part) on the next Interest Payment Date or on such earlier date as the Lender (acting reasonably) shall certify to be necessary to comply with such requirements.

#### **5.4 Reduction of Loan Upon Redemption and Cancellation of Notes**

B.I.N.BANK or any Subsidiary of B.I.N.BANK may from time to time, in accordance with the Conditions, 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 B.I.N.BANK or any of B.I.N.BANK's Subsidiaries and cancelled, the Loan shall be deemed to have been prepaid by B.I.N.BANK in an amount corresponding 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 B.I.N.BANK in respect of such amounts.

#### **5.5 Payment of Other Amounts**

If the Loan is to be prepaid by B.I.N.BANK pursuant to any of the provisions of Clauses 5.2 or 5.3, B.I.N.BANK shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by B.I.N.BANK 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 5.4, 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 B.I.N.BANK or the relevant Subsidiary of B.I.N.BANK, as the case may be, shall not be entitled to any interest in respect of the cancelled Notes.

#### **5.6 Provisions Exclusive**

B.I.N.BANK may not voluntarily prepay the Loan except in accordance with the express terms of this Agreement. Any amount prepaid may not be reborrowed.

#### **5.7 Prepayment in the event of exercise of Put Option**

If any Noteholder has exercised its Put Option (as defined in the "Terms and Conditions of the Notes"), B.I.N.BANK shall, on the Payment Business Day before the Put Settlement Date (as defined in the terms and conditions of the Notes), prepay the principal amount of the Loan in an amount which corresponds to the aggregate principal amount of the Notes (as notified to B.I.N.BANK in accordance with Condition 5 (Redemption and Purchase) of the terms and conditions of the Notes) in relation to which the Put Option has been duly exercised together with interest accrued to the Put Settlement Date (if any) in accordance with the terms and conditions of the Notes.

### **6. PAYMENTS**

#### **6.1 Making of Payments**

All payments of principal and interest to be made by B.I.N.BANK under this Agreement shall be made to the Lender not later than 11:30 a.m. (New York City time) one Payment Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be) in Same-Day Funds to the Lender Account. The Lender agrees with B.I.N.BANK that the Lender will not deposit any other monies into such account and that no withdrawals shall be made from such account other than for payments to be made in accordance with the Trust Deed and Paying Agency Agreement.

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

All payments to be made by B.I.N.BANK 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 B.I.N.BANK 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 a net amount in Dollars equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence of such deduction or withholding and evidence from the relevant taxing authority of the accounting therefor to such taxing authority. If the Lender pays any amount in respect of such Taxes, B.I.N.BANK shall reimburse the Lender in Dollars for such documented payment on demand. For the avoidance of doubt, this Clause 6.2 is without prejudice to any obligations of the Lender contained in Clause 6.7.

### **6.3 Withholding on the Notes**

If the Lender notifies B.I.N.BANK (setting out in reasonable detail the nature and extent of the obligation with such evidence as B.I.N.BANK may reasonably require) that it has become obliged to make any withholding or deduction for or on account of any Taxes from any payment which it is obliged to make under or in respect of the Notes in circumstances where the Lender is required to pay additional amounts pursuant to Condition 7 of the Notes, B.I.N.BANK agrees to pay to the Lender, not later than 11:30 a.m. (New York City time) one Payment Business Day prior to the date on which payment is due to the Noteholders in Same-Day Funds to the Lender Account, such additional amounts as are equal to the said additional amounts which the Lender must pay pursuant to the terms of Condition 7 of the Notes; 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 this sub-Clause pursuant to this provision, to the extent that the Noteholders, as the case may be, are not entitled to such additional amounts pursuant to the Conditions, pay such additional amounts to B.I.N.BANK (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 such additional amount). Any notification by the Lender to B.I.N.BANK in connection with this Clause 6.3 shall be given as soon as practicable upon the Lender becoming aware of its obligation to make any such withholding or deduction.

### **6.4 Reimbursement**

To the extent that the Lender subsequently obtains or uses any tax credit or allowance or other reimbursements relating to a deduction or withholding with respect to which B.I.N.BANK has made a payment pursuant to this Clause 6, the Lender shall promptly pay to B.I.N.BANK so much of the benefit it received 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 B.I.N.BANK pursuant to this Clause 6; provided, however, that the question of whether any such benefit has been received, and accordingly, whether any payment should be made to B.I.N.BANK, the amount of any such payment and the timing of any such payment, shall be determined solely by the Lender acting reasonably. 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 B.I.N.BANK any information regarding its tax affairs or computations.

If as a result of a failure to obtain relief from deduction or withholding of any taxes referred to in Clause 6.2: (a) such taxes are deducted or withheld by B.I.N.BANK and pursuant to Clause 6.2 an increased amount is paid by B.I.N.BANK to the Lender in respect of such deduction or withholding, and (b) following the deduction or withholding of taxes as referred to above, B.I.N.BANK applies on behalf of the Lender to the competent taxing authority for a withholding tax refund (B.I.N.BANK 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 B.I.N.BANK of the receipt of such withholding tax refund and promptly transfer the actually received amount of the withholding tax refund in the currency actually received and less any applicable costs to a bank account of B.I.N.BANK specified for that purpose by B.I.N.BANK.

### **6.5 Representations of the Lender**

The Lender represents that, at the date hereof, (a) it is a company which at the date hereof is a resident of the Grand-Duchy of Luxembourg, is subject to taxation in the Grand-Duchy of Luxembourg on the basis of its registration as a legal entity, location of its board of directors or



another similar criterion and it is not subject to taxation in the Grand-Duchy of Luxembourg merely on income from sources in the Grand-Duchy of Luxembourg or connected with property located in the Grand-Duchy of Luxembourg and it will be able to receive certification to this effect from the Luxembourg taxing authorities; (b) it does not have a permanent establishment in the Russian Federation and (c) 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 the Grand-Duchy of Luxembourg and subject to taxation in the Grand-Duchy of Luxembourg.

## **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 B.I.N.BANK to make any deduction, withholding or payment as described in sub-Clause 6.2 or 6.3, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or B.I.N.BANK'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. B.I.N.BANK 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 sub-Clause.

## **6.7 Tax Treaty Relief**

6.7.1 The Lender shall, provided that in each case a corresponding request from B.I.N.BANK is received by the Lender no later than 25 Business Days prior to the first Interest Payment Date or, as applicable, the beginning of each calendar year, and at B.I.N.BANK's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, use commercially reasonable efforts to obtain and to deliver to B.I.N.BANK no later than 10 Business Days before the first Interest Payment Date or, as applicable, the beginning of each calendar year a certificate, issued by the competent taxing authority in Luxembourg confirming that the Lender is tax resident in Luxembourg and such other information or forms as may need to be duly completed and delivered by the Lender to enable B.I.N.BANK to apply to obtain relief from deduction or withholding of Russian taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Russian taxes has not been obtained.

6.7.2 The Lender shall, at the request of B.I.N.BANK and at B.I.N.BANK's cost, to the extent it is able to do so under applicable law including, without limitation, Russian laws, from time to time use commercially reasonable efforts to obtain and to deliver to B.I.N.BANK any additional duly completed application forms as need to be duly completed and delivered by the Lender to enable B.I.N.BANK to apply 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.

6.7.3 The certificate and, if required, other forms referred to in this Clause 6.7 shall be duly signed by the Lender, if applicable, and stamped or otherwise approved by the competent taxing authority in Luxembourg, if applicable. Together with any such certificate and, if required, other forms, the Lender shall deliver to B.I.N.BANK a copy of the same, certified by a Luxembourg notary to be a true and up-to-date copy of the original document. Any such notary's certificate shall be apostilled or otherwise legalised.

6.7.4 If a relief from deduction or withholding of Russian taxes under this Clause 6.7 has not been obtained and further to an application of B.I.N.BANK to the relevant Russian taxing authorities the latter requests the Lender's rouble bank account details, the Lender shall at the request of B.I.N.BANK (a) use commercially reasonable efforts, at B.I.N.BANK's cost, to procure that such rouble bank account of the Lender is duly opened and maintained, and (b) thereafter furnish B.I.N.BANK with the details of such rouble bank account.

## **7. CONDITIONS PRECEDENT**

### **7.1 Documents to be Delivered**

The obligation of the Lender to make the Advance (less any deduction (if any) in accordance with sub-Clause 3.2) shall be subject to the receipt by the Lender on or prior to the Closing Date of an executed copy of each of the following documents, each (other than the document referred to in sub-Clause 7.1.4 below) dated the Closing Date, in the Agreed Form:

7.1.1 An opinion of Clifford Chance regarding issues of Russian law.

7.1.2 Opinions of Linklaters regarding issues of English law and Russian law.

7.1.3 An opinion of Linklaters Loesch regarding issues of Luxembourg law.

7.1.4 A letter from Deloitte & Touche regarding certain tax matters.

7.1.5 The Ongoing Fee Side Letter.

7.1.6 Evidence that the persons mentioned in sub-Clause 13.9.6 hereof have agreed to receive process in the manner specified therein.

7.1.7 The consolidated balance sheet and consolidated statements of income, cash flows and changes in shareholders' equity of B.I.N.BANK as at and for the years ended 31 December 2004 and 2005 prepared in accordance with IFRS and audited by the Auditors of B.I.N.BANK.

7.1.8 Evidence that B.I.N.BANK has been granted ratings from Standard & Poor's and Moody's.

### **7.2 Further Conditions**

The obligation of the Lender to make the Advance (less any deduction (if any) in accordance with sub-Clause 3.2) shall be subject to the further conditions precedent that as of the Closing Date (a) the representations and warranties made and given by B.I.N.BANK in Clause 9 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, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default, (c) B.I.N.BANK 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 Paying Agency Agreement shall have been executed and delivered and (e) the Lender shall have received the full subscription moneys for the Notes pursuant to the Subscription Agreement.

## **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 sub-Clause 6.2 or 6.3); or

8.1.2 increases or will increase the taxation of or changes or will change the basis of taxation of payments to the Lender of principal 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 sub-Clauses 6.2 or 6.3); or

8.1.3 imposes, modifies, or deems applicable any capital adequacy, reserve or deposit requirements attributable to this Agreement, 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:

- (a) the cost to the Lender of making, funding or maintaining the Loan or the Facility is increased; or
- (b) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or
- (c) 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 B.I.N.BANK 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:
  - (i) 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 B.I.N.BANK, together with a certificate signed by two directors 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
  - (ii) B.I.N.BANK, 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 sub-Clause 8.1 will not apply to or in respect of any matter for which the Lender has already been compensated under sub-Clauses 6.2 or 6.3.

## 8.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to sub-Clause 8.1, the Lender shall consult in good faith with B.I.N.BANK 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, B.I.N.BANK's obligations to pay any additional amount pursuant to such sub-Clause, except that nothing in this sub-Clause 8.2 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 B.I.N.BANK's Representations and Warranties

B.I.N.BANK represents and warrants to the Lender, with the intent that such shall form the basis of this Agreement, at the date hereof and shall be deemed to be repeated by B.I.N.BANK 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 and has the power and legal right to own its property, to conduct its business as currently conducted and, in the case of B.I.N.BANK 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 B.I.N.BANK enforceable against B.I.N.BANK in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity (ii) to the fact that the gross-up provisions contained in Clause 6.2 or 6.3 may not be enforceable under Russian law and (iii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;
- 9.1.3 the execution, delivery and performance of this Agreement by B.I.N.BANK will not conflict with or result in any breach or violation of (i) any applicable 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 B.I.N.BANK or any of its Subsidiaries or the terms of the banking licence granted to B.I.N.BANK by the Central Bank or (iii) any agreement or other undertaking or instrument to which B.I.N.BANK or any of its Subsidiaries is a party or which is binding upon B.I.N.BANK 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, save where, in respect of (iii) above, such breach or violation or Liens would not have a Material Adverse Effect;
- 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) (other than any Russian law requirements to provide a Russian court with a duly notarised Russian translation of this Agreement in connection with any proceedings in respect thereof) required by B.I.N.BANK 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 has occurred that constitutes, or that, with the giving of notice or the lapse of time, or both, would constitute, an Event of Default or a default under any agreement or instrument evidencing any Indebtedness of B.I.N.BANK or any of its Subsidiaries, 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, but without limitation to, with respect to Taxes) which have been commenced or are pending or, to the knowledge of B.I.N.BANK, threatened, against B.I.N.BANK or any of its Subsidiaries the adverse determination of which could reasonably be expected to have a Material Adverse Affect;
- 9.1.7 except for Liens of the types referred to in the definition of Permitted Liens in Clause 1.1, B.I.N.BANK and each of its Subsidiaries has good title to its property free and clear of all Liens and B.I.N.BANK's obligations under the Loan rank at least *pari passu* with all its other unsecured and unsubordinated Indebtedness;

- 9.1.8 the audited consolidated financial statements of the Group as at and for the years ended 31 December 2004 and 2005:
- (a) were prepared in accordance with IFRS, as consistently applied;
  - (b) unless not required by IFRS, 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 there has been no material adverse change since 31 December 2005 in the condition (financial or otherwise), results of business, operations or immediate prospects of B.I.N.BANK or any of its Subsidiaries or on B.I.N.BANK'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, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Russian Federation or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim, petition or other application filed with a Russian court);
- 9.1.11 neither B.I.N.BANK nor any of its Subsidiaries 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 B.I.N.BANK and each of its Subsidiaries is in compliance in all material respects with all applicable provisions of law;
- 9.1.13 there are no material strikes or other employment disputes against B.I.N.BANK or any of its Subsidiaries which have been started or are pending or, to its knowledge, threatened;
- 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 Russia;
- 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 B.I.N.BANK under this Agreement (save for VAT payable with respect to the reimbursement of legal fees);
- 9.1.16 all material licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable B.I.N.BANK or any of its Subsidiaries to own its assets and carry on its business are in full force and effect and B.I.N.BANK 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**"));
- 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; and
- 9.1.19 B.I.N.BANK and each of its Subsidiaries has no material overdue tax liabilities.

## 9.2 Lender's Representations and Warranties

The Lender represents and warrants to B.I.N.BANK as follows:



- 9.2.1 The Lender is duly incorporated under the laws of and is a resident for Luxembourg taxation purposes in the Grand-Duchy of Luxembourg and has full power and capacity to execute this Agreement, the Subscription Agreement, the Paying Agency Agreement and the Trust Deed 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 Subscription Agreement, the Paying Agency Agreement and the Trust Deed 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 the Grand-Duchy of Luxembourg 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, the Subscription Agreement, the Paying Agency Agreement and the Trust Deed have been or will be (as the case may be) duly executed by and, upon such execution, do or will (as the case may be) constitute legal, valid and binding obligations of the Lender enforceable against the Lender in accordance with their respective terms.
- 9.2.4 All authorisations, consents and approvals required by the Lender for or in connection with the execution of this Agreement, the Subscription Agreement, the Paying Agency Agreement and the Trust Deed and the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect.

## 10. COVENANTS

So long as any amount remains outstanding hereunder:

### 10.1 Negative Pledge

B.I.N.BANK 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 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 or (b) has the benefit of such other security or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

### 10.2 Mergers

(i) B.I.N.BANK 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) B.I.N.BANK shall ensure that, without the prior written consent of the Lender, none of its Subsidiaries (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 of B.I.N.BANK 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 will not be considered to be capable of having a Material Adverse Effect for the purposes of this Clause in the event that it does not lead to a downgrading of either the senior unsecured issuer rating given to B.I.N.BANK by Standard & Poor's or the issuer rating of B.I.N.BANK given to B.I.N.BANK by Fitch or, in the circumstances under (i) above where B.I.N.BANK 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 Standard & Poor's and Fitch are no less than the ratings granted to B.I.N.BANK by each of Standard & Poor's and Fitch immediately prior to such reorganisation or other type of corporate reconstruction.

### 10.3 Disposals

B.I.N.BANK shall not and shall ensure that its Subsidiaries do not (in each case disregarding sales of stock in trade on an arm's length basis in the ordinary course of 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, 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 B.I.N.BANK resolving that the transaction complies with the requirements of this Clause 10.3 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 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 B.I.N.BANK 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 B.I.N.BANK prepared in accordance with IFRS (or its equivalent in other currencies).

#### 10.4 **Transactions with Affiliates**

B.I.N.BANK 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 B.I.N.BANK 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 B.I.N.BANK 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 involving aggregate payments or value in excess of U.S.\$10,000,000 (or its equivalent in other currencies), B.I.N.BANK shall deliver to the Lender a written opinion from an Independent Appraiser to the effect that such Affiliate Transaction is fair, from a financial point of view, to B.I.N.BANK or the relevant Subsidiary, as the case may be.

This Clause 10.4 does not apply to (a) compensation or employee benefit arrangements with any officer or director of B.I.N.BANK or a Subsidiary, as the case may be, arising as a result of their employment contract, or (b) any Affiliate Transaction between B.I.N.BANK and any of its Subsidiaries or between any Subsidiaries of B.I.N.BANK.

#### 10.5 **Maintenance of Authorisations**

B.I.N.BANK 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 reasonably necessary, in the opinion of B.I.N.BANK or its relevant Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and B.I.N.BANK shall take all necessary action to obtain, and do or cause to be done all things reasonably 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 if B.I.N.BANK and/or its relevant Subsidiary, as the case may be, can remedy any failure to comply with this Clause 10.5 within 90 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**

B.I.N.BANK shall, and shall ensure that its Subsidiaries will, cause all property that is material 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 B.I.N.BANK or any of its Subsidiaries, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, provided that if B.I.N.BANK or any such Subsidiary can remedy any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.\$10,000,000 (or its equivalent in other currencies), this covenant shall be deemed not to have been breached.

#### **10.7 Payment of Taxes and Other Claims**

B.I.N.BANK 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 B.I.N.BANK 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 B.I.N.BANK or any of its Subsidiaries; provided, however, that none of B.I.N.BANK nor any of its Subsidiaries 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 IFRS, 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.\$10,000,000 (or its equivalent in other currencies).

#### **10.8 Financial Information**

10.8.1 B.I.N.BANK shall as soon as the same become available, but in any event within 120 days after the end of each of its financial years, deliver to the Lender the Group's consolidated financial statements for such financial year, in each case audited by the Auditors.

10.8.2 B.I.N.BANK 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 the Group's consolidated financial statements for such period.

10.8.3 B.I.N.BANK shall, so long as the Advance or any other sum owing under this Agreement remains outstanding, deliver to the Lender, without undue delay, such additional information regarding the financial position or the business of B.I.N.BANK and its Subsidiaries as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.

10.8.4 B.I.N.BANK shall ensure that each set of consolidated financial statements delivered by it pursuant to this Clause 10.8 is:

- (a) prepared on the same basis as was used in the preparation of its Original Financial Statements and in accordance with IFRS and consistently applied;
- (b) in the case of the statements provided pursuant to sub-Clause 10.8.1 and sub-Clause 10.8.2, accompanied by a report thereon of the Auditors referred to in sub-Clause 10.8.1 (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 10.8.3, certified by an Authorised Signatory of B.I.N.BANK 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.

10.8.5 B.I.N.BANK 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 B.I.N.BANK or the Group as the Lender may reasonably require.

#### **10.9 Financial Covenants**

B.I.N.BANK shall (except as otherwise specifically provided or agreed by the Lender) at all times (save in respect of sub-Clause 10.9.3 below, which will apply in respect of the time periods set out therein) maintain:

10.9.1 full compliance with prudential supervision ratios and other requirements of the Central Bank;

10.9.2 a ratio of Capital to Risk Weighted Assets of not less than 12 per cent;

10.9.3 a ratio of Tier 1 Capital to Risk Weighted Assets of not less than 10 per cent.; and

10.9.4 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;

#### 10.10 Change of Business

B.I.N.BANK 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.

#### 10.11 Ranking of Claims

B.I.N.BANK 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.

#### 10.12 Officers' Certificates

On each Interest Payment Date (other than the final Interest Payment Date that falls on the Repayment Date), B.I.N.BANK shall deliver to the Lender, written notice in the form of an Officers' Certificate stating whether any Default or Event of Default has occurred and, if it has occurred, what action B.I.N.BANK 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), B.I.N.BANK shall deliver to the Lender, written notice in the form of an Officers' Certificate listing its Subsidiaries, accompanied by a report by the Auditors addressed to the directors of B.I.N.BANK as to the proper extraction of the figures used in the Officers' Certificate.

#### 10.13 Notes Held by B.I.N.BANK

Upon being so requested in writing by the Lender, B.I.N.BANK shall deliver to the Lender an Officers' Certificate of B.I.N.BANK setting out the total principal amount of Notes which, at the date of such certificate, are held by B.I.N.BANK (or any Subsidiary of B.I.N.BANK) and have not been cancelled and are retained by it for its own account or for the account of any other company.

### 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.

11.1.1 B.I.N.BANK 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 Payment Business Days.

11.1.2 B.I.N.BANK fails to perform or observe any 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 Any representation or warranty of B.I.N.BANK or any statement deemed to be made by B.I.N.BANK in this Agreement or any other document, certificate or notice delivered by B.I.N.BANK in connection with this Agreement, the Subscription Agreement, the Trust Deed or the Paying 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 at the time it was made or repeated or deemed to have been made or repeated.

11.1.4

(a) Any Indebtedness of B.I.N.BANK or any of its Subsidiaries is not paid when due (after the expiry of any applicable grace period); or

(b) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of B.I.N.BANK or (as the case may be) its 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 The occurrence of any of the following events: (i) any of B.I.N.BANK, 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 B.I.N.BANK, or any of its Subsidiaries as the case may be; (ii) the presentation or filing of a petition in respect of any of B.I.N.BANK or its Subsidiaries in any court of competent jurisdiction, arbitration court or before any Agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of B.I.N.BANK or its Subsidiaries (ignoring any petition that is not accepted by such court or agency for review on its merits), unless such petition is demonstrated to the reasonable satisfaction of the Lender to be vexatious or frivolous; (iii) the institution of the supervision (*nablyudeniye*), financial rehabilitation (*finansovoye ozdorovlenie*), external management (*vneshneye upravleniye*), bankruptcy management (*konkursnoye proizvodstvo*) over B.I.N.BANK or any of its Subsidiaries, (iv) the entry by B.I.N.BANK or any of its Subsidiaries into, or the agreeing by B.I.N.BANK 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 B.I.N.BANK 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 B.I.N.BANK or any of its Subsidiaries; and/or (vii) revocation of the general banking licence or the licence for taking deposits from individuals of B.I.N.BANK or, if applicable, of any of its Subsidiaries
- 11.1.6 B.I.N.BANK 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 B.I.N.BANK or its Subsidiaries is less than its liabilities; and/or a moratorium is declared in respect of any Indebtedness of any of B.I.N.BANK or its Subsidiaries.
- 11.1.7 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) of, the property, undertaking, revenues or assets of B.I.N.BANK or any of its Subsidiaries.
- 11.1.8 Any governmental authorisation necessary for the performance of any obligation of B.I.N.BANK under this Agreement fails to be in full force and effect.
- 11.1.9 Any government, Agency or court takes any action that, in the opinion of the Lender, has a Material Adverse Effect on B.I.N.BANK 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) B.I.N.BANK’s banking licence or its licence for taking deposits from individuals is revoked.
- 11.1.10 The shareholder of B.I.N.BANK shall have approved any plan of liquidation or dissolution of B.I.N.BANK other than by way of a reorganisation permitted pursuant to Clause 10.2.
- 11.1.11 The aggregate amount of unsatisfied judgments, decrees or orders of courts or other appropriate law-enforcement bodies of competent jurisdiction for the payment of money against B.I.N.BANK and its Subsidiaries in the aggregate exceeds U.S.\$10,000,000, 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.

11.1.12 At any time it is or becomes unlawful for B.I.N.BANK 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 B.I.N.BANK or any of its Subsidiaries ceases to carry on the principal business it carried on at the date hereof.

11.1.14 B.I.N.BANK repudiates this Agreement, the Subscription Agreement or the Paying Agency Agreement or evidences an intention to repudiate this Agreement, the Subscription Agreement or the Paying Agency Agreement.

11.1.15 The charter of B.I.N.BANK is amended in a way which would contravene or result in the contravention of any material provision of this Agreement.

11.1.16 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**

B.I.N.BANK shall deliver to the Lender and the Trustee, within 30 days after becoming aware thereof, written notice of any event which is a Default, its status and what action B.I.N.BANK is taking or proposes to take with respect thereto.

## 11.3 **Default Remedies**

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to B.I.N.BANK, (a) declare the obligations of the Lender hereunder to be immediately terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable hereunder by B.I.N.BANK 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 B.I.N.BANK; provided, however, that if any event of any kind referred to in sub-Clauses 11.1.5 and 11.1.6 occurs, the obligations of the Lender hereunder shall immediately terminate, and all amounts payable hereunder by B.I.N.BANK 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 B.I.N.BANK.

## 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**

B.I.N.BANK 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, 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, B.I.N.BANK 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. 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.

### 12.2 **Independent Obligation**

Clause 12.1 constitutes a separate and independent obligation of B.I.N.BANK from its other obligations under or in connection with this Agreement or any other obligations of B.I.N.BANK 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 and specifying in full detail the basis therefor shall, in the absence of manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

### 12.4 Survival

The obligations of B.I.N.BANK pursuant to Clauses 6.2, 6.3 and 12.1 shall survive the execution and delivery of this Agreement and the drawdown and repayment of the Loan by B.I.N.BANK.

### 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 B.I.N.BANK 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, acting reasonably 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, B.I.N.BANK hereby agrees to indemnify the Lender against any such deficiency in Dollars. Any obligation of B.I.N.BANK 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. GENERAL

### 13.1 Evidence of Debt

The entries made in the account referred to in sub-Clause 6.1 shall, in the absence of manifest error, constitute *prima facie* evidence of the existence and amounts of B.I.N.BANK's obligations recorded therein.

### 13.2 Stamp Duties

13.2.1 B.I.N.BANK shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on B.I.N.BANK by any Person in the Russian Federation or the Grand-Duchy of Luxembourg 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 and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by B.I.N.BANK to pay such taxes or similar charges upon presentation by the Lender to B.I.N.BANK of documentary evidence of such costs and expenses.

13.2.2 B.I.N.BANK agrees that if the Lender incurs a liability to pay any stamp, registration and documentary taxes or similar charges (if any) imposed by any Person in the Russian Federation or the Grand-Duchy of Luxembourg 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, B.I.N.BANK shall reimburse the Lender on demand an amount equal to such stamp or other documentary taxes or duties 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 B.I.N.BANK to procure the payment of such taxes or similar charges.

### 13.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or B.I.N.BANK, any right, power or privilege hereunder and no course of dealing between B.I.N.BANK 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.

#### 13.4 Notices

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given or made in the English language by SWIFT, telex, fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

##### 13.4.1 if to B.I.N.BANK:

5a Grodnenskaya Street  
121471 Moscow  
Russia

Fax: +7 495 755 5081

Attention: Irina Komarova, International Business & Financial Institutions Department

##### 13.4.2 if to the Lender:

2, Boulevard Konrad Adenauer  
L-1115 Luxembourg  
Grand Duchy of Luxembourg

Fax: +352 421 22 718

Attention: Directors

or to such other address or telecopier number as any party may hereafter specify in writing to the other.

#### 13.5 Assignment

13.5.1 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 sub-Clause 13.5.3 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 B.I.N.BANK or any agreements of the Lender or B.I.N.BANK pursuant to sub-Clauses 6.4 or 6.5 or Clause 8.

B.I.N.BANK shall not assign or transfer all or any part of its rights or obligations hereunder to any other party.

The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except as contemplated by the Trust Deed.

#### 13.6 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from B.I.N.BANK, the Lender shall forthwith repay to B.I.N.BANK the principal amount or the interest amount thereon, respectively, of any Notes upon such Notes becoming void pursuant to Condition 10 of the Notes.

#### 13.7 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.

#### 13.8 Choice of Law

This Agreement shall be governed by, and construed in accordance with, the laws of England.

### 13.9 Jurisdiction

- 13.9.1 For the exclusive benefit of the other party, each of B.I.N.BANK and the Lender hereby irrevocably agrees that the courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with this Agreement and that accordingly any suit, action or proceeding (collectively, "**Proceedings**") arising out of or in connection with this Agreement may be brought in such courts.
- 13.9.2 Each of the parties irrevocably waives any objection which it may now or hereafter have to the laying of the venue of any Proceedings in any such court referred to in this Clause 13 and any claim that any such Proceedings have been brought in an inconvenient forum and further irrevocably agrees that a final and conclusive judgment in any Proceedings brought in the English courts with competent jurisdiction shall be conclusive and binding and may be enforced in the courts of any other jurisdiction.
- 13.9.3 Nothing contained in this Agreement shall limit the right of any party to take Proceedings against another party in any other court of competent jurisdiction to the extent permitted by any applicable law, nor shall the taking of Proceedings in connection with this Agreement in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction or in any other court of competent jurisdiction in connection with this Agreement to the extent permitted by any applicable law.
- 13.9.4 Each of the parties hereby agrees that, at the option of the Lender, any dispute, controversy, claim or cause of action brought by any party against another party or arising out of or relating to this Agreement may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**LCIA**"), which rules are deemed to be incorporated by reference into this Clause. The place of arbitration shall be London, England and the language of the arbitration shall be English. The number of arbitrators shall be three, each of whom shall be disinterested in 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 LCIA 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.
- 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.
- 13.9.5 **Lender's Process Agent:** The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Jordans or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such Person in accordance with Part XXIII of the Companies Act 1985 (as modified or re-enacted from time to time). Nothing in this Clause shall affect the right of B.I.N.BANK to serve process in any other manner permitted by law.
- 13.9.6 **B.I.N.BANK's Process Agent:** B.I.N.BANK agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Jordans, or its other principal place of business in England for the time being or at any other address for the time being at which process may be served on such person in accordance with Part XXIII of the Companies

Act 1985 (as modified or re-enacted from time to time). If such Person is not or ceases to be effectively appointed to accept service of process on B.I.N.BANK's behalf, B.I.N.BANK shall, on the written demand of the Lender, appoint a further Person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Lender shall be entitled to appoint such a Person by written notice to B.I.N.BANK. Nothing in this Clause shall affect the right of the Lender to serve process in any other manner permitted by law.

**13.9.10 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.

**13.9.11 Amendments**

Except as otherwise provided by its terms, this Agreement may not be varied except by an agreement in writing signed by the parties.

**13.9.12 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.

## TERMS AND CONDITIONS OF THE NOTES

### Terms and Conditions of the Notes

The U.S.\$200,000,000 9.5 per cent. Loan Participation Notes due 2009 (the “**Notes**”, which expression includes any further Notes issued pursuant to Condition 14 and forming a single series herewith) of B.I.N. Capital S.A. (the “**Issuer**”) are constituted by a trust deed (such trust deed as modified and/or restated and/or supplemented from time to time, the “**Trust Deed**”) dated 15 May 2006 (the “**Closing Date**”) and made between the Issuer and The Bank of New York (the “**Trustee**”, which expression shall include any successors) as trustee for the holders of the Notes (the “**Noteholders**”).

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of making a U.S.\$200,000,000 loan (the “**Loan**”) to Joint-Stock Bank “B.I.N.” (“**B.I.N.BANK**”). The Issuer and B.I.N.BANK have recorded the terms of the Loan in a loan agreement (such agreement as modified and/or restated and/or supplemented from time to time, the “**Loan Agreement**”) dated 11 May 2006 between the Issuer and B.I.N.BANK.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement (less any amounts in respect of the Reserved Rights (as defined in the Trust Deed)). Noteholders must therefore rely solely and exclusively on the covenant to pay under the Loan Agreement and the credit and financial standing of B.I.N.BANK. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any 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, 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 or the Trustee 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 judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee 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, excluding the Reserved Rights (the “**Charge**”) and has assigned absolutely certain other rights under the Loan Agreement to the Trustee, excluding the Reserved Rights (the “**Loan Assignment**”) and together with the Charge, the “**Security Interests**”).

In certain circumstances, the Trustee can (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding (as defined in the Trust Deed) 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 any rights arising under the Loan Assignment). It may not be possible for the Trustee to take certain action in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provisions of an indemnity to it, and it will be for the Noteholders to take action directly.

Payments in respect of the Notes will be made (subject to the receipt of the relevant funds from B.I.N.BANK) pursuant to a paying agency agreement (the “**Agency Agreement**”) dated 11 May 2006 and made between the Issuer, The Bank of New York, as the principal paying agent (the “**Principal Paying Agent**”) and registrar (the “**Registrar**”), The Bank of New York (Luxembourg) S.A., as paying agent and transfer agent (the “**Paying Agent**”) and, together with the Principal Paying Agent, the “**Paying Agents**” and the “**Transfer Agent**”, which expressions shall include any successors), B.I.N.BANK and the Trustee.

Copies of the Trust Deed, the Loan Agreement and the Agency Agreement are available for inspection at the principal office of the Trustee being, at the date hereof, at One Canada Square, London E14 5AL, United Kingdom, at the specified office of the Principal Paying Agent and at the specified office of the Paying Agent in Luxembourg.

The statements contained in these Terms and Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) 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. Terms defined in the Trust Deed (including the Schedules thereto) shall have the same meaning when used herein, except as otherwise provided.

## 1. STATUS

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to make the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for making the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights.

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement will be made *pro rata* among all Noteholders on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights. 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.

Noteholders shall be deemed to have notice of, and shall be deemed to have accepted, the provisions of these Terms and Conditions, the Trust Deed, the Agency Agreement and the Loan Agreement, and shall be deemed to have accepted that:

- 1.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for any liability or obligation in respect of the performance and observance by B.I.N.BANK of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts) due or to become due from B.I.N.BANK under the Loan Agreement save that nothing in this Condition shall absolve the Trustee from responsibility and liability for performance of its trusts, duties and obligations pursuant to, and subject to the terms of, the Trust Deed;
- 1.2 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of B.I.N.BANK;
- 1.3 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of B.I.N.BANK under or in respect of the Loan Agreement;
- 1.4 neither the Issuer nor the Trustee shall at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Principal Paying Agent or any of the Paying Agents of their respective obligations under the Agency Agreement;
- 1.5 the financial servicing and performance of the Terms and Conditions of the Notes depend solely and exclusively upon performance by B.I.N.BANK of its obligations under the Loan Agreement and B.I.N.BANK's credit and financial standing; and
- 1.6 the Issuer and the Trustee shall be entitled to rely on delivery to them of Officer's Certificates (as defined in the Loan Agreement) and/or other certificates (whether or not addressed to or obtained by the Trustee) from B.I.N.BANK or procured by B.I.N.BANK as a means of monitoring whether or not B.I.N.BANK is complying with its obligations under the Loan Agreement or as to the identity of Material Subsidiaries (as defined in the Loan Agreement) and shall not otherwise be responsible for investigating any aspect of B.I.N.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 security holder in relation to the property which is subject to the Security Interests 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. The Trustee has no responsibility for the value, validity or adequacy of such security.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes rank *pari passu* and rateably without any preference among themselves.

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any rights in respect of the Loan Agreement or direct recourse to B.I.N.BANK except through action by the Trustee pursuant to any of the relevant Security Interests granted to the Trustee in the Trust Deed. Neither the Issuer nor the Trustee shall be required to take proceedings to enforce payment under the Trust Deed or the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

## 2. **FORM, DENOMINATION, REGISTER, TITLE AND TRANSFERS**

- 2.1 **Form and denomination:** The Notes are in registered form in the denominations of U.S.\$100,000 or higher integral multiples of U.S.\$1,000 (each an "**Authorised Holding**") without interest coupons.
- 2.2 **Register:** The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement with a copy to be kept with the Issuer and updated from time to time. In these Conditions the "holder" or "Noteholder" means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A 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. The Issuer will also maintain a register (the "**Issuer's Register**") at its registered office. Under the terms of the Agency Agreement, the Registrar will provide to the Issuer such information about the changes in the Register as shall enable the Issuer to maintain the Issuer's Register up-to-date. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail.
- 2.3 **Title:** The holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the 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.
- 2.4 **Transfer:** Subject to paragraphs 2.7 and 2.8 below, a Note may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or 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 are Authorised Holdings. 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.
- 2.5 **Registration and delivery of Certificates:** Within five business days of the surrender of a Certificate in accordance with paragraph 2.4 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 relevant Transfer Agent has its specified office.
- 2.6 **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.



- 2.7 **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.
- 2.8 **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.

### 3. **RESTRICTIVE COVENANTS**

- 3.1 As provided in the Trust Deed, so long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to or consent to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms and conditions 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. 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 13.
- 3.2 Save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not (otherwise than as contemplated in these Conditions and the Trust Deed), *inter alia*, purchase any Notes, incur any other indebtedness for borrowed moneys, engage in any other business, declare any dividends, have any subsidiaries or employees (save for any Directors of the Issuer), 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 entirety to any person (otherwise than as contemplated in these conditions and the Trust Deed), issue any shares, give any guarantee or assume any other liability, or, subject to the laws of Luxembourg, petition for any winding-up or bankruptcy.

### 4. **INTEREST**

On each Interest Payment Date (or such later date as amounts equivalent to amounts of interest are 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 as set out in Clause 4.1 of the Loan Agreement. Interest shall continue to accrue on overdue interest at the same rate per annum up to the maximum extent permitted by applicable law (subject to receipt as aforesaid).

If interest is required to be calculated for any period of less than a year, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

In this Condition 4, "Interest Payment Date" means 18 May and 18 November of each year, commencing on 18 November 2006.

### 5. **REDEMPTION AND PURCHASE**

Unless previously prepaid or repaid, B.I.N.BANK will be required to repay the Loan on 18 May 2009 and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will, on 18 May 2009, be redeemed or repaid by the Issuer at 100 per cent. of the principal amount thereof.

If the Loan should become repayable (and be repaid) pursuant to the terms and conditions of the Loan Agreement but otherwise than by reason of an Event of Default (as defined in the Loan Agreement), prior to 17 May 2009, as set forth in the terms and conditions of the Loan Agreement, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at 100 per cent. of the principal amount together with accrued interest (subject to the Loan being repaid together with accrued interest) and the Issuer will endeavour to give not less than eight days' notice thereof to the Trustee and the Noteholders.

The Loan Agreement provides that B.I.N.BANK or any of its Subsidiaries (as defined therein) may at any time and from time to time purchase Notes in the open market or by tender or by private agreement at any price. Such Notes may be held, sold in the open market or, at the option of

B.I.N.BANK or such Subsidiary, surrendered by B.I.N.BANK or such Subsidiary, as the case may be, to the Issuer for cancellation, whereupon the Issuer shall instruct the Registrar to cancel such Notes. Upon such cancellation by or on behalf of the Registrar, the Loan shall be deemed to have been prepaid by B.I.N.BANK in an amount corresponding to the aggregate principal amount of the Notes surrendered for cancellation, together with accrued interest (if any) thereon and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

Noteholders will have the option (the “Put Option”) to require the Issuer to redeem any Note on 18 May 2007 (the “Put Settlement Date”) at its principal amount together with accrued interest (if any) to the Put Settlement Date. In order to exercise the Put Option, a Noteholder must, during the period from (and including) 3 April 2007 to (but excluding) 3 May 2007, deliver to the specified office of the Principal Paying Agent or any Paying Agent, evidence satisfactory to the Paying Agents of such Noteholder’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 the Put Option is exercised, in the form obtainable from the Principal Paying Agent or any Paying Agent. On 4 May 2007 the Principal Paying Agent shall notify in writing the Issuer and B.I.N.BANK of the exercise of the Put Option specifying the aggregate principal amount of the Notes to be redeemed in accordance with the Put Option. Provided that the Notes that are the subject of any such Put Option Notice have been delivered to the Principal Paying Agent or a Paying Agent or delivered in accordance with the procedures of the relevant clearing system prior to 3 May 2007, then the Issuer shall (subject (i) to the receipt of sufficient funds to do so from B.I.N.BANK and (ii) as provided in Condition 6 (Payments)) redeem all such Notes on the Put Settlement Date. No Put Option Notice, once delivered in accordance with this Condition 5 (Redemption and Purchase), may be withdrawn.

## 6. PAYMENTS

Payments of principal and interest upon redemption will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of the relevant Certificates at the specified office of any Paying Agent (subject to the next paragraph) by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.

Payments of interest (other than interest due on redemption) 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.

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

If the due date for payment 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 paragraph, “business day” means a day on which, if on that day a payment is to be made hereunder, commercial banks generally are open for business in Luxembourg, New York City and in the city where the specified office of the Principal Paying Agent is located.

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.

The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent, Registrar, Transfer Agent or any of the Paying Agents, and appoint additional or other paying agents provided that so long as the Notes are admitted to the Official List of the Financial Services Authority (the “**UKLA**”) in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange’s EEA Regulated Market (the “**Stock Exchange**”), there will be a paying agent with a specified office in London or such other place in accordance with the rules of the Stock Exchange. Any such variation, termination or appointment

shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 13.

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 Closing Date shall be payable only as and when actually received by or for the account of the Issuer pursuant to the terms and conditions of the Loan Agreement.

Save as directed by the Trustee pursuant to the Trust Deed, the Issuer will require B.I.N.BANK to make all payments of principal and interest to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer. Under 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.

In this Condition “**EEA Regulated Market**” means a market as defined by Article 1 (13) of the Investment Services Directive 93/22/EEC.

## 7. **TAXATION**

All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of Luxembourg or any authority thereof or therein having the power to tax (or, in the event of a Relevant Event, the jurisdiction where the Trustee is domiciled for tax purposes), 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 provided that such additional payments shall only be required to be paid by the Issuer to the extent that and only at such time as the Issuer receives an equivalent payment from B.I.N.BANK under the Loan Agreement. To the extent that the Issuer receives any such equivalent payment from B.I.N.BANK, the Issuer will account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer provided that no such additional amount will be payable:

- 7.1 to a Noteholder who is liable for such taxes or duties by reason of his having some connection with Luxembourg other than the mere holding of such Note or the receipt of payments in respect thereof;
- 7.2 in respect of a Note presented for payment of principal more than 30 days after the Relevant Date except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
- 7.3 where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other 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
- 7.4 in respect of a Note presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another paying agent in a Member State of the European Union.
- 7.5 As used herein, “**Relevant Date**” (i) means the date on which any payment under the terms and conditions of the Loan Agreement first becomes due but (ii) if the full amount payable by B.I.N.BANK has not been received by, or for the account of, the Issuer pursuant to the terms and conditions of the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 13.

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 7 or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

#### 8. **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 such 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.

The Trust Deed also provides that, in the case of an Event of Default (as defined in the Loan Agreement), or of a Relevant Event (as defined in the Trust Deed), the Trustee may, and shall, if requested to do so by Noteholders holding 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 declare all amounts payable under the Loan Agreement by B.I.N.BANK to be due and payable or procure that such a declaration is made (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 repayment of the Loan following an Event of Default and a declaration as provided herein, the Notes will be redeemed or repaid and thereupon shall cease to be outstanding.

#### 9. **MEETINGS OF NOTEHOLDERS; MODIFICATION OF NOTES, TRUST DEED AND LOAN AGREEMENT; WAIVER; SUBSTITUTION OF THE ISSUER**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes or the Trust Deed. Noteholders will, in respect of any vote by poll, be entitled to one vote per U.S.\$1,000 in principal amount of Notes held by them. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amount payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes and the Trust Deed and the Loan Agreement which, in the opinion of the Trustee, is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Terms and Conditions of the Notes or the Trust Deed, or by B.I.N.BANK of the terms and conditions of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be promptly notified to the Noteholders.

The Trust Deed contains provisions to the effect that the Issuer may, having obtained the consent of the Trustee (which consent may be given without the consent of the Noteholders) and having complied with such reasonable requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to, and to the satisfaction of, the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes.

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders as a class and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

The Trust Deed contains provision for the appointment or removal of a Trustee by a meeting of Noteholders passing an extraordinary resolution, provided that (a) in the case of the removal of a Trustee, at all times there remains a trustee in office in respect of the Notes and (b) the same person shall at all times be the Trustee under the Trust Deed. Any appointment or removal of a Trustee shall be notified to the Noteholders in accordance with Condition 13. The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders provided that such resignation shall not become effective unless there remains a Trustee in office after such resignation.

#### 10. **PRESCRIPTION**

Notes will become void unless presented for payment of principal within 10 years (in the case of principal) or five years (in the case of interest) from the due date for payment in respect thereof.

#### 11. **INDEMNIFICATION OF TRUSTEE**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any actions including proceedings to enforce payment unless indemnified to its satisfaction and provisions entitling it to be paid costs and expenses in priority to the claims of the Noteholders.

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 B.I.N.BANK in respect of the Loan Agreement. The Trustee is entitled to assume that B.I.N.BANK is performing all of its obligations pursuant to the Loan Agreement (and shall have no liability for doing so) until it has actual knowledge to the contrary.

The Trustee shall have no liability to Noteholders for any shortfall they may suffer if it is liable for tax in respect of any payments received by it or as a result of the Security Interests (and the security interests over the Loan Agreement) being held or enforced by it.

#### 12. **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, be replaced at the specified office of the Registrar 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.

#### 13. **NOTICES**

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

#### 14. **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 ("**Further Notes**"). Such Further Notes shall be issued under a deed supplemental to the Trust Deed. In relation to any issue of Further Notes (i) the Issuer will enter into a loan agreement with B.I.N.BANK on substantially 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, 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 the Issuer will provide a further fixed charge in favour of the Trustee in respect of certain rights and interests under the Loan Agreement or any further loan agreement and will assign absolutely certain of its rights and interests under the Loan Agreement or any further loan agreement and any loan assignment to secure amounts due on the Notes and such Further Notes.



15. **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.

16. **GOVERNING LAW**

The Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law. The provisions of articles 86 to 94-8 of the Luxembourg law on commercial companies of 10 August 1915, as amended, are excluded. The Issuer has submitted in the Trust Deed to the jurisdiction of the courts of England and has appointed an agent for the service of process in England.



## SUMMARY OF THE 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 Certificate which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg.

Subject to receipt of funds from B.I.N.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 7 of the Notes which would not be suffered were the Notes in the form of Definitive Certificates.

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 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 a provision which modifies the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Certificate. The following is a summary of this provision:

*Notices:* Notwithstanding Condition 13 of the Notes, 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 Noteholders 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.

## SUBSCRIPTION AND SALE

Commerzbank Aktiengesellschaft and Merrill Lynch International (each a “**Manager**” and together, the “**Managers**”) have, pursuant to the terms and conditions set forth in a subscription agreement, dated 11 May 2006 (the “**Subscription Agreement**”), jointly and severally 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. B.I.N.BANK has agreed to pay certain commissions, fees, costs and expenses in connection with the Loan and the offering of the Notes and to reimburse the Managers, the Issuer, the Agents 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.

### **Austria**

The offer of the Notes does not, and shall not be construed to, constitute a public offering of securities in Austria as defined in the Austrian Capital Markets Act 1991 (*Kapitalmarktgesetz*), as amended, and no audited prospectus has therefore been published. Each Manager has acknowledged that the Notes will only be offered in Austria to a certain limited range of persons who purchase and sell securities as part of their profession or business pursuant to § 3 para 1 of the Austrian Capital Markets Act. Any other offering of the Notes in Austria may only be made in accordance with any other applicable Austrian provision or statute governing the issue, sale, resale and offering of securities. The Prospectus (and any documents connected therewith) is not, and may not be, distributed to the public in Austria. Neither the Prospectus nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither the Prospectus nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria, save as specifically agreed with the Managers. No steps may be taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria. Neither the Issuer nor B.I.N.BANK are under the supervision of the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde*) or any other Austrian supervision authority.

### **Federal Republic of Germany**

The Notes have only been offered and sold and will only be offered and sold in the Federal Republic of Germany in accordance with the German Securities Prospectus Act (*Wertpapierprospektgesetz*) as of 22 June 2005 (BGBl. 2005 I S. 1698) implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, and the German Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*) and any other applicable laws in the Federal Republic of Germany governing the issue, sale and offering of securities.

### **Hong Kong**

Each Manager has represented, warranted and agreed that (i) 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 (ii) it has not issued or had in its possession for the purposes of the 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 in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance of Hong Kong and any rules made thereunder.

### **Republic of Italy**

The offering of the Notes has not been registered with the Commissione Nazionale per la Società e la Borsa (“**CONSOB**”) (the Italian securities and exchange commission) pursuant to the Italian securities legislation and, accordingly the Notes cannot be offered, sold or distributed nor any copies of the Prospectus or any other document relating to the Notes can be distributed in the Republic of Italy (“**Italy**”) in a solicitation to the public at large (*sollecitazione all’investimento*) within the meaning of

Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, unless an exemption applies. Accordingly, the Notes in Italy:

- (a) shall only be offered or sold to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph of CONSOB Regulation No 11522 of 1 July 1998 (the “**Regulation No 11522**”), as amended, and effected in compliance with the terms and procedures provided therein; or
- (b) shall only be offered or sold in circumstances which are exempted from the rules of solicitation of investments pursuant to Article 100 of Legislative Decree No 58 of 24 February 1998 (the “**Financial Services Act**”) and Article 33, first paragraph, of CONSOB Regulation No 11971 of 14 May 1999,
- (c) but, in any case, cannot be offered, sold and/or delivered, either in the primary or in the secondary market, to individuals in Italy, and in any event, the offer or sale of the Notes in Italy shall be effected in accordance with all relevant Italian securities, tax and exchange control and other applicable laws and regulations.

Moreover and subject to the foregoing, the Notes may not be offered, sold or delivered and neither the Prospectus nor any other material relating to the Notes may be distributed or made available in Italy unless such offer, sale or delivery of Notes or distribution or availability of copies of the Prospectus or any other material relating to the Notes in Italy is:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No 385 of 1 September, 1993 (the “**Italian Banking Act**”), the Regulation No 11522 and any other applicable laws and regulations; and
- (b) in compliance with Article 129 of the Italian Banking Act and the implementing instructions of the Bank of Italy, pursuant to which the issue, trading or placement of securities (e.g., Notes) in Italy is subject to prior and subsequent notification to the Bank of Italy, unless an exemption, depending inter alia on the amount of the issue and the characteristics of the securities, applies; and
- (c) in compliance with any other applicable requirement or limitation which may be imposed from time to time by CONSOB or the Bank of Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the Prospectus Directive, such requirements shall be replaced by the applicable requirements under the Prospectus Directive.

### **Russia**

Each Manager has agreed that the Notes will not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law. It is being understood and agreed that the Managers may distribute this Prospectus to persons resident or incorporated in the Russian Federation, provided such distribution will not constitute an advertisement (in the terms of the Federal Laws on Advertising No: 108-FZ dated 18 July 1995 (as amended) and No: 38-FZ dated 13 March 2006) of the Notes, and also may sell the Notes to persons resident or incorporated in the Russian Federation, provided such sale will not constitute “placement” or “public circulation” of the Notes in the Russian Federation in the terms of the Federal Law on Securities Market No: 39-FZ dated 22 April 1996 (as amended).

### **Singapore**

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “**SFA**”), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is:

- (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except:

- (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA;
- (2) where no consideration is given for the transfer; or
- (3) by operation of law.

### **Switzerland**

Each Manager has represented, warranted and undertaken to the Issuer and B.I.N.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 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 the Prospectus on the SWX Swiss Exchange or any other regulated securities market in Switzerland, 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.

### **United Kingdom**

Each Manager has represented and agreed that (i) 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) 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.

### **United States**

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 in accordance with Regulation S or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Manager has represented to the Issuer and B.I.N.BANK that it has offered or sold the Notes, and has agreed that it will offer and sell the Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S. Accordingly, no Manager nor its affiliates nor any persons acting on its or their behalf have engaged or will engage in any "directed selling efforts" with respect to the Notes and it and they have complied with and will comply with the offering restrictions requirement of Regulation S. Each Manager has agreed that, at or prior to confirmation of sale of the Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933 (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 (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date of the offering, except in either case in accordance with Regulation S. Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in the preceding paragraphs have the meanings given to them by Regulation S under the Securities Act.

**General**

No action has been or will be taken in any jurisdiction by the Issuer, B.I.N.BANK or any Manager 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. Persons into whose hands this Prospectus comes are required by the Issuer, B.I.N.BANK and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

Each Manager has undertaken to the Issuer and B.I.N.BANK that it will, to the best of its knowledge and belief, comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes such offering material, in all cases at its own expense.

Each Manager has also undertaken that it will ensure that no obligations are imposed on B.I.N.BANK and the Issuer in any such jurisdiction as a result of any of the foregoing actions. Neither B.I.N.BANK nor the Issuer will have any responsibility for, and each Manager has undertaken that it will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of the Notes under the laws and directives in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

No Manager is authorised to make any representation or use any information in connection with the issue, offering and sale of the Notes other than as contained in the Prospectus or any amendment or supplement to it.

The Issuer estimates that the total expenses of this offering will be approximately U.S.\$3,629,573.08

## TAXATION

*The following is a general description of certain Russian and Luxembourg tax considerations relating to the Notes and the Loan. 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 Notes should consult their tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of 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 Taxation**

#### ***Taxation of the Notes***

##### *General*

The following is a 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. Nor does the summary seek to address the availability of double tax treaty relief in respect of the Notes, and it should be noted that there may be practical difficulties, including satisfying certain documentation requirements, involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Notes. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The provisions of the Tax Code applicable to holders and transactions with the Notes are uncertain and lack interpretive guidance. Both the substantive provisions of the 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 may 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 either (i) an individual Noteholder actually present in Russia for an aggregate period of less than 183 days in a given calendar year (excluding days of arrival in Russia, but including days of departure from Russia); 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 B.I.N.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 or interest on the Notes, subject to what is stated in “*Taxation of Interest on the Loan*”.

A non-resident Noteholder generally should not be subject to any Russian taxes in respect of gain or other income realised on the redemption, sale or other disposal of the Notes outside Russia, provided that the proceeds of 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 the Russian 20 per cent.



withholding income tax, even if the disposal itself results in a capital loss. This withholding tax, however, may be reduced or eliminated where double tax treaty relief is available.

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 taxable in Russia at a 30 per cent. rate, subject to any available double tax treaty relief, in respect of gross proceeds from such disposal less any available qualifying cost deduction, and in respect of interest income. According to Russian tax legislation, taxation of income for individuals non-resident in Russia for tax purposes will depend on whether this income is received from Russian or non-Russian sources. The Russian tax law gives no clear indication regarding the treatment of sale of the Notes in this respect. However, the practical approach is to consider the place of sale for these purposes: proceeds from sale of the Notes outside Russia by Noteholders (individuals) non-resident in Russia for tax purposes should not be considered as Russian source income. As the Russian tax legislation does not provide a definition for “sale in Russia”, the Russian tax authorities have a certain degree of discretion with regard to assessment of whether transactions take place in or outside of Russia. 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 file a tax return and to pay the tax in Russia. 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 prior to payment being made to confirm the applicability of the double tax treaty for which benefits are claimed. Non-resident Noteholders that are legal entities and organizations should consult their own tax advisers with respect to this matter.

#### *Resident Holders*

A Noteholder who is an individual resident in Russia for tax purposes, a Russian legal entity or a foreign organisation acting through its permanent establishment in Russia is subject to all applicable Russian taxes and to the documentation requirements provided for in the law or existing in practice in respect of gains from disposal of the Notes and interest received on the Notes. Such Noteholder should consult their own tax advisers with respect to their tax position regarding the Notes.

#### *Refund of Tax Withheld*

For a non-resident Noteholder which is not an individual and for which double tax treaty relief is available, if Russian withholding tax on income has been withheld at 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 the refund, documentation confirming entitlement of the non-resident recipient of the income to the double tax treaty relief is required.

For non-resident Noteholder who is an individual and to whom 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, request a wide variety of documentation confirming the entitlement to benefits under a double tax treaty. Such documentation, may not be explicitly required to be provided by the Russian tax legislation.

Obtaining a refund of Russian tax withheld is likely to 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 20 per cent. rate. This tax may be reduced or eliminated where double tax treaty relief is available. Based on the professional advice it has received, B.I.N.BANK believes that payments of the Loan interest made by B.I.N.BANK to the Issuer should not be subject to withholding Russian tax under the terms of the double taxation treaty between Russia and the Grand Duchy of Luxembourg, provided the Russian tax documentation requirements (annual advance

confirmation of the Issuer's tax treaty residency) are satisfied. However, there can be no assurance that such double tax treaty relief will be available. In addition, B.I.N.BANK cannot assure prospective investors that they will be able to access the treaty relief from the Russian withholding tax upon 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 security interest in the Trust Deed, interest under the Loan becomes payable to the Trustee, the benefit of the double tax treaty between Russia and Luxembourg may cease and payment of interest may be subject to Russian withholding tax at a 20 per cent. rate (or, potentially, 30 per cent. in respect of non-resident individual Noteholders).

If the payments under the Loan Agreement are subject to any withholding taxes for any reason (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), B.I.N.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, however, that tax gross-up provisions in contracts may not be enforceable under the Russian tax law. In the event that B.I.N.BANK fails to increase the payments, such failure would constitute an Event of Default under the Loan Agreement. If B.I.N.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. The accrued interest portion will be taxable in Russia in the same manner as discussed in the previous paragraph.

Russian VAT is not applied to provision of a loan in monetary form as long as this loan is not connected with settlements for goods, services or works. Therefore, no VAT will be payable in Russia on any payment of interest or principal in respect of the Loan.

#### **EU Directive on Taxation of Savings Income**

Under the European Council Directive 2003/48/EC on the taxation of savings income (the “**Savings Directive**”), EU Member States and a number of non-member States referred to as “dependent and associated territories” and “third countries” provide, from 1 July 2005, to the tax authorities of other EU Member States details of payments of interest (or other similar income) paid or secured by a person within their jurisdiction to or for the benefit of an individual resident in those other EU Member States, except that Belgium, Luxembourg, Austria and some of the “dependent and associated territories” and “third countries” operate instead a withholding system for a transitional period in relation to such payments.

#### **Luxembourg Taxation**

The statements herein regarding taxation in the Grand Duchy of Luxembourg are based on the laws in force in the Grand Duchy of Luxembourg as of the date of this Prospectus and are subject to any changes in law. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder or beneficial owner of Notes should consult its tax advisor as to the Luxembourg tax consequences of the ownership and disposition of the Notes.

#### ***Luxembourg tax residency of the Noteholders***

A Noteholder will not become resident, or be deemed to be resident, in the Grand Duchy of Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

#### ***Withholding tax***

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to individual Noteholders, there is no withholding tax on payments of interest (including accrued but unpaid interest) made to Luxembourg resident and non-resident Noteholders. There is also no Luxembourg withholding tax, with the possible exception of payments made to individual Noteholders, upon repayment of the principal in case of reimbursement, redemption or exchange of the Notes.

#### ***Luxembourg non-resident individuals***

Under the Luxembourg laws dated 21 June 2005 (the “**Laws**”) implementing the Savings Directive and several agreements concluded between Luxembourg and certain dependent and associated territories of the European Union and third countries, a Luxembourg based paying agent (within the meaning of the Savings Directive) is required since 1 July 2005 to withhold tax on interest and other similar income paid

by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State, unless the beneficiary of the interest payments elects for an exchange of information. The same regime applies to payments to individuals resident in certain EU dependent and associated territories.

The withholding tax rate is initially 15 per cent., increasing steadily to 20 per cent. and to 35 per cent. The withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain other countries.

#### *Luxembourg resident individuals*

A 10 per cent. withholding tax has been introduced, as from 1 January 2006, on interest payments made by Luxembourg paying agents (defined in the same way as in the Savings Directive) to Luxembourg resident individuals. Only interest accrued after 1 July, 2005 falls within the scope of the withholding tax. This withholding tax represents the final tax liability for the Luxembourg resident individuals.

### **Taxation of the Noteholders**

#### ***Taxation of Luxembourg non-residents***

Noteholders who are non-residents of the Grand Duchy of Luxembourg and who have neither a permanent establishment nor a fixed base of business in the Grand Duchy of Luxembourg with which the holding of the Notes is connected are not liable to any Luxembourg income tax, whether they receive repayments of principal, payments of interest (including accrued but unpaid interest), payments received upon the redemption of the Notes, or realise capital gains on the sale or the exchange of any Notes.

#### ***Taxation of Luxembourg residents***

Luxembourg resident Noteholders, or non-resident Noteholders who have a permanent establishment or a fixed base of business in the Grand Duchy of Luxembourg with which the holding of the Notes is connected, must, for income tax purposes, include any interest received – or accrued, if they have to keep accounting records on an accrual basis – in their taxable income. They will not be liable to any Luxembourg income tax on repayment of principal.

The 10 per cent. Luxembourg withholding tax (see the above section “*Withholding tax – Luxembourg resident individuals*”) represents, however, the final tax liability on interest received for the Luxembourg resident individuals.

#### *Luxembourg resident individuals*

Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposition of the Notes, unless the disposition of the Notes precedes the acquisition of the Notes or the Notes are disposed of within six months of the date of acquisition of these Notes. Upon redemption of the Notes, individual Luxembourg resident Noteholders must however include the portion of the redemption price corresponding to accrued but unpaid interest in their taxable income.

#### *Luxembourg resident companies*

Luxembourg resident corporate (*sociétés de capitaux*) Noteholders or foreign entities of the same type which have a permanent establishment in the Grand Duchy of Luxembourg with which the holding of the Notes is connected, must include in their taxable income the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed.

#### *Luxembourg resident companies benefiting from a special tax regime*

Luxembourg resident corporate Noteholders which are companies benefiting from a special tax regime (such as holding companies subject to the law of 31 July 1929 and undertakings for collective investment subject to the law of 20 December 2002) are tax exempt entities in the Grand Duchy of Luxembourg, and are thus not subject to any Luxembourg tax (i.e. corporate income tax, municipal business tax and net wealth tax) other than the subscription tax calculated on their share capital or net asset value.

### ***Net Wealth Tax***

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such Noteholder is a Luxembourg resident or (ii) the Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment in Luxembourg of the Noteholder.

Net wealth tax has been abolished as from the year 2006 for individual Noteholders.

**Other Taxes**

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in the Grand Duchy of Luxembourg by Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, exchange or redemption of the Notes.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in the Grand Duchy of Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

No gift, estate or inheritance taxes are levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of the Grand Duchy of Luxembourg for inheritance tax purposes.

## GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 025410556. The International Securities Identification Number (ISIN) for the Notes is XS0254105561.
2. The listing of the Notes on the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that the listing of the Notes on the Official List and admission of the Notes to trading on the Regulated Market of the London Stock Exchange will be granted on or about 16 May 2006 subject to the issue of the Notes. Prior to the official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlements in U.S. Dollars and for delivery on the third business day after the day of the transaction.
3. The Loan Agreement and the other documents to be entered into by B.I.N.BANK in relation to the issue of the Notes have been approved and authorised by a resolution at a meeting of the Management Board of B.I.N.BANK dated 5 May 2006.
4. The Loan Agreement and the other documents to be entered into by the Issuer in relation to the issue of the Notes have been approved and authorised by a resolution at a meeting of the Board of Directors of the Issuer dated 8 May 2006.
5. There has been no significant change in the financial or trading position of B.I.N.BANK which has occurred since 31 December 2005 and there has been no material adverse change in the prospectus of B.I.N.BANK since 31 December 2005.
6. There has been no significant change in the financial or trading position of the Issuer which has occurred since 5 April 2006, being the date of the incorporation of the Issuer, and no material adverse change in the financial position or prospects of the Issuer since 5 April 2006. The Issuer has no subsidiaries.
7. Save for the fees payable to the Manager(s), the Trustee and the Agents so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.
8. B.I.N.BANK has obtained all necessary consents, approvals and authorisations in Russia in connection with its entry into, and the performance of its obligations under, the Loan Agreement.
9. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the Loan Agreement and the other documents to be entered into by the Issuer in connection with the issue of the Notes.
10. No consents, approvals, authorisations or orders of any regulatory authorities are required by the Issuer under the laws of the Grand Duchy of Luxembourg for its entry into, and the performance of its obligations under, the Loan Agreement or for the issue and performance of the Notes.
11. There have been no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or B.I.N.BANK is aware), during the previous twelve months in relation to B.I.N.BANK and since the date of its incorporation in relation to the Issuer, which may have, or have had in the recent past, significant effects on the Issuer's and B.I.N.BANK's financial position or profitability.
12. The Trust Deed provides, inter alia, that the Trustee may act and/or rely on the opinion or advice of or a certificate of any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant, auditor or other expert (whether or not addressed to the Trustee), notwithstanding that such opinion, advice, certificate or information contains a monetary or other limit on the liability of any of the above-mentioned persons in respect thereof.
13. The B.I.N.BANK Financial Statements were audited by Deloitte & Touche. The business address of Deloitte & Touche is Business Centre "Mokhovaya", 417 Vozdvizhenka Street, Building 2, Moscow 125009, Russia.
14. Since the date of incorporation, the Issuer has not commenced operations and no financial statements have been made as at the date of the Prospectus.

15. For the life of this prospectus copies (and certified English translations where the 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, together with any supplement to this Prospectus;
  - (b) the articles of association of the Issuer;
  - (c) the charter of B.I.N.BANK;
  - (d) the audited consolidated financial statements, including the audit report thereon, of B.I.N.BANK in respect of the financial years ended 31 December 2005 and 2004;
  - (e) the Loan Agreement;
  - (f) the Agency Agreement; and
  - (g) the Trust Deed, which includes the forms of the Global Certificate and the Definitive Certificates.
16. The Bank of New York will act as Registrar in relation to the Notes. An up-to-date copy of the register of the Notes shall also be kept at the registered office of the Issuer.
17. The loan to value ratio of the Notes is 100 per cent.
18. The Bank of New York is a professional trustee company, which is providing its services in relation to the Notes on an arm's length basis in consideration of a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Issuer (with the prior written consent of B.I.N.BANK) but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of Noteholders. The Noteholders have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees. The removal of any trustee is only effective if following the removal there remains a trustee (being a trust corporation) in office after such removal. In addition, The Bank of New York, or any other trustee duly appointed, may retire at any time upon giving not less than three months notice in writing to the Issuer (copied to B.I.N.BANK). The retirement of any trustee is only effective if following the retirement there remains a trustee (being a trust corporation) in office after such retirement. If the trustee has given notice of its desire to retire and the Issuer is unable to procure a new trustee to be appointed and the Issuer has not by the expiry of such notice (with the prior written consent of B.I.N.BANK) appointed a new trustee, the trustee shall have the power of appointing new trustee(s).



## 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 Central Bank, 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 Central Bank 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 the 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.

Pursuant to Federal Law No. 87-FZ of 28 July 2004, the ARCO is to go into liquidation.

As at 1 March 2006, the number of credit organisations operating in the Russian Federation amounted to approximately 1,399. However, poor corporate governance, risk management, transparency and weak management remain widespread among many Russian banks.

According to the Central Bank, as at 1 February 2006 the total assets of the Russian banking sector were valued at approximately RUR9,778.2 billion, with own assets valued at approximately RUR1,241.8 billion.

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 the banks' resource base. The main source of growth of the banks financial resources is the increasing number of retail deposits.

In February 2006 the amount of credit balances on Rouble and foreign currency accounts of individuals increased to approximately RUR2,873.9 billion as compared to RUR2,026.7 billion in February 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 RUR564.0 billion in February 2005 to RUR928.2 billion in February 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 RUR735.3 billion and RUR1,037.0 billion in February 2006, respectively, as compared to RUR644.2 billion and RUR737.1 billion in February 2005, respectively.

As at 1 February 2006, of the Russian banking sector's total assets, 66.2 per cent. are represented by account receivables under credit operations, 16.2 per cent. are represented by investments into securities, 5.6 per cent. and 2.3 per cent. are represented by credit balances on accounts with the Central Bank and correspondent banks, respectively, 9.7 per cent. are represented by other assets. 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 recent circulation of various market rumours and, in some cases, certain regulatory and liquidity problems, several Russian privately-owned banks have collapsed or ceased or significantly limited their operations. A number of Russian privately-owned banks were experiencing liquidity problems and were unable to attract funds on the interbank market or from their clients or shareholders. Simultaneously, they faced large withdrawals of deposits by both retail and corporate clients. According to the Central Bank, from 15 June until 1 August 2004 private depositors withdrew approximately RUR30 billion from Russian banks, except for Sberbank.

The Central Bank took steps to combat the crisis. The rate of mandatory reserves that banks were required to deposit with the Central Bank was temporarily reduced from 7 per cent. to 3.5 per cent. To implement these measures, the Central Bank 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 Central Bank Law the Central Bank 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 Central Bank 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 Central Bank 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 February 2006, approximately 74.3 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.

State owned banks continue to play a vital 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 (e.g., 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 Central Bank. 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, Societe Generale 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 Rosyysky 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 Central Bank**

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

According to the Central Bank Law, neither the state nor the Central Bank 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 Central Bank are under federal ownership. According to the latest available data, as at 1 March 2006, the Central Bank assets amounted to RUR6,092,670 million (approximately U.S.\$150,068 million at then current exchange rate) and its gold and currency reserves as at 1 April 2006 (held together with the Ministry of Finance) amounted to U.S.\$205.9 million.

The Central Bank is legally and financially independent of the Russian Government. The management of the Central Bank consists of the Chairman, the Board of Directors and the National Banking Council, a body executing primarily supervisory functions (e.g., determining the Central Bank’s maximum capital expenditures, allocation of Central Bank’s profits, appointment of the Central Bank’s auditors and approval of the Central Bank’s accounting rules and procedures). The Chairman of the Central Bank is appointed for a four year term by the State Duma of the Russian Federation (lower chamber of the Russian Parliament) upon nomination by the President of the Russian Federation. The same procedure applies to the Chairman’s removal. The Chairman of the Central Bank 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 Central Bank is ex officio member of the National Banking Council.

Pursuant to the Central Bank Law and the Law “On Banks and Banking Activity” No. 395-1 dated 2 December 1990, as amended (the “**Banking Law**”), and the Currency Law, the Central Bank is authorised to issue and implement binding regulations with respect to banking and currency operations.

Under current legislation, the Central Bank performs the following main functions:

#### ***Issue of Money and Regulation of its Circulation***

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

#### ***Financing/Monetary Policy***

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

#### ***Registration and Licensing***

The Central Bank registers commercial banks and grants them licences for performing banking activities. The Central Bank may suspend or revoke, banking licences. In addition, the Central Bank registers share and bond issues by banks.

#### ***Supervision and Control***

The Central Bank oversees banks’ compliance with financial ratios and reserve requirements, imposes sanctions for violations thereof, establishes reporting requirements and accounting rules and procedures for banks, oversees banks’ operations and transactions, appoints temporary administrations 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 Central Bank 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 Central Bank, 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 Central Bank Law, the Central Bank is prohibited to participate in the share capital of banks and other commercial entities.

### ***Federal Budget Administration and Sovereign Debt Servicing***

The Central Bank acts as placement and service agent for sovereign debt securities issued by the Ministry of Finance. The Central Bank also administers federal budget accounts.

### ***Exchange Control***

The Currency Law provides to the Central Bank substantial powers with respect to regulation of foreign currency operations. In particular, until 1 January 2007, the Central Bank has powers to introduce reserve and special-purpose account requirements in respect of certain currency operations specified in the Currency Law.

### ***Regulation of the Russian Banking Sector***

Banking activity in the Russian Federation is broadly governed by the Central Bank Law, the Banking Law, various Central Bank regulations and, to a limited extent, by the Currency Law. While the Central Bank is the primary regulator of the banking sector, other state authorities also exercise regulatory and supervisory functions over banks. The FSFM issues licences to banks to act as professional participants in the Russian securities market (e.g., 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 Central Bank in order to conduct “**banking activities**” as defined in the Banking Law. A credit organisation must be incorporated in the Russian Federation in order to be licensed by the Central Bank. Licence applicants must submit to the Central Bank 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 Central Bank 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 Central Bank establishes the minimal amount of charter capital for banks. Pursuant to the Directive of the Central Bank No. 1346-u dated 1 December 2003, the minimal amount of charter capital for both newly established as well as foreign controlled banks shall amount to the Rouble equivalent of EUR 5 million.

#### ***Capital Adequacy***

The mandatory financial ratios applicable to Russian Banks, including the capital adequacy ratio, are set out in the Instruction No. 110-I “On Mandatory Ratios of Banks” (“**Instruction No. 110-I**”) adopted by the Central Bank on 16 January 2004 and subsequently amended. Under Instruction No. 110-1 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, shall amount to at least 10 per cent. for banks with amount of

own capital no less than EUR 5 million and to at least 11 per cent. for banks with amount of own capital less than 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 share 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 Central Bank Law, the Board of Directors of the Central Bank 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 Central Bank 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.

The mandatory reserves are required to be calculated by banks in accordance with the Central Bank Regulation No. 255-P of 29 March 2004 (the "**Reserves Regulation**").

In the event of non-compliance by a bank with the compulsory reserve requirements the Central Bank may impose a fine on such bank and directly debit the bank's correspondent account with the Central Bank in respect of the insufficient reserve amounts. The Central Bank 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 Central Bank under the compulsory reserve requirements may not be subject to an attachment, arrest or other legal proceedings launched by the bank's creditors. In the event of revocation of the banking licence such amounts are included in the pool of assets generally available for distribution amongst the bank's creditors in the order established by Russian insolvency legislation.

### ***Provisioning and Loss Allowances***

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

Regulation No. 254-p 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. Regulation No. 254-p 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. Regulation No. 254-p 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 Central Bank and its regional units have the right to audit the 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 the banks' financial statements for tax purposes on the other.

The Central Bank 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 Central Bank Instruction No. 232-P of 9 July 2003 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 Central Bank 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 Central Bank on the amounts of created non-loan allowances monthly within ten days following the reporting month. The Central Bank and its regional units are responsible for monitoring the compliance of banks with these rules.

### ***Liquidity Ratios***

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 Central Bank.

The *immediate liquidity ratio* is calculated as a relation of the high liquid assets of the 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 Central Bank or set out in various pieces of 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 a number of other financial ratios previously applicable to Russian Banks.

### ***Regulation of Currency Exposure***

In its Instruction No. 124-I of 15 July 2005, the Central Bank 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 Central Bank’s prices for precious metals.

The Central Bank 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 Central Bank 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 Central Bank is authorised to impose sanctions on the 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 Central Bank. 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 Central Bank the groups consolidated accounts.

The Central Bank may at any time conduct full or selective audits of any banks filings and may inspect all of its books and records. The Central Bank, 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 Central Bank Law.

### ***Accounting Practices***

The Central Bank establishes a standard format for presentation of financial and statistical data and recording banking transactions. Also the Central Bank 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 Central Bank.

Before 1 January 2006, all credit organisations in the Russian Federation had to prepare their financial statements according to both Russian accounting standards and IFRS. As at 1 January 2006, credit organisations need only prepare IFRS financial statements. 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 Central Bank 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 the 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 Central Bank 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. Banks that hold a valid retail banking licence will need to apply to the Central Bank to become registered as a participant in the mandatory deposits' insurance system. There are a number of tests that such bank is expected to meet before it will be admitted: (i) the Central Bank must be comfortable that its financial accounts and reports are true; (ii) it is in full compliance with the Central Bank mandatory ratios (capital adequacy, liquidity etc.); (iii) the Central Bank considers its solvency position sufficient; and (iv) the Central Bank 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.

The targets of the Russian banking reform are also set out in the programme for the social and economic developments of the Russian Federation for the years 2003 to 2005, adopted by the Russian Government in August 2003. According to this programme, banking reform remains one of the priority tasks for the period until 2005. The programme contemplates, *inter alia*, simplification of procedures for banks' reorganisation and introduction of regulation of syndicated lending, affiliated parties' financing, credit bureaux and pledge of monies held in a bank account.

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 bureaux" that will maintain a database of borrowers' credit histories. The law requires all credit organizations, starting from 1 September, 2005, to provide at least one credit bureau with the credit histories of all borrowers that have consented to the distribution of 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 Central Bank will oversee the credit bureaux and maintain a general catalogue of credit histories. The new law became effective on 1 June, 2005 and is expected to decrease credit risk to lenders.

On 5 April, 2005, the Government of Russia and the Central Bank published a new strategy for the development of the Russian banking sector during the period from 2005 to 2008, 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 legislative oversight 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 banking activities and preventing the use of credit organizations 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 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 Euro 5 million starting in 2007;

- increasing the minimum amount of a bank's net worth (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, albeit without lifting 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. The 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 Central Bank (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 Central Bank for an opinion on whether there are grounds for revocation of the bank's banking licence. If the Central Bank issues a negative opinion or fails to respond, the bankruptcy petition must be dismissed. In the latter case, the Central Bank 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 Central Bank 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 Central Bank 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 Central Bank, (iii) the bank fails to adjust its charter capital to own capital according to requirements of the Central Bank within 45 days of the Central Bank's notification and (iv) the bank fails to satisfy the claims of its creditors or make mandatory payments (e.g., taxes and duties) in the aggregate amount of RUR100,000 within 14 days of their maturity.

Upon revocation of the banking licence, the Central Bank must appoint to the bank a temporary administration. The temporary administration oversees the operations, identifies debtors of the bank and collects its assets. The 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 (e.g., 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 Central Bank 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 the 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 conduct 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, the temporary administration may request that the Central Bank 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.

The 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, the 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 undervalue 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 the 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 Central Bank 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. The bank is subject to bankruptcy proceedings if the bank is unable to perform its obligation in the aggregate of RUR100,000 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 bailiffs 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 Central Bank transferred to it pursuant to applicable legislation in the event that the Central Bank 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 subordinated 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.

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## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF B.I.N.BANK

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## JOINT-STOCK BANK "B.I.N"

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's audit report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint-Stock Bank "B.I.N" and its subsidiaries (the "Bank").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Bank at 31 December 2005, 2004 and 2003, the results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the consolidated financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

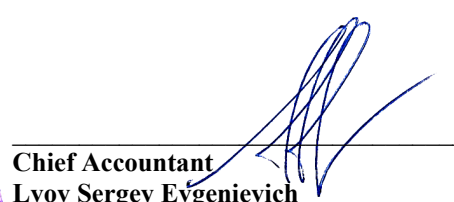
The consolidated financial statements for the years ended 31 December 2005, 2004 and 2003 were authorised for issue on 24 March 2006 by the Board of Directors.

On behalf of the Board:

  
Chairman  
Shishkhanov Mikail Osmanovich

24 March 2006  
Moscow



  
Chief Accountant  
Lvov Sergey Evgenievich

24 March 2006  
Moscow

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint-Stock Bank "B.I.N"  
(Open Joint-Stock Company):

We have audited the accompanying consolidated balance sheets of Joint-Stock Bank "B.I.N" and its subsidiaries (the "Bank") as at 31 December 2005, 2004 and 2003, the related consolidated income statements and statements of cash flows and changes in equity ("the consolidated financial statements") for three years then ended. These consolidated 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 International Standards on Auditing. 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 present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2005, 2004 and 2003, and the consolidated results of its operations and its cash flows for three years then ended, in accordance with International Financial Reporting Standards.

Without qualifying our opinion we would like to draw your attention to Note 1 to the consolidated financial statements. The Bank renders services to several groups of companies operating in the oil industry and commercial real estate management, which results in a significant concentration of operations and assets in those industries.



24 March 2006  
Moscow

# JOINT-STOCK BANK "B.I.N"

## CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000 (restated)	Year ended 31 December 2003 RUR'000 (restated)
Interest income	5, 27	3,419,961	2,322,283	1,457,350
Interest expense	5	<u>(2,076,040)</u>	<u>(1,141,078)</u>	<u>(851,555)</u>
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		<u>1,343,921</u>	<u>1,181,205</u>	<u>605,795</u>
Provision for impairment losses on interest bearing assets	6	<u>(238,349)</u>	<u>(178,454)</u>	<u>(5,439)</u>
NET INTEREST INCOME		<u>1,105,572</u>	<u>1,002,751</u>	<u>600,356</u>
Net gain on assets held-for-trading	7	45,153	82,160	11,109
Net gain on foreign exchange operations	8	340,289	125,096	114,720
Fee and commission income	9, 27	636,667	462,097	189,854
Fee and commission expense	9	(78,716)	(45,635)	(31,641)
Other income		<u>49,877</u>	<u>37,013</u>	<u>27,104</u>
NET NON-INTEREST INCOME		<u>993,269</u>	<u>660,731</u>	<u>311,146</u>
OPERATING INCOME		2,098,842	1,663,482	911,502
OPERATING EXPENSES	10, 27	<u>(1,752,714)</u>	<u>(1,334,401)</u>	<u>(873,298)</u>
OPERATING PROFIT		346,128	329,081	38,204
Recovery of other provisions	6	22,138	1,730	34,175
PROFIT BEFORE INCOME TAX		<u>368,266</u>	<u>330,811</u>	<u>72,379</u>
Income tax expense	11	<u>(102,157)</u>	<u>(50,077)</u>	<u>(41,171)</u>
PROFIT BEFORE EXPENSE FROM DISCONTINUED OPERATIONS AND DISPOSAL OF SUBSIDIARIES		266,109	280,734	31,208
Expense from discontinuing operations		-	(1,494)	15,034
Loss on disposal of subsidiaries		-	(17,511)	-
NET PROFIT		<u><u>266,109</u></u>	<u><u>261,729</u></u>	<u><u>46,242</u></u>
Attributable to:				
Equity holders of the parent		248,267	258,473	41,979
Minority interest		<u>17,842</u>	<u>3,256</u>	<u>4,263</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (RUR)	12	21.76	25.34	4.12

On behalf of the Board:

\_\_\_\_\_  
Chairman  
Shishkhanov Mikail Osmanovich

24 March 2006  
Moscow

\_\_\_\_\_  
Chief Accountant  
Lvov Sergey Evgenievich

24 March 2006  
Moscow

The notes on pages 8-45 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

# JOINT-STOCK BANK "B.I.N"

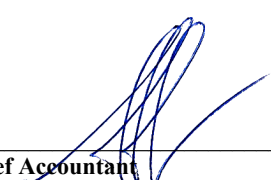
## CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER 2005, 2004 AND 2003

	Notes	31 December 2005 RUR'000	31 December 2004 RUR'000 (restated)	31 December 2003 RUR'000 (restated)
<b>ASSETS:</b>				
Cash and balances with the Central bank of the Russian Federation	13	3,362,359	3,633,616	3,342,783
Precious metals		24,899	25,351	7,448
Assets held-for-trading	14	873,280	1,184,880	154,958
Loans and advances to banks, less allowance for impairment losses	15	9,863,716	1,343,592	800,067
Loans to customers, less allowance for impairment losses	17, 27	23,349,111	16,323,357	12,904,863
Investments available-for-sale	18	10,500	10,689	12,953
Fixed assets, less accumulated depreciation	19	261,633	248,030	265,125
Assets of discontinued operations	4	-	-	337,423
Current income tax assets		16,881	34,517	17,859
Other assets	20	65,002	14,769	53,878
<b>TOTAL ASSETS</b>		<b>37,827,381</b>	<b>22,818,801</b>	<b>17,897,357</b>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES:</b>				
Deposits of banks	21	1,366,212	1,257,157	357,494
Customer accounts	22, 27	27,072,411	15,911,085	12,345,516
Debt securities issued	23	2,581,112	1,812,140	1,538,228
Liabilities of discontinued operations	4	-	-	403,313
Provisions	6, 26	22,086	44,224	45,954
Other liabilities	24	6,209	17,668	34,331
<b>Total liabilities</b>		<b>31,048,030</b>	<b>19,042,274</b>	<b>14,724,836</b>
<b>EQUITY:</b>				
Share capital	25	4,959,052	3,584,052	3,584,052
Share premium	25	2,500,594	1,125,594	1,125,594
Accumulated deficit		(1,063,991)	(1,312,258)	(1,577,466)
Equity attributable to equity holders of the parent		6,395,655	3,397,388	3,132,180
Minority interest		383,696	379,139	40,341
<b>Total equity</b>		<b>6,779,351</b>	<b>3,776,527</b>	<b>3,172,521</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>37,827,381</b>	<b>22,818,801</b>	<b>17,897,357</b>

On behalf of the Board:

  
Chairman  
Shishkhanov Mikail Osmanovich

24 March 2006  
Moscow

  
Chief Accountant  
Lvov Sergey Evgenievich

24 March 2006  
Moscow

The notes on pages 8-45 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.



# JOINT-STOCK BANK "B.I.N"

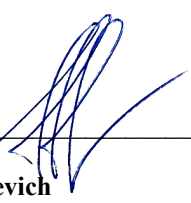
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

	Attributable to the equity holders of the parent				Minority interest RUR'000	Total equity RUR'000
	Share capital RUR'000	Share premium RUR'000	Accumulated deficit RUR'000	Total RUR'000		
<b>Balance at 31 December 2002 (before restatement)</b>	3,584,052	1,125,594	(1,619,445)	3,090,201	-	3,090,201
Restatements due to the changes in IFRS (Note 3)	-	-	-	-	620,514	620,514
<b>Balance at 31 December 2002 (restated)</b>	3,584,052	1,125,594	(1,619,445)	3,090,201	620,514	3,710,715
Effect of foreign exchange rate changes	-	-	-	-	11,939	11,939
Disposal of ownership interest in EHB EUROPÄISCHE HANDELSBANK AG	-	-	-	-	(258,607)	(258,607)
Purchase of ownership interest in JSCB "Vyatka-Bank"	-	-	-	-	42,849	42,849
Minority interest on discontinued operations	-	-	-	-	(380,617)	(380,617)
Net profit for the period	-	-	41,979	41,979	4,263	46,242
<b>Balance at 31 December 2003</b>	3,584,052	1,125,594	(1,577,466)	3,132,180	40,341	3,172,521
Change in ownership interest in JSCB "Vyatka-Bank"	-	-	-	-	335,542	335,542
Net profit for the period	-	-	258,473	258,473	3,256	261,729
<b>Balance at 31 December 2004</b>	3,584,052	1,125,594	(1,318,993)	3,390,653	379,139	3,769,792
Adjustment of negative goodwill due to adoption of IFRS 3 (Note 3)	-	-	6,735	6,735	-	6,735
<b>Balance at 31 December 2004 (restated)</b>	3,584,052	1,125,594	(1,312,258)	3,397,388	379,139	3,776,527
Increase of share capital (issue of 6,875,000 ordinary shares RUR 200 each, placement price RUR 400)	1,375,000	1,375,000	-	2,750,000	-	2,750,000
Dividends declared	-	-	-	-	(13,285)	(13,285)
Net profit for the period	-	-	248,267	248,267	17,842	266,109
<b>Balance at 31 December 2005</b>	4,959,052	2,500,594	(1,063,991)	6,395,655	383,696	6,779,351

On behalf of the Board:

  
Chairman  
Shishkhanov Mikail Osmanovich

24 March 2006  
Moscow

  
Chief Accountant  
Lvov Sergey Evgenievich

24 March 2006  
Moscow

The notes on pages 8-45 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

# JOINT-STOCK BANK "B.I.N"

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000 (restated)	Year ended 31 December 2003 RUR'000 (restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax	368,266	330,811	72,379
Adjustments for:			
Provision for impairment losses on interest bearing assets	238,349	178,454	5,439
Other provisions	(22,138)	(1,730)	(34,175)
Amortization of discount/(premium) on issued securities	138,405	427	(30,642)
Depreciation of fixed assets	77,345	58,344	46,630
Property disposal expenses	12,510	1,446	14,965
Amortization of/(discount) of loans to customers	(58,265)	259,041	-
Change in interest accruals, net	129,198	(20,371)	58,913
Expenses from disposal of subsidiary	-	32,732	-
Net unrealized loss on effect of foreign exchange rates changes	12,753	28,376	63,409
Cash flows from operating activities before changes in operating assets and liabilities	896,423	867,530	196,918
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Russian Federation	(106,326)	489,124	26,606
Loans and advances to banks	(7,463,857)	(754,335)	(17,808)
Assets held-for-trading	182,291	(427,958)	209,733
Loans and advances to customers	(7,251,305)	(3,912,001)	(1,519,624)
Other assets	(50,317)	39,291	28,363
Increase/(decrease) in operating liabilities			
Deposits of banks	208,681	853,617	(418,795)
Customer accounts	10,809,734	3,679,213	1,324,469
Other liabilities	(11,759)	(16,714)	(138,879)
Cash (outflow)/inflow from operating activities before taxation	(2,786,435)	817,767	(309,017)
Income tax paid	(84,521)	(66,735)	(34,265)
Net cash (outflow)/inflow from operating activities	(2,870,956)	751,032	(343,282)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of fixed assets	(104,002)	(46,502)	(72,084)
Proceeds on sale of fixed assets	544	49,809	17,744
Cash equivalents received as a result from acquisition of subsidiary	-	-	28,140
Net proceeds on sale of investments available-for-sale	189	2,264	(2,153)
Sale/(acquisition) of investments in associates	-	178,648	(255,357)
Net cash (outflow)/inflow from investing activities	(103,269)	184,219	(283,710)

# JOINT-STOCK BANK "B.I.N"

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003 (CONTINUED)

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Issue of ordinary share capital		1,375,000	-	-
Share premium		1,375,000	-	-
Proceeds from debt securities issued		625,762	274,582	48,389
Dividends paid		(12,985)	-	-
Net cash inflow from financing activities		<u>3,362,777</u>	<u>274,582</u>	<u>48,389</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<u>388,552</u>	<u>1,209,833</u>	<u>(578,603)</u>
CASH AND CASH EQUIVALENTS, beginning of year	13	<u>3,918,474</u>	<u>2,727,488</u>	<u>3,370,588</u>
Effect of foreign exchange rate changes		<u>11,627</u>	<u>(18,847)</u>	<u>(64,497)</u>
CASH AND CASH EQUIVALENTS, end of year	13	<u><u>4,318,653</u></u>	<u><u>3,918,474</u></u>	<u><u>2,727,488</u></u>

Interest received and paid by the Bank during the year ended 31 December 2005 amounted to RUR 3,232,382 thousand and RUR 1,679,123 thousand, respectively.

Interest received and paid by the Bank during the year ended 31 December 2004 amounted to RUR 2,521,127 thousand and RUR 1,112,284 thousand, respectively.

Interest received and paid by the Bank during the year ended 31 December 2003 amounted to RUR 1,596,288 thousand and RUR 931,580 thousand, respectively.

**On behalf of the Board:**

\_\_\_\_\_  
**Chairman**  
**Shishkhanov Mikail Osmanovich**

24 March 2006  
Moscow

\_\_\_\_\_  
**Chief Accountant**  
**Lvov Sergey Evgenievich**

24 March 2006  
Moscow

The notes on pages 8-45 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

# JOINT-STOCK BANK “B.I.N”

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005, 2004 AND 2003

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### 1. ORGANISATION

Joint-Stock Bank “B.I.N” (Open Joint Stock Company) (the JSB “B.I.N”) was incorporated in the Russian Federation with head office in Moscow in 1993. JSB “B.I.N” holds General License of the Central Bank of the Russian Federation (the “CBR”) No. 2562 and renders a complete package of banking services to corporate clients engaged in various industries as well as to individuals.

The registered office of JSB “B.I.N” is located at: 5a Grodnenskaya St., Moscow, 121471, Russian Federation.

JSB “B.I.N” has 18 branches in the Russian Federation and 1 representative office.

JSB “B.I.N” is a parent company of the banking group (the “Bank”) which consists of the following enterprises consolidated in the financial statements:

Name	Country of incorporation	Proportion of ownership interest and voting power/(effective control) of JSB “B.I.N” as of 31 December 2005	Proportion of ownership interest and voting power/(effective control) of JSB “B.I.N” as of 31 December 2004	Proportion of ownership interest and voting power and effective control of JSB “B.I.N” as of 31 December 2003
JSCB “Vyatka-Bank”	Russian Federation	4.98% (90.03%)	4.98% (90.03%)	90.03%
LLC “Old Style XXI”	Russian Federation	-	-	100.00%
CJSC “Evangelika”	Russian Federation	-	-	99.00%
OJSC “Petrovsky Passage”	Russian Federation	-	-	65.25%

On 1 January 2003 the Bank acquired control over the Joint-Stock Commercial Bank “Vyatka-Bank” (JSCB “Vyatka-Bank”) that is engaged in banking activities within the Russian Federation. The financial statements of JSCB “Vyatka-Bank” were consolidated into the Bank’s financial statements beginning 1 January 2003.

LLC “Old Style XXI” owns a first class business center located in Moscow (Russian Federation) and provides rental services. LLC “Old Style XXI” also owns 46.25% share in equity of JSC “Petrovsky Passage”.

Holding Company CJSC “Evangelika” owns 19% share in equity of OJSC “Petrovsky Passage” that possesses a right for long-term rent of Petrovsky Passage building (Moscow, Russian Federation) and provides trade premises sublease services.

During the year ended 31 December 2004 the Bank sold its ownership shares in “Old Style XXI” LLC, holding company JSC “Evangelika” and OJSC “Petrovsky Passage” (Note 4).

The Bank provides services to several groups of companies that operate mostly in the oil industry and real estate management. As of 31 December 2005, 2004 and 2003 the loans issued to such companies constituted 43%, 56% and 66% of the total loan portfolio (Note 17), respectively. The deposits from such companies constituted 18%, 30% and 27% of the total amount of customer accounts as of 31 December 2005, 2004 and 2003, respectively (Note 22). Thus, there is a significant concentration of operations and assets in respect of such companies.

As at 31 December 2005, 2004 and 2003, the following shareholders owned outstanding shares in the JSB "B.I.N":

	31 December 2005	31 December 2004	31 December 2003
<b>Legal shareholders:</b>			
OJSC GNK "Nafta Moscow"	19.99%	-	-
LLC "Tradevest"	19.99%	-	-
OJSC "DTs Zubarevsky"	11.92%	19.96%	19.76%
CJSC "IK Nordfest"	11.92%	19.95%	4.90%
OJSC "Garant Invest"	5.96%	9.97%	4.98%
CJSC "IK Uran Invest"	5.93%	9.93%	9.93%
CJSC "IK Ami Invest"	5.90%	9.87%	4.90%
OJSC "IK Nadezhnost"	3.23%	4.95%	4.95%
LLC "Spetspromavtomatika"	2.96%	4.95%	4.95%
CJSC "PFK BIN"	2.96%	4.95%	4.95%
CJSC "Chaika Plaza"	2.96%	4.90%	-
CJSC "Rossiysky Neftyanoy Export"	2.93%	4.95%	4.90%
JSC "Rusoil Moscow"	-	4.19%	4.19%
LLC "Laskor"	-	-	4.91%
CJSC "Zubari"	-	-	8.82%
Other	3.35%	1.43%	17.86%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>
<b>Ultimate shareholders:</b>			
Shishkhanov Mikail Osmanovich	64.57%	74.58%	76.10%
Kerimov Suleiman Abusaidovich	19.99%	-	-
Gutseriev Sait-Salam Safarbekovich	6.19%	9.90%	13.77%
Other	9.25%	15.52%	10.13%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

## 2. BASIS OF PRESENTATION

**Accounting basis** - These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements are presented in thousands of Russian Roubles ("RUR"), unless otherwise indicated. These financial statements have been prepared on accrual basis and under the historical cost conversion, except for the revaluation of certain financial instruments and according to International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29").

The Bank maintains its accounting records in accordance with Russian law. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statements caption.

Equity as at 31 December 2005, 2004 and 2003 and profit for the years then ended are reconciled between Russian Accounting Standards and IFRS as follows:

	31 December 2005	Year ended 31 December 2005	31 December 2004	Year ended 31 December 2004	31 December 2003	Year ended 31 December 2003
	RUR'000 Equity	RUR'000 Profit	RUR'000 Equity	RUR'000 Profit	RUR'000 Equity	RUR'000 Profit
<b>Russian Accounting Standards (unaudited)</b>						
JSB "B.I.N"	7,432,169	643,582	4,180,137	797,843	3,453,398	120,436
JSCB "Vyatka-Bank"	378,292	25,000	374,836	20,981	364,450	20,222
	<b>7,810,461</b>	<b>668,582</b>	<b>4,554,973</b>	<b>818,824</b>	<b>3,817,848</b>	<b>140,658</b>
Provision for loans and advances to banks and customers	(202,025)	43,134	(304,734)	(42,586)	(316,871)	(37,697)
Provision for losses on other transactions	(24,678)	20,387	(18,083)	8,935	21,974	38,785
Accrued interest, net	(427,729)	(107,733)	(328,439)	(366,977)	(71,244)	(58,913)
Amortization of discount on debt securities	(293,475)	(138,405)	(130,701)	(427)	(51,172)	30,642
Deferred income tax	-	-	-	-	5,883	5,883
Current income tax	-	(102,157)	(11,525)	(65,075)	-	(47,054)
Expenses recorded as profit distribution under statutory accounting standards	-	(18,047)	-	(11,430)	-	(10,174)
Adjustment to the value of fixed assets due to inflation, difference in depreciation rates, finance lease	(3,260)	(41,313)	50,142	(16,830)	61,417	(21,484)
Result of discontinuing operations	-	-	-	(19,005)	-	15,034
Fair value adjustment on assets held-for-trading	16,952	16,952	-	-	-	-
Prepayments written off on services received	(44,397)	(57,856)	(11,992)	(13,459)	(2,317)	(1,467)
Effect of consolidation of JSCB "Vyatka-Bank"	(15,592)	-	(23,277)	(32,732)	(301,926)	(4,649)
Other	(36,906)	(17,435)	(6,572)	2,491	8,929	(3,322)
<b>International Financial Reporting Standards</b>	<b>6,779,351</b>	<b>266,109</b>	<b>3,776,527</b>	<b>261,729</b>	<b>3,172,521</b>	<b>46,242</b>

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

**Functional currency** - The functional currency of these financial statements is the Russian Roubles ("RUR").

### 3. SIGNIFICANT ACCOUNTING POLICIES

**Basis of consolidation** - The consolidated financial statements include the financial statements of subsidiaries where JSB "B.I.N" directly or indirectly, owns a majority voting interest. All significant transactions between JSB "B.I.N" and the subsidiaries, as well as the relevant balances have been eliminated. The effective ownership interest of JSB "B.I.N" and its proportion of voting power in the subsidiaries of the Bank as of 31 December 2005, 2004 and 2003 are presented in Note 1.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on



acquisition) is credited to profit and loss in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed off during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Bank.

**Recognition and measurement of financial instruments** - The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

**Cash and cash equivalents** - Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the Central Bank of the Russian Federation with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time and Government debt securities classified as assets held-for-trading. For purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Russian Federation is not included as a cash equivalent due to restrictions on its availability (Note 13).

**Precious metals** - Assets and liabilities denominated in precious metals are translated at the current rate computed based on the second fixing of the London Bullion Market rates using the RUR/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain/(loss) on operations with precious metals in other income.

**Loans and advances to banks** - In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for impairment losses.

**Assets held-for-trading** - Assets held-for-trading represent assets acquired principally for the purpose of selling them in the near term, or it is a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit-taking. Assets held-for-trading are initially recorded and subsequently measured at fair value. The Bank uses quoted market prices to determine fair value for the Bank's asset held-for-trading. When reliable market prices are not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on asset held-for-trading is recognized in profit and loss for the period.

**Reverse repurchase agreements** - The Bank enters into purchase and sale back agreements (“reverse repos”) in the normal course of its business. Reverse repos are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

**Derivative financial instruments** - The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank are forwards agreements.

Derivative financial instruments are initially recorded and subsequently measured at fair value. Fair values for subsequent measurement are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term and trading nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on foreign exchange operations for foreign currency derivatives.

**Originated loans** - Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

Loans granted by the Bank with fixed maturities are initially recognized in accordance with the policy stated above. The difference between the nominal amount of consideration given and the amortized cost of loans issued at lower than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in profit and loss as losses on origination of assets.

Subsequently, the carrying amount of such loans is adjusted for amortization of the losses on origination and the related income is recorded as interest income within profit and loss using the effective interest method. Loans to customers that do not have fixed maturities are carried at cost. Loans to customers are carried net of any allowance for impairment losses.

**Write off of loans and advances** - Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. The decision on writing off bad debt against allowance for impairment losses for all major, preferential, unsecured and insider loans should necessarily be confirmed with a procedural document of judicial or notary bodies certifying that at the time of the decision the debt could not be repaid (partially repaid) with the debtor’s funds.

**Non-accrual loans** - Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Allowance for impairment losses** - The Bank establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discontinued at the financial asset’s original effective interest rate, for financial assets which are carried at amortised cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring

after the impairment was recognised, the previously recognised impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed. The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit and the total of the allowance for impairment losses is deducted in arriving at assets as shown in balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

**Investments available-for-sale** - Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity, plus accrued coupon income recognized in consolidated profit or loss for the period as interest income on investment securities. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale. If such quotes do not exist, management estimation is used. Dividends received are included in dividend income in the consolidated income statement.

Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment if any unless there are other appropriate and workable methods of reasonably estimating their fair value. Allowance for impairment is recognized in consolidated profit or loss for the period.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in profit and loss for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in profit and loss for the period. Reversals of such impairment losses on equity instruments are not recognized in profit and loss.

**Fixed assets** - Fixed assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognised impairment loss. Fixed assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of fixed assets is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings and other real estate	2%
Furniture and equipment	15-25%

The carrying amounts of fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. An impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

**Taxation** - Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Bank is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The Russian Federation also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the consolidated income statement.

**Deposits from banks and customers** - Customer and bank deposits are initially recognized at fair value, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

**Debt securities issued** - Debt securities issued represent promissory notes and debentures issued by the Bank. They are accounted for according to the same principles used for customer and bank deposits.

**Other provisions** - Other provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

**Financial guarantees and letters of credit** - Financial guarantees and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantees and letters of credits are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee or letter of credit.

**Contingent assets** - Contingent assets from financial guarantees received arises when the Bank has indicators for a loss incurred because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. The contingent asset is disclosed where an inflow of economic benefits is probable. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

**Share capital and share premium** - Contributions to share capital, made before 1 January 2003 are recognized at their cost restated for inflation. Contributions to share capital, made after 1 January 2003 are recognized at cost. Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses on sales of treasury stock are charged or credited to share premium.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 “Events after the Balance Sheet Date” (“IAS 10”) and disclosed accordingly.

**Retirement and other benefit obligations** - In accordance with the requirements of the Russian legislation pension system provides for calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the State pension system of the Russian Federation. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

**Recognition of income and expense** - Interest income and expense are recognized on an accrual basis using effective interest method. Interest income also includes income earned on investments in securities. Other income is credited to profit and loss when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan’s effective yield. Commission incomes/expenses are recognized on an accrual basis.

**Foreign currency translation** - Monetary assets and liabilities denominated in foreign currencies are translated into RUR at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

**Rates of exchange** - The exchange rates at year-end used by the Bank in the preparation of the consolidated financial statements are as follows:

	<b>31 December 2005</b>	<b>31 December 2004</b>	<b>31 December 2003</b>
RUR/US Dollar	28.7825	27.7487	29.4545
RUR/Euro	34.1850	37.8104	36.8240

**Offset of financial assets and liabilities** - Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

**Fiduciary activities** - The Bank provides depository services to its customers that include transactions with securities on their depo accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Bank's financial statements. The Bank accepts the operational risk on these activities, but the Bank's customers bear the credit and market risks associated with such operations.

**Restatements due to the changes in IFRS** - Certain restatements have been made to the consolidated financial statements as at 31 December 2004 and 2003 and for the years then ended to comply with the changes in IAS 1 "Presentation of Financial Statements", IAS 24 "Related party disclosures", IAS 39 "Financial Instrument: Recognition and Measurement", IFRS 4 "Insurance Contracts" effective for the periods beginning on or after 1 January 2005 as well as IFRS 3 "Business combinations" effective for the periods beginning on or after 31 March 2004. Restatements relating to IAS 1 "Presentation of Financial Statements" have been done retrospectively to the earliest financial statements period presented. Restatements relating to IFRS 3 "Business combinations" have been done for the annual periods stating 31 March 2004.

According to the revised IAS 1 "Presentation of Financial Statements", profit or loss attributable to minority interest should not be presented in the financial statements as items of income or expense.

According to the revised IAS 39 "Financial Instrument: Recognition and Measurement" securities reported under investments available-for-sale as at 31 December 2004 and 2003 in carrying and fair value amount of RUR 386,751 thousand and RUR 68,563 thousand, respectively, were reclassified into assets held-for-trading.

According to the IFRS 3 "Business combinations" carrying value of negative goodwill is not recorded under identified acquired assets in reporting periods starting after 31 March 2004. As at 31 December 2004 accumulated loss was adjusted by the carrying value of negative goodwill.

As at 1 January 2006 the International Accounting Standards Board amended the scope of IAS 39 "Financial Instruments: Disclosure and Presentation" to include financial guarantee contracts issued and remove them from IFRS 4 "Insurance Contracts". Under IAS 39 financial guarantee contracts issued are accounted and disclosed in the same way as well as under IFRS 4, therefore the effect of changes on financial statements of the Bank is not significant.

**Adoption of new standards** - The Bank has assessed the effect of adoption of new standards and changes of existing standards, which have been issued but are not effective as of 31 December 2005.

According to the revised IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") effective for reporting periods starting on or after 1 January 2006 financial guarantees are to be accounted in accordance with IAS 39. Moreover, securities with no market prices should be accounted only as investments available-for-sale. The Bank assesses that the effect of adoption of these changes will not have significant impact on financial position and result of operations of the Bank.

In accordance with IFRS 7 "Financial Instruments: Disclosures" effective from 1 January 2007 additional disclosures on financial instruments are required. The Bank assessed impact of this standard on financial statements and developed plan of system modification, which will support disclosure of necessary information.



**Reclassifications** - Certain reclassifications have been made to the financial statements as at 31 December 2004 and 2003 and for the years then ended to conform to the presentation as at 31 December 2005 and for the year then ended.

<b>Nature of reclassification</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>	<b>Balance sheet line as per previously issued reports</b>	<b>Balance sheet line as per the current report</b>
Reclassification of precious metals from other assets	25,351	7,448	Other assets	Precious metals Loans and advances to banks, less provision for impairment losses
Reclassification of settlements on plastic cards	23,957	12,163	Other assets	Deposits of banks
Reclassification of settlements on plastic cards	2,542	11,477	Other liabilities	

#### 4. DISCONTINUED OPERATIONS

During the year ended 31 December 2004 the Bank sold its ownership interest in the following companies:

<b>Name</b>	<b>Country of incorporation</b>	<b>Proportion of ownership interest and voting power of JSB "B.I.N" sold as of 1 April 2004</b>
LLC "Old Style XXI"	Russian Federation	100.00%
CJSC "Evangelika"	Russian Federation	99.00%
OJSC "Petrovsky Passage"	Russian Federation	65.25%

The Bank sold its ownership interest and proportions of voting power to a third party for consideration that is equal to the purchase price paid by the Bank for these investment.

Assets, liabilities, revenue and expenses of discontinued operations are excluded from the consolidated balance sheet, profit and loss account, cash flow statement and statement of changes in equity as of the date of sale of the ownership shares and proportions of voting power in subsidiaries.

As of the date of sale of the ownership interest and the voting power, assets and liabilities of discontinued operations comprised of the following:

	<b>RUR'000</b>
<b>ASSETS</b>	
Current assets	77,348
Non-current assets	260,075
Total assets of discontinued operations	<u>337,423</u>
<b>LIABILITIES</b>	
Current liabilities	34,981
Minority interest	368,332
Total liabilities of discontinued operations	<u>403,313</u>

## 5. NET INTEREST INCOME

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
<b>Interest income</b>			
Interest on loans to customers	2,633,317	2,458,655	1,408,456
Interest on loans and advances to banks	648,078	71,031	23,893
Interest on debt securities	79,115	51,638	25,001
Interest on reverse repurchase transactions	1,186	-	-
Amortization of/(discount) of loans to customers, net	<u>58,265</u>	<u>(259,041)</u>	<u>-</u>
<b>Total interest income</b>	<b><u>3,419,961</u></b>	<b><u>2,322,283</u></b>	<b><u>1,457,350</u></b>
<b>Interest expense</b>			
Interest on customer accounts	(1,207,049)	(852,529)	(661,141)
Interest on deposits of banks	(499,616)	(54,877)	(30,722)
Interest on debt securities issued	(368,112)	(228,892)	(151,180)
Other interest expenses	<u>(1,263)</u>	<u>(4,780)</u>	<u>(8,512)</u>
<b>Total interest expense</b>	<b><u>(2,076,040)</u></b>	<b><u>(1,141,078)</u></b>	<b><u>(851,555)</u></b>
<b>Net interest income before provision for impairment losses on interest bearing assets</b>	<b><u>1,343,921</u></b>	<b><u>1,181,205</u></b>	<b><u>605,795</u></b>

## 6. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Loans and advances to banks RUR'000	Loans to customers RUR'000	Total RUR'000
<b>31 December 2002</b>	<b>696</b>	<b>587,146</b>	<b>587,842</b>
Provision	4,905	534	5,439
Acquisition of subsidiaries	<u>139</u>	<u>13,400</u>	<u>13,539</u>
<b>31 December 2003</b>	<b>5,740</b>	<b>601,080</b>	<b>606,820</b>
(Recovery)/Provision	<u>(5,653)</u>	<u>184,107</u>	<u>178,454</u>
<b>31 December 2004</b>	<b>87</b>	<b>785,187</b>	<b>785,274</b>
(Recovery)/ Provision	<u>(87)</u>	<u>238,436</u>	<u>238,349</u>
<b>31 December 2005</b>	<b><u>-</u></b>	<b><u>1,023,623</u></b>	<b><u>1,023,623</u></b>

The movements in provision for off balance sheet transactions were as follows:

	<b>Guarantees and other commitments RUR'000</b>
<b>31 December 2002</b>	80,129
Recovery	(34,175)
<b>31 December 2003</b>	45,954
Recovery	<u>(1,730)</u>
<b>31 December 2004</b>	44,224
Recovery	<u>(22,138)</u>
<b>31 December 2005</b>	<u><u>22,086</u></u>

Allowances for losses on assets are deducted from the related assets. Provisions for guarantees and other commitments are recorded in liabilities.

#### 7. NET GAIN ON ASSETS HELD-FOR-TRADING

For the years ended 31 December 2005, 2004 and 2003, net gain on assets held-for-trading of RUR 45,153 thousand, RUR 82,160 thousand and RUR 11,109 thousand, respectively, represent net gain on debt securities.

#### 8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	<b>Year ended 31 December 2005 RUR'000</b>	<b>Year ended 31 December 2004 RUR'000</b>	<b>Year ended 31 December 2003 RUR'000</b>
Foreign exchange operations, net	386,135	171,800	127,708
Translation differences, net	<u>(45,846)</u>	<u>(46,704)</u>	<u>(12,988)</u>
<b>Total net gain on foreign exchange operations</b>	<u><u>340,289</u></u>	<u><u>125,096</u></u>	<u><u>114,720</u></u>

## 9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
<b>Fee and commission income from:</b>			
Settlements	202,964	110,522	82,352
Cash operations	160,935	107,492	67,217
Organization of financing for clients	140,125	149,595	-
Documentary operations	75,620	64,871	34,119
Other operations	57,023	29,617	6,166
<b>Total fee and commissions income</b>	<b>636,667</b>	<b>462,097</b>	<b>189,854</b>
<b>Fee and commission expense on:</b>			
Settlements	(39,278)	(13,715)	(14,985)
Cash operations	(12,513)	(16,327)	(9,567)
Organization of financing	(7,527)	-	-
Plastic card operations	(6,720)	-	-
Documentary operations	(3,866)	(3,233)	(291)
Other operations	(8,812)	(12,360)	(6,798)
<b>Total fee and commission expense</b>	<b>(78,716)</b>	<b>(45,635)</b>	<b>(31,641)</b>

## 10. OPERATING EXPENSES

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000	Year ended 31 December 2003 RUR'000
Staff costs	823,978	500,608	312,392
Operating lease expense	299,674	243,711	96,724
Taxes, other than income tax	102,428	81,391	60,372
Advertising and marketing expenses	89,714	63,364	34,247
Repairs and maintenance expense	78,527	51,938	20,063
Depreciation charge on fixed assets less amortization of negative goodwill	77,345	58,344	46,630
Insurance expenses	50,191	177,470	102,150
Security expenses	47,080	45,265	42,294
Professional services fees	38,656	12,267	28,626
Telecommunication service expenses	32,910	26,892	25,217
Charity expenses	29,157	-	10,174
Transportation and business trip expenses	19,516	15,525	12,911
Expenses on stationery and other office expenses	16,288	12,722	17,530
Loss on disposal of fixed assets	12,510	1,446	14,965
Loss on partial disposal of interest in a subsidiary	-	32,732	-
Other	34,740	10,726	49,003
<b>Total operating expenses</b>	<b>1,752,714</b>	<b>1,334,401</b>	<b>873,298</b>

## 11. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Russian Federation which may differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2005, 2004 and 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2005, 2004 and 2003 comprise:

	<b>31 December 2005 RUR'000</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
<b>Deferred assets:</b>			
Loans to banks and customers	387,839	361,909	318,229
Total deferred assets	<u>387,839</u>	<u>361,909</u>	<u>318,229</u>
<b>Deferred liabilities:</b>			
Fixed assets	(153,856)	(154,771)	(173,409)
Assets held-for-trading	(22,263)	(13,685)	-
Total deferred liabilities	<u>(176,119)</u>	<u>(168,456)</u>	<u>(173,409)</u>
Net deferred assets	211,720	193,453	144,820
Net deferred tax asset at the statutory tax rate (24%)	50,813	46,429	34,757
Less: valuation allowance	<u>(50,813)</u>	<u>(46,429)</u>	<u>(34,757)</u>
Net deferred tax asset	<u>-</u>	<u>-</u>	<u>-</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2005, 2004 and 2003 are explained as follows:

	<b>Year ended 31 December 2005 RUR'000</b>	<b>Year ended 31 December 2004 RUR'000</b>	<b>Year ended 31 December 2003 RUR'000</b>
Profit before income tax	<u>368,266</u>	<u>330,811</u>	<u>72,379</u>
Tax at the statutory tax rate	88,384	79,395	17,371
Change in valuation allowance	4,384	11,672	13,224
Tax effect of permanent differences	16,242	(38,329)	11,952
Tax effect of income taxed at different rates	<u>(6,853)</u>	<u>(2,661)</u>	<u>(1,376)</u>
Income tax expense	<u>102,157</u>	<u>50,077</u>	<u>41,171</u>

## 12. EARNINGS PER SHARE

	<b>Year ended 31 December 2005 RUR'000</b>	<b>Year ended 31 December 2004 RUR'000</b>	<b>Year ended 31 December 2003 RUR'000</b>
Net profit for the year attributable to equity holders of the parent	<u>248,267</u>	<u>258,473</u>	<u>41,979</u>
Weighted average number of ordinary shares	<u>11,408,791</u>	<u>10,200,000</u>	<u>10,200,000</u>
<b>Basic earnings per share attributable to equity holders of the parent (RUR)</b>	<u>21.76</u>	<u>25.34</u>	<u>4.12</u>

### 13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE RUSSIAN FEDERATION

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Cash	897,728	611,527	599,211
Balances with the Central Bank of the Russian Federation	2,464,631	3,012,089	2,243,572
Time deposit with the Central Bank of the Russian Federation	-	10,000	500,000
<b>Total cash and balances with the Central Bank of the Russian Federation</b>	<b><u>3,362,359</u></b>	<b><u>3,633,616</u></b>	<b><u>3,342,783</u></b>

The balances with the Central Bank of Russian Federation as at 31 December 2005, 2004 and 2003 include RUR 807,849 thousand, RUR 701,523 thousand and RUR 1,190,647 thousand, respectively, that represents the minimum reserve deposits required by the CBR. The Bank is required to maintain the reserve balance at the CBR at all times.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Cash and balances with the Central Bank of The Russian Federation	3,362,359	3,633,616	3,342,783
Trading securities	550,621	685,025	101,273
Loans and advances to banks in OECD countries	1,188,623	276,005	466,631
Precious metals	24,899	25,351	7,448
	<u>5,126,502</u>	<u>4,619,997</u>	<u>3,918,135</u>
Less minimum reserve deposits with the CBR	<u>(807,849)</u>	<u>(701,523)</u>	<u>(1,190,647)</u>
<b>Total cash and cash equivalents</b>	<b><u>4,318,653</u></b>	<b><u>3,918,474</u></b>	<b><u>2,727,488</u></b>



## 14. ASSETS HELD-FOR-TRADING

	Interest rate to nominal %	31 December 2005 RUR'000	Interest rate to nominal %	31 December 2004 RUR'000	Interest rate to nominal %	31 December 2003 RUR'000
<b>Promissory notes of financial institutions</b>						
Promissory notes of JSCB "Vneshtorgbank"	7%	87,111	-	-	-	-
Promissory notes of JSCB "Sverbank Russia"	7%	59,778	7%	69,982	-	-
Promissory notes of JSCB "Bank of Moscow"	7%	38,881	3%	9,939	-	-
Promissory notes of JSCB "Gazprombank"	7%	36,301	-	-	-	-
Promissory notes of JSCB "Nomos Bank"	8%	21,696	-	-	-	-
Promissory notes of JSCB "Rosbank"	8%	19,132	3%	119,485	-	-
Promissory notes of JSCB "Eurofinance Mosnarbank"	8%	14,846	9%	98,026	-	-
Promissory notes of JSCB "Uralsib"	8%	10,879	-	-	-	-
Promissory notes of JSCB "Transcreditbank"	7%	9,700	-	-	-	-
Promissory notes of JSCB "Zenit"	8%	9,388	-	-	-	-
Promissory notes of JSCB "MDM Bank"	8%	4,992	-	-	-	-
Promissory notes of JSCB "Rosselkhozbank"	7%	4,986	8%	21,218	-	-
Promissory notes of JSCB "Impex Bank"	8%	4,969	5%	44,456	-	-
Promissory notes of JSCB "Sobin"	-	-	9%	17,057	-	-
Promissory notes of JSCB "Nikoil"	-	-	2%	4,983	-	-
Promissory notes of JSCB "Mezhdunarodny promyshlenny bank"	-	-	-	-	7%	23,410
		<u>322,659</u>		<u>385,146</u>		<u>23,410</u>
<b>Government Bonds:</b>						
Russian State Bonds (OFZ)	10-11%	548,945	10-11%	683,447	10-11%	99,348
Eurobonds of the Ministry of Finance of the Russian Federation (OVGVZ)	3%	<u>1,676</u>	3%	<u>1,578</u>	3%	<u>1,925</u>
		<u>550,621</u>		<u>685,025</u>		<u>101,273</u>
<b>Municipal Bonds:</b>						
Moscow City Government bonds	-	-	10%	114,709	-	-
Saint-Petersburg government bonds	-	-	-	-	9-15%	8,755
		-		<u>114,709</u>		<u>8,755</u>
<b>Bonds of banks:</b>						
Bonds of JSCB "Impexbank"	-	-	-	-	18%	<u>17,973</u>
						<u>17,973</u>
<b>Corporate bonds:</b>						
Bonds of OJSC "IAPO"	-	-	-	-	12%	1,967
Bonds of OJSC "Alrosa"	-	-	-	-	16%	<u>1,580</u>
						<u>3,547</u>
<b>Total assets held-for-trading</b>		<u><b>873,280</b></u>		<u><b>1,184,880</b></u>		<u><b>154,958</b></u>

As at 31 December 2005, 2004 and 2003 included in assets held-for-trading is accrued interest income on debt securities amounting to RUR 15,029 thousand, RUR 20,124 thousand and RUR 1,912 thousand, respectively.

Russian State Bonds (OFZ) are mid and long term discount state securities, nominated in Russian Roubles and issued by Ministry of Finance of the Russian Federation. Coupon rate is 10-11% to nominal.

## 15. LOANS AND ADVANCES TO BANKS

	<b>31 December 2005 RUR'000</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Loans and advances to banks	5,602,872	1,059,597	41,417
Loans under reverse repurchase agreements	2,768,884	31,350	-
Correspondent accounts with other banks	1,428,543	252,501	764,312
Accrued interest income on loans and advances to banks	63,417	231	78
	<u>9,863,716</u>	<u>1,343,679</u>	<u>805,807</u>
Less allowance for impairment losses	-	(87)	(5,740)
<b>Total loans and advances to banks, net</b>	<b><u>9,863,716</u></b>	<b><u>1,343,592</u></b>	<b><u>800,067</u></b>

Movements in allowances for impairment losses and advances to banks for the years ended 31 December 2005, 2004 and 2003 are disclosed in Note 6.

As at 31 December 2005 and 2004 the Bank had loans and advances to 4 and 1 banks amounting to RUR 3,863,279 thousand, RUR 776,964 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2005, 2004 and 2003 included in loans and advance to banks are deposits amounting to RUR 4,196,625 thousand, RUR 815,324 thousand and RUR 244,256 thousand placed by the Bank in 3, 2 and 1 foreign subsidiary banks of the Russian Federation financial institutions (roszagranbanks), respectively, which represents a significant concentration forming 42.4%, 60.7% and 30.3% of loans and advances to banks, respectively. Such banks are located in Austria, Germany and Switzerland.

As at 31 December 2005, 2004 and 2003 the maximum credit risk exposure of loans and advances to banks amounted to RUR 9,863,716 thousand, RUR 1,343,679 thousand and RUR 805,807 thousand, respectively.

As at 31 December 2005, 2004 and 2003 advances to banks included fixed amounts for the total of RUR 57,958 thousand, RUR 29,313 thousand and RUR 18,851 thousand, respectively, placed with other banks as guarantee deposits on operations with plastic cards.

As at 31 December 2005 and 2004 the Bank included in loans and advances to banks are loans under reverse repurchase agreements amounting to RUR 2,768,884 thousand and RUR 31,350 thousand with maturity within 1 month. Such agreements are secured with the following assets:

	<b>31 December 2005 RUR'000</b>	<b>31 December 2004 RUR'000</b>
Russian State Bonds (OFZ)	2,391,964	-
Bonds of Local Governments of Russian Federation	231,920	-
Promissory notes of Russian companies	48,650	-
Promissory notes of Russian banks	96,350	31,350
<b>Total loans under reverse repurchase agreements</b>	<u><u>2,768,884</u></u>	<u><u>31,350</u></u>

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>Nominal amount</b>	<b>31 December 2005 Net fair value</b>		<b>Nominal amount</b>	<b>31 December 2004 Net fair value</b>	
		<b>Asset</b>	<b>Liability</b>		<b>Asset</b>	<b>Liability</b>
<b>Foreign currency contracts</b>						
Forwards	8,610	8,648	8,610	169,085	170,147	169,085

## 17. LOANS TO CUSTOMERS

	<b>31 December 2005 RUR'000</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Originated loans	24,218,347	17,015,143	13,446,278
Accrued interest income on loans to customers	154,387	93,401	59,665
	<u>24,372,734</u>	<u>17,108,544</u>	<u>13,505,943</u>
Less allowance for impairment losses	(1,023,623)	(785,187)	(601,080)
<b>Total loans to customers, net</b>	<u><u>23,349,111</u></u>	<u><u>16,323,357</u></u>	<u><u>12,904,863</u></u>

	<b>31 December 2005 RUR'000</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Loans collateralized by pledge of real estate and land	4,121,527	910,611	156,820
Loans collateralized by pledge of equipment	2,094,068	883,956	541,678
Loans collateralized by corporate guarantees	1,197,080	2,724,957	5,345,157
Loans collateralized by pledge of goods in turnover	1,066,221	386,604	121,440
Loans collateralized by pledge of cash	415,675	219,693	134,408
Loans collateralized by pledge of rights of use	75,840	-	113,982
Loans collateralized by pledge of securities	28,250	3,068,096	4,067,836
Unsecured loans	15,219,686	8,821,226	2,964,957
Accrued interest income on loans to customers	154,387	93,401	59,665
	<u>24,372,734</u>	<u>17,108,544</u>	<u>13,505,943</u>
Less allowance for impairment losses	(1,023,623)	(785,187)	(601,080)
<b>Total loans to customers, net</b>	<u><u>23,349,111</u></u>	<u><u>16,323,357</u></u>	<u><u>12,904,863</u></u>

As of 31 December 2005, 2004 and 2003 included in unsecured loans were loans in the amount of RUR 1,394,475 thousand, RUR 1,531,938 thousand and RUR 1,420,988 thousand, respectively, issued to management companies in the oil sector. The principal activity of such companies is management of oil production and refining companies.

As of 31 December 2005, 2004 and 2003 included in unsecured loans were loans in the amount of RUR 13,299,904 thousand, RUR 5,160,486 thousand and RUR 1,011,350 thousand, respectively, issued to companies, that own real estate. The principal operations of such companies consist of constructing and leasing out office and retail space.

As of 31 December 2005, 2004 and 2003 included in unsecured loans were loans in the amount of RUR 12,742,515 thousand, RUR 6,874,368 thousand and RUR 2,310,586 thousand, respectively, on which bank had accepted as additional comfort shares/shares of stock of borrowers and guarantees of borrowers' management/shareholders. Such shares/shares of stock and/or guarantees are not qualified as collateral.

Movements in allowances for impairment losses for the years ended 31 December 2005, 2004 and 2003 are disclosed in Note 6.

	<b>31 December 2005 RUR'000</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
<b>Analysis by sector:</b>			
Retail trade	3,897,928	2,034,491	659,151
Office property holding	3,317,342	2,964,549	1,762,144
Supermarkets property holding	2,994,025	1,886,079	898,147
Warehouse property holding	2,629,561	2,577,461	329,100
Manufacturing	2,480,580	335,535	586,628
Individuals	1,924,074	463,757	379,689
Investing activities	1,563,455	966,704	795,272
Oil refinery products trade	1,442,134	1,159,766	3,163,347
Services	1,013,360	-	-
Production and marketing of soda	889,847	-	-
Construction	822,756	718,137	243,778
Agriculture	544,456	1,097,700	584,619
Government	435,114	144,211	106,530
Insurance	92,534	-	-
Hotel business	73,371	-	-
Coal mining industry	-	1,230,766	476,752
Oil production and refining	-	949,546	2,710,527
Gold mining	-	394,209	446,221
Other	97,810	92,232	304,373
Accrued interest income on loans to customers	154,387	93,401	59,665
	<u>24,372,734</u>	<u>17,108,544</u>	<u>13,505,943</u>
Less allowance for impairment losses	<u>(1,023,623)</u>	<u>(785,187)</u>	<u>(601,080)</u>
<b>Total loans to customers, net</b>	<b><u>23,349,111</u></b>	<b><u>16,323,357</u></b>	<b><u>12,904,863</u></b>

As of 31 December 2005, 2004 and 2003 the Bank had loans granted to 9, 12 and 9 customers totaling RUR 8,665,329 thousand, RUR 8,160,931 thousand and RUR 4,019,645 thousand, respectively, with the exposure to one borrower exceeding 10% of the Bank's equity.

As at 31 December 2005, 2004 and 2003 the maximum credit risk exposure of loans to customers amounted to RUR 24,372,734 thousand, RUR 17,108,544 thousand and RUR 13,505,943 thousand, respectively.

As at 31 December 2005, 2004 and 2003 included to loans to customers were non-accrual loans totalling RUR 57,903 thousand, RUR 76,317 thousand and RUR 54,608 thousand, respectively.

## 18. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
RF Government bonds	7,695	6,969	-
Equity securities (unquoted)	2,805	2,805	12,953
Bonds of banks	-	915	-
<b>Total investments available-for-sale</b>	<b>10,500</b>	<b>10,689</b>	<b>12,953</b>

## 19. FIXED ASSETS

	Buildings and other real estate RUR'000	Furniture and equipment RUR'000	Total RUR'000
<b>At initial/indexed cost</b>			
31 December 2003	136,493	410,698	547,191
Additions	-	46,502	46,502
Disposals	(13,520)	(52,198)	(65,718)
31 December 2004	122,973	405,002	527,975
Additions	6,686	97,316	104,002
Disposals	(5,690)	(31,414)	(37,104)
31 December 2005	123,969	470,904	594,873
<b>Accumulated depreciation</b>			
31 December 2003	26,015	210,049	236,064
Charge for the year	3,556	56,213	59,769
Eliminated on disposals	(26)	(15,862)	(15,888)
31 December 2004	29,545	250,400	279,945
Charge for the year	2,425	74,920	77,345
Eliminated on disposals	(626)	(23,424)	(24,050)
31 December 2005	31,344	301,896	333,240
<b>Net book value</b>			
31 December 2005	92,625	169,008	261,633
31 December 2004	93,428	154,602	248,030
31 December 2003 (less negative goodwill)	64,476	200,649	265,125
<b>Negative goodwill</b>			
At cost as of 31 December 2003			47,425
Accumulated depreciation as of 31 December 2003			(1,423)
<b>Net book value</b>			<b>46,002</b>

## 20. OTHER ASSETS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Prepayments and other debtors	63,186	14,394	52,749
Tax settlements, other than income tax	1,552	-	-
Others	264	375	1,129
<b>Total other assets</b>	<b>65,002</b>	<b>14,769</b>	<b>53,878</b>

## 21. DEPOSITS OF BANKS

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Time deposits of banks and financial institutions	1,334,454	1,146,585	123,611
Correspondent accounts of other banks	23,849	105,007	233,511
Accrued interest expenses	7,909	5,565	372
<b>Total deposits of banks</b>	<b>1,366,212</b>	<b>1,257,157</b>	<b>357,494</b>

## 22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Time deposits	15,948,038	7,608,728	8,211,130
Repayable on demand	10,715,106	8,149,258	4,007,777
Accrued interest expense on customer accounts	409,267	153,099	126,609
<b>Total customer accounts</b>	<b>27,072,411</b>	<b>15,911,085</b>	<b>12,345,516</b>

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
<b>Analysis by sector:</b>			
Individuals	13,344,953	5,800,465	5,431,622
Insurance and other financial services	4,525,064	874,987	772,668
Oil trading and transportation	3,712,975	3,711,146	2,529,606
Trade	2,034,587	2,839,563	1,935,514
Sale and lease of real estate, construction	1,250,233	1,133,569	596,412
Transport and communications	1,013,656	711,199	484,770
Mechanical engineering	167,928	50,355	34,323
State authorities	103,233	384,840	262,316
Agriculture	36,609	117,920	80,377
Other	473,906	133,942	91,299
Accrued interest expense on customer accounts	409,267	153,099	126,609
<b>Total customer accounts</b>	<b>27,072,411</b>	<b>15,911,085</b>	<b>12,345,516</b>



## 23. DEBT SECURITIES ISSUED

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Discount bearing promissory notes	1,906,680	1,151,741	896,656
Settlement promissory notes	409,110	132,171	161,883
Interest bearing promissory notes	213,899	164,985	479,689
Rouble-denominated bonds	51,423	363,243	-
<b>Total debt securities issued</b>	<b><u>2,581,112</u></b>	<b><u>1,812,140</u></b>	<b><u>1,538,228</u></b>

In April 2004 the Bank placed a bonds issue with total nominal value of RUR 1,000,000 thousand at 101.8% of par, with interest paid at 14% of par per annum, maturing on 13 June 2006.

During the second half of 2004 the Bank made an early redemption of a portion of the bonds for RUR 636,757 thousand. During the year 2005 the Bank made an early redemption of a portion of the bonds for RUR 311,820 thousand.

## 24. OTHER LIABILITIES

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Taxes payable, other than income tax	4,471	5,952	5,239
Finance lease liabilities	1,156	10,041	26,554
Dividends payable	300	-	-
Others	282	1,675	2,538
<b>Total other liabilities</b>	<b><u>6,209</u></b>	<b><u>17,668</u></b>	<b><u>34,331</u></b>

As of 31 December 2005 included in other liabilities are unpaid part of RUR 300 thousand of declared dividends totaling RUR 13,285 thousand, representing the Bank's liabilities to minority shareholders of JSCB "Vyatka-Bank".

The financial lease liabilities were:

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Net minimum lease payments	1,277	12,866	33,580
Less finance charge	(121)	(2,825)	(7,026)
Finance lease liabilities	<b><u>1,156</u></b>	<b><u>10,041</u></b>	<b><u>26,554</u></b>

The minimum lease payments were:

	31 December 2005 RUR'000	31 December 2004 RUR'000	31 December 2003 RUR'000
Short-term liabilities	1,277	11,589	20,714
Long term liabilities	-	1,277	12,866
<b>Total</b>	<b><u>1,277</u></b>	<b><u>12,866</u></b>	<b><u>33,580</u></b>

The current amounts of financial lease liabilities:

	<b>31 December 2005 RUR'000</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Not later than one year	1,156	8,885	16,663
Later than one year but not later than five years	-	1,156	9,891
	<u><u>1,156</u></u>	<u><u>10,041</u></u>	<u><u>26,554</u></u>

## 25. SHARE CAPITAL AND SHARE PREMIUM

As at 31 December 2005, 2004 and 2003 share capital authorized, issued and fully paid comprised of 17,075,000 ordinary shares, 10,200,000 ordinary shares and 10,200,000 ordinary shares, respectively, with par value of RUR 200 each. All ordinary shares are of the same class and bear one vote. Share premium represents the excess of contributions received over the nominal value of shares issued.

The Bank's distributable among shareholders reserves are limited to the amount of its reserves as disclosed in its statutory accounts. Non-distributable reserves are represented by a reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the Bank's statutes, that provide for the creation of a reserve for these purposes of not less than 5% of the Bank's share capital reported in statutory books.

## 26. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

Provision for impairment losses on letters of credit and guarantees amounted to RUR 22,086 thousand, RUR 44,224 thousand and RUR 45,954 thousand as at 31 December 2005, 2004 and 2003, respectively.

The risk-weighted amount is obtained by applying credit conversion factor and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2005, 2004 and 2003, the nominal or contract amounts and risk-weighted amounts were:

	<b>31 December 2005 RUR'000</b>		<b>31 December 2004 RUR'000</b>		<b>31 December 2003 RUR'000</b>	
	<b>Nominal Amount</b>	<b>Risk weighted amount</b>	<b>Nominal amount</b>	<b>Risk weighted amount</b>	<b>Nominal amount</b>	<b>Risk weighted amount</b>
<b>Contingent liabilities and credit commitments</b>						
Guarantees issued and similar commitments	3,298,260	3,298,260	1,283,393	1,283,393	1,240,461	1,240,461
Letters of credit and other transaction related contingent obligations	1,294,549	647,275	1,057,991	528,996	74,621	37,311
Commitments on loans and unused credit lines	1,481,862	74,093	3,509,166	175,458	939,408	46,439
<b>Total contingent liabilities and credit commitments</b>	<u><u>6,074,671</u></u>	<u><u>4,019,628</u></u>	<u><u>5,850,550</u></u>	<u><u>1,987,847</u></u>	<u><u>2,254,490</u></u>	<u><u>1,324,211</u></u>

**Capital commitments** - The Bank had no material commitments for capital expenditure outstanding as at 31 December 2005, 2004 and 2003.

**Operating lease commitments** - Where the Bank is the lessee, the future minimum lease payments under non cancellable operating leases of buildings and equipment are as follows:

	<b>31 December 2005 RUR'000</b>	<b>31 December 2004 RUR'000</b>	<b>31 December 2003 RUR'000</b>
Not later than 1 year	192,769	260,567	153,420
Later than 1 year and not later than 5 years	36,653	27,232	6,991
Later than 5 years	1,627	58,992	60,883
<b>Total operating lease commitments</b>	<b><u>231,049</u></b>	<b><u>346,791</u></b>	<b><u>221,294</u></b>

**Fiduciary activity** - The Bank provides depositary services to its customers. As at 31 December 2005, 2004 and 2003, the Bank had customer securities totaling 1,708,378,680 items, 1,728,681,074 items and 846,564,377 items, respectively, in its nominal holder accounts.

**Legal proceedings** - From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

**Taxes** - Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. Such uncertainty may relate to valuation of financial instruments, loss and impairment provisions and market level for deals' pricing. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

**Pensions and retirement plans** - Employees receive pension benefits in accordance with the laws and regulations of the Russian Federation. As at 31 December 2005, 2004 and 2003, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

**Operating environment** - The Bank's principal business activities are within the Russian Federation. Laws and regulations affecting the business environment in the Russian Federation are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

## 27. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank. (This includes holding companies, subsidiaries and fellow subsidiaries);
- (b) Associates - enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;
- (d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank (also non-executive directors and close members of the families of such individuals);
- (e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank;
- (f) Parties with joint control over the Bank;
- (g) Joint ventures in which the Bank is a venturer; and
- (h) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party to the Bank.



Included in the profit and loss account for the years ended 31 December 2005, 2004 and 2003 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2005 RUR'000		Year ended 31 December 2004 RUR'000		Year ended 31 December 2003 RUR'000	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	59,819	3,419,961	232,467	2,322,283	169,711	1,457,350
- entities with joint control or significant influence over the entity	1,778		101,450		78,706	
- other related parties	58,041		131,017		91,005	
Commission income	117,902	636,667	149,595	462,097	2,437	189,854
- other related parties	117,902		149,595		2,437	
Operating lease and security expenses	(82,996)	(346,754)	(102,260)	(288,976)	(51,030)	(139,018)
- other related parties	(82,996)		(102,260)		(51,030)	

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available published price quotations in an active market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank is presented below:

	31 December 2005		31 December 2004		31 December 2003	
	Carrying value RUR'000	Fair value RUR'000	Carrying value RUR'000	Fair value RUR'000	Carrying value RUR'000	Fair value RUR'000
Cash and balances with the Central Bank of the Russian Federation	3,362,359	3,362,359	3,633,616	3,633,616	3,342,783	3,342,783
Loans and advances to banks, less allowance for impairment losses	9,863,716	9,863,716	1,343,592	1,343,592	800,067	800,067
Assets held-for-trading	873,280	873,280	1,184,880	1,184,880	154,958	154,958
Investments available-for-sale	7,695	7,695	7,884	7,884	-	-
Deposits of banks	1,366,212	1,366,212	1,257,157	1,257,157	357,494	357,494
Customer accounts	27,072,411	27,072,411	15,911,085	15,911,085	12,345,516	12,345,516
Debt securities issued	2,581,112	2,581,112	1,812,140	1,812,140	1,538,228	1,538,228

As at 31 December 2005, 2004 and 2003 loans and advances to customers totalling RUR 23,258,620 thousand, RUR 16,323,357 thousand and RUR 12,904,863 thousand, respectively, are stated at historical cost less allowance for impairment losses. The fair value of loans and advances to customers cannot be reliably measured as it is not workable. The Bank's management on a regular basis assesses losses from impairment of loans and advances to customers.

As at 31 December 2005, 2004 and 2003 investments available-for-sale amounting to RUR 2,805 thousand, RUR 2,805 thousand and RUR 12,953 thousand, respectively, are stated at historical cost. The fair value of these investments available-for-sale cannot be reliably measured as it is not workable. The Bank's management assesses losses from impairment of such assets on a regular basis.

## 29. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the Central bank of the Russian Federation
0%	State debt securities
20%	Loans and advances to banks for up to 1 year
100%	Loans to customers
100%	Guarantees
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

As at 31 December 2005 the Bank's total capital and tier 1 capital amount for Capital Adequacy purposes was RUR 6,779,351 thousand with ratios of 23.5%.

As at 31 December 2004 the Bank's total capital and tier 1 capital amount for Capital Adequacy purposes was RUR 3,776,527 thousand with ratios of 17.7%.

As at 31 December 2003 the Bank's total capital amount for Capital Adequacy purposes was RUR 3,172,521 thousand and tier 1 capital amount was RUR 3,218,523 thousand with ratios of 20.9% and 21.2%, respectively.

## 30. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's 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.



The Bank manages the following risks:

**Liquidity risk** - Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee (“ALCO”) controls these types of risks by means of maturity analysis, determining the Bank’s strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimisation.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients’ and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

**Cash flow interest rate risk** - Cash flow interest rate risk - the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The ALCO also manages interest rate and market risks by matching the Bank’s interest rate position, which provides the Bank with a positive interest margin. The Financial Department conducts monitoring of the Bank’s current financial performance, estimates the Bank’s sensitivity to changes in interest rates and its influence on the Bank’s profitability.

The majority of the Bank’s loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	31 December 2005			31 December 2004			31 December 2003		
	RUR	USD	Other currencies	RUR	USD	Other currencies	RUR	USD	Other currencies
<b>ASSETS</b>									
Time deposit with the Central Bank of the Russian Federation	-	-	-	1%	-	-	1%	-	-
Assets held-for-trading	7-11%	5.3%	-	7-12%	4.1%	-	10-18%	4.7%	-
Loans and advances to banks, less allowance for impairment losses	5-14%	4.5-8%	2.5%	0.3-14%	0.3-11%	-	10-24%	11-24%	6-22%
Loans to customers, less allowance for impairment losses	10-20%	9-18%	9-10%	10-23%	10-18%	7.8-18%	5-6.7%	9-16%	-
Investments available-for-sale	10-11%	-	-	6.7-15%	-	-	-	-	-
<b>LIABILITIES</b>									
Deposits of banks	-	-	3.3-5%	0.5-11%	0.5-9%	-	4%	2-5%	3-4%
Customer accounts	2.5-11%	2.3-9%	2.1-9%	2-14%	2.5-12%	2.2-12%	5-21%	6-18%	9-14%
Debt securities issued	0-23%	4-7%	6%	4-14%	3-10%	2.3-10%	0-18%	0-10.5%	-

The analysis of interest rate and liquidity risk on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2005 Total RUR'000
<b>ASSETS</b>							
Assets held-for-trading	873,280	-	-	-	-	-	873,280
Loans and advances to banks	5,184,228	200,000	3,050,945	-	-	-	8,435,173
Loans to customers, less allowance for impairment losses	1,119,139	4,876,322	12,026,234	4,322,670	1,004,746	-	23,349,111
Investments available-for-sale	-	-	7,695	-	-	-	7,695
Total interest bearing assets	7,176,647	5,076,322	15,084,874	4,322,670	1,004,746	-	32,665,259
Cash and balances with the Central Bank of the Russian Federation	2,554,510	-	-	-	-	807,849	3,362,359
Precious metals	24,899	-	-	-	-	-	24,899
Loans and advances to banks	1,370,585	-	57,958	-	-	-	1,428,543
Investments available-for-sale	-	-	2,805	-	-	-	2,805
Fixed assets, less accumulated depreciation	-	-	-	-	-	261,633	261,633
Income tax assets	-	-	16,881	-	-	-	16,881
Other assets	-	65,002	-	-	-	-	65,002
<b>TOTAL ASSETS</b>	<b>11,126,641</b>	<b>5,141,324</b>	<b>15,162,518</b>	<b>4,322,670</b>	<b>1,004,746</b>	<b>1,069,482</b>	<b>37,827,381</b>
<b>LIABILITIES</b>							
Deposits of banks	9,837	-	-	288,604	1,043,922	-	1,342,363
Customer accounts	448,867	4,473,051	10,513,131	922,256	-	-	16,357,305
Debt securities issued	326,500	137,713	783,088	924,701	-	-	2,172,002
Total interest bearing liabilities	785,204	4,610,764	11,296,219	2,135,561	1,043,922	-	19,871,670
Deposits of banks	23,849	-	-	-	-	-	23,849
Customer accounts	10,715,106	-	-	-	-	-	10,715,106
Debt securities issued	79,423	4,241	318,094	7,352	-	-	409,110
Provisions	-	-	22,086	-	-	-	22,086
Other liabilities	6,209	-	-	-	-	-	6,209
<b>TOTAL LIABILITIES</b>	<b>11,609,791</b>	<b>4,615,005</b>	<b>11,636,399</b>	<b>2,142,913</b>	<b>1,043,922</b>	<b>-</b>	<b>31,048,030</b>
Liquidity gap	(483,150)	526,319	3,526,119	2,179,757	(39,176)		
Interest sensitivity gap	6,391,443	465,558	3,788,655	2,187,109	(39,176)		
Cumulative interest sensitivity gap	6,391,443	6,857,001	10,645,656	12,832,765	12,793,589		
Cumulative interest sensitivity gap as a percentage of total assets	16.9%	18.1%	28.1%	33.9%	33.8%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2004 Total RUR'000
<b>ASSETS</b>							
Cash and balances with the Central Bank of the Russian Federation	10,000	-	-	-	-	-	10,000
Assets held-for-trading	1,184,880	-	-	-	-	-	1,184,880
Loans and advances to banks, less allowance for impairment losses	314,214	-	-	776,964	-	-	1,091,178
Loans to customers, less allowance for impairment losses	1,077,851	3,327,947	9,078,188	2,207,676	631,695	-	16,323,357
Investments available-for-sale	-	-	7,884	-	-	-	7,884
<b>Total interest bearing assets</b>	<b>2,586,945</b>	<b>3,327,947</b>	<b>9,086,072</b>	<b>2,984,640</b>	<b>631,695</b>	<b>-</b>	<b>18,617,299</b>
Cash and balances with the Central Bank of the Russian Federation	2,922,093	-	-	-	-	701,523	3,623,616
Precious metals	25,351	-	-	-	-	-	25,351
Loans and advances to banks, less allowance for impairment losses	223,101	-	29,313	-	-	-	252,414
Investments available-for-sale	-	-	2,805	-	-	-	2,805
Fixed assets, less accumulated depreciation	-	-	-	-	-	248,030	248,030
Income tax assets	-	-	34,517	-	-	-	34,517
Other assets	14,769	-	-	-	-	-	14,769
<b>TOTAL ASSETS</b>	<b>5,772,259</b>	<b>3,327,947</b>	<b>9,152,707</b>	<b>2,984,640</b>	<b>631,695</b>	<b>949,553</b>	<b>22,818,801</b>
<b>LIABILITIES</b>							
Deposits of banks	278,760	124,012	749,378	-	-	-	1,152,150
Customer accounts	529,939	2,955,681	4,236,318	39,889	-	-	7,761,827
Debt securities issued	88,873	230,411	306,186	904,253	150,246	-	1,679,969
<b>Total interest bearing liabilities</b>	<b>897,572</b>	<b>3,310,104</b>	<b>5,291,882</b>	<b>944,142</b>	<b>150,246</b>	<b>-</b>	<b>10,593,946</b>
Deposits of banks	105,007	-	-	-	-	-	105,007
Customer accounts	8,149,258	-	-	-	-	-	8,149,258
Debt securities issued	6,776	121,596	507	3,292	-	-	132,171
Provisions	14,741	29,483	-	-	-	-	44,224
Other liabilities	15,525	-	-	2,143	-	-	17,668
<b>TOTAL LIABILITIES</b>	<b>9,188,879</b>	<b>3,461,183</b>	<b>5,292,389</b>	<b>949,577</b>	<b>150,246</b>	<b>-</b>	<b>19,042,274</b>
Liquidity gap	(3,416,620)	(133,236)	3,860,318	2,035,063	481,449		
Interest sensitivity gap	1,689,373	17,843	3,794,190	2,040,498	481,449		
Cumulative interest sensitivity gap	1,689,373	1,707,216	5,501,406	7,541,904	8,023,353		
Cumulative interest sensitivity gap as a percentage of total assets	7.4%	7.5%	24.1%	33.1%	35.2%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2003 Total RUR'000
<b>ASSETS</b>							
Cash and balances with the Central Bank of the Russian Federation	500,000	-	-	-	-	-	500,000
Assets held-for-trading	88,147	-	64,886	1,925	-	-	154,958
Loans and advances to banks, less allowance for impairment losses	40,667	-	-	-	-	-	40,667
Loans to customers, less allowance for impairment losses	1,688,379	1,650,839	7,410,702	1,927,284	227,659	-	12,904,863
Total interest bearing assets	2,317,193	1,650,839	7,475,588	1,929,209	227,659	-	13,600,488
Cash and balances with the Central Bank of the Russian Federation	1,652,136	-	-	-	-	1,190,647	2,842,783
Precious metals	7,448	-	-	-	-	-	7,448
Loans and advances to banks, less allowance for impairment losses	740,670	-	18,730	-	-	-	759,400
Investments available-for-sale	-	-	12,953	-	-	-	12,953
Fixed assets, less accumulated depreciation	-	-	-	-	-	265,125	265,125
Assets on discontinued operations	-	337,423	-	-	-	-	337,423
Income tax assets	-	-	17,859	-	-	-	17,859
Other assets	1,129	52,749	-	-	-	-	53,878
<b>TOTAL ASSETS</b>	<b>4,718,576</b>	<b>2,041,011</b>	<b>7,525,130</b>	<b>1,929,209</b>	<b>227,659</b>	<b>1,455,772</b>	<b>17,897,357</b>
<b>LIABILITIES</b>							
Deposits of banks	11,477	-	-	112,506	-	-	123,983
Customer accounts	3,724,598	492,609	4,103,970	16,562	-	-	8,337,739
Debt securities issued	318,436	441,641	191,691	139,073	285,504	-	1,376,345
Total interest bearing liabilities	4,054,511	934,250	4,295,661	268,141	285,504	-	9,838,067
Deposit of banks	233,511	-	-	-	-	-	233,511
Customer accounts	3,936,930	7,188	63,417	242	-	-	4,007,777
Debt securities issued	11,370	20,688	893	127,699	1,233	-	161,883
Liabilities on discontinued operations	-	403,313	-	-	-	-	403,313
Provision	-	45,954	-	-	-	-	45,954
Other liabilities	7,777	-	16,663	9,891	-	-	34,331
<b>TOTAL LIABILITIES</b>	<b>8,244,099</b>	<b>1,411,393</b>	<b>4,376,634</b>	<b>405,973</b>	<b>286,737</b>	<b>-</b>	<b>14,724,836</b>
Liquidity gap	(3,525,523)	629,618	3,148,496	1,523,236	(59,078)		
Interest sensitivity gap	(1,737,318)	716,589	3,179,927	1,661,068	(57,845)		
Cumulative interest sensitivity gap	(1,737,318)	(1,020,729)	2,159,198	3,820,266	3,762,421		
Cumulative interest sensitivity gap as a percentage of total assets	(7.7%)	(5.7%)	12.1%	21.3%	21.0%		

**Currency risk** - Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The ALCO controls currency risk by management of the open currency position on the estimated basis of RUR devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBR.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	<b>RUR</b>	<b>USD</b> USD 1 = RUR 28.7825	<b>EUR</b> EUR 1 = RUR 34.7850	<b>Other currency</b>	<b>31 December 2005 Total RUR'000</b>
<b>ASSETS</b>					
Cash and balances with the Central Bank of the Russian Federation	3,030,970	269,032	57,571	4,786	3,362,359
Precious metals	-	-	-	24,899	24,899
Assets held-for-trading	871,643	1,637	-	-	873,280
Loans and advances to banks	4,129,872	5,027,674	685,873	20,297	9,863,716
Loans to customers, less allowance for impairment losses	20,235,770	1,498,485	1,560,559	54,297	23,349,111
Investments available-for- sale	10,500	-	-	-	10,500
Fixed assets, less accumulated depreciation	261,633	-	-	-	261,633
Income tax assets	16,881	-	-	-	16,881
Other assets	62,985	518	91	1,408	65,002
<b>TOTAL ASSETS</b>	<b>28,620,254</b>	<b>6,797,346</b>	<b>2,304,094</b>	<b>105,687</b>	<b>37,827,381</b>
<b>LIABILITIES</b>					
Deposits of banks	21,901	3,104	1,285,108	56,099	1,366,212
Customer accounts	19,149,286	6,849,957	1,069,881	3,287	27,072,411
Debt securities issued	2,292,625	243,867	44,620	-	2,581,112
Provisions	22,086	-	-	-	22,086
Other liabilities	6,209	-	-	-	6,209
<b>TOTAL LIABILITIES</b>	<b>21,492,107</b>	<b>7,096,928</b>	<b>2,399,609</b>	<b>59,386</b>	<b>31,048,030</b>
<b>OPEN BALANCE SHEET POSITION</b>					
	<b>7,128,147</b>	<b>(299,582)</b>	<b>(95,515)</b>	<b>46,301</b>	

**Derivative financial instruments and spot contracts** - Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2005:

	<b>RUR</b>	<b>USD</b> USD 1 = RUR 28.7825	<b>EUR</b> EUR 1 = RUR 34.7850	<b>Other currency</b>	<b>31 December 2005 Total RUR'000</b>
Accounts payable on spot and derivative contracts	(28,795)	-	-	(8,610)	(37,405)
Accounts receivable on spot and derivative contracts	8,648	28,787	-	-	37,435
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>(20,147)</b>	<b>28,787</b>	<b>-</b>	<b>(8,610)</b>	
<b>TOTAL OPEN POSITION</b>	<b>7,108,000</b>	<b>(270,795)</b>	<b>(95,515)</b>	<b>37,691</b>	
	<b>RUR</b>	<b>USD</b> USD 1 = RUR 27.7487	<b>EUR</b> EUR 1 = RUR 37.8104	<b>Other currency</b>	<b>31 December 2004 Total RUR'000</b>
<b>ASSETS</b>					
Cash and balances with the Central Bank of the Russian Federation	3,380,861	192,950	52,711	7,094	3,633,616
Precious metals	-	-	-	25,351	25,351
Assets held-for-trading	1,183,302	1,578	-	-	1,184,880
Loans and advances to banks, less allowance for impairment losses	204,104	1,078,977	42,262	18,249	1,343,592
Loans to customers, less allowance for impairment losses	12,316,181	2,600,345	1,331,753	75,078	16,323,357
Investments available-for-sale	10,689	-	-	-	10,689
Fixed assets, less accumulated depreciation	248,030	-	-	-	248,030
Income tax assets	34,517	-	-	-	34,517
Other assets	3,301	10,005	1,204	259	14,769
<b>TOTAL ASSETS</b>	<b>17,380,985</b>	<b>3,883,855</b>	<b>1,427,930</b>	<b>126,031</b>	<b>22,818,801</b>
<b>LIABILITIES</b>					
Deposits of banks	259,124	45,742	874,662	77,629	1,257,157
Customer accounts	11,421,544	3,545,394	941,023	3,124	15,911,085
Debt securities issued	1,715,108	97,032	-	-	1,812,140
Provisions	1,965	14,465	27,794	-	44,224
Other liabilities	17,668	-	-	-	17,668
<b>TOTAL LIABILITIES</b>	<b>13,415,409</b>	<b>3,702,633</b>	<b>1,843,479</b>	<b>80,753</b>	<b>19,042,274</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>3,965,576</b>	<b>181,222</b>	<b>(415,549)</b>	<b>45,278</b>	

**Derivative financial instruments and spot contracts** - Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments and spot contracts as at 31 December 2004:

	<b>RUR</b>	<b>USD</b> USD 1 = RUR 27.7487	<b>EUR</b> EUR 1 = RUR 37.8104	<b>Other currency</b>	<b>31 December 2004 Total RUR'000</b>
Accounts payable on spot and derivative contracts	(94,688)	(172,775)	-	-	(267,463)
Accounts receivable on spot and derivative contracts	-	-	268,454	-	268,454
<b>NET SPOT AND DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>(94,688)</b>	<b>(172,775)</b>	<b>268,454</b>	<b>-</b>	
<b>TOTAL OPEN POSITION</b>	<b>3,870,888</b>	<b>8,447</b>	<b>(147,095)</b>	<b>45,278</b>	

	<b>RUR</b>	<b>USD</b> USD 1 = RUR 29.4545	<b>EUR</b> EUR 1 = RUR 36.8240	<b>Other currency</b>	<b>Currency undefined</b>	<b>31 December 2003 Total RUR'000</b>
<b>ASSETS</b>						
Cash and balances with the Central Bank of the Russian Federation	2,950,073	323,485	60,081	9,144	-	3,342,783
Precious metals	-	-	-	7,448	-	7,448
Assets held-for-trading	153,033	1,925	-	-	-	154,958
Loans and advances to banks, less allowance for impairment losses	60,979	491,862	244,449	2,777	-	800,067
Loans to customers, less allowance for impairment losses	6,998,406	4,435,323	1,471,134	-	-	12,904,863
Investments available-for-sale	12,953	-	-	-	-	12,953
Fixed assets, less accumulated depreciation	265,125	-	-	-	-	265,125
Assets on discontinued operations	337,423	-	-	-	-	337,423
Income tax assets	17,859	-	-	-	-	17,859
Other assets	52,192	1,686	-	-	-	53,878
<b>TOTAL ASSETS</b>	<b>10,848,043</b>	<b>5,254,281</b>	<b>1,775,664</b>	<b>19,369</b>	<b>-</b>	<b>17,897,357</b>
<b>LIABILITIES</b>						
Deposits of banks	229,440	14,796	113,162	96	-	357,494
Customer accounts	5,305,370	5,727,458	1,310,639	2,049	-	12,345,516
Debt securities issued	1,211,464	322,757	4,007	-	-	1,538,228
Liabilities on discontinued operations	403,313	-	-	-	-	403,313
Provisions	45,954	-	-	-	-	45,954
Other liabilities	31,968	2,350	-	13	-	34,331
<b>TOTAL LIABILITIES</b>	<b>7,227,509</b>	<b>6,067,361</b>	<b>1,427,808</b>	<b>2,158</b>	<b>-</b>	<b>14,724,836</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>3,620,534</b>	<b>(813,080)</b>	<b>347,856</b>	<b>17,211</b>		



**Price risk** - Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements.

**Fair value interest rate risk** - Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Department of Financial Control conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

**Credit risk** - The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Bank structures the level 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. Limits on the level of credit risk by a borrower and a product (by industry sector, by region) are approved monthly (quarterly) by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of a counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

**Geographical concentration** - The ALCO exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Russian Federation. The Bank's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

The geographical concentration of assets and liabilities is set out below:

	<b>Russian Federation</b>	<b>Other non-OECD countries</b>	<b>OECD countries</b>	<b>31 December 2005 Total RUR'000</b>
<b>ASSETS</b>				
Cash and balances with the Central Bank of the Russian Federation	3,362,359	-	-	3,362,359
Precious metals	24,899	-	-	24,899
Assets held-for-trading	873,280	-	-	873,280
Loans and advances to banks	4,406,274	4,210,861	1,246,581	9,863,716
Loans to customers, less allowance for impairment losses	22,603,292	745,819	-	23,349,111
Investments available-for-sale	10,500	-	-	10,500
Fixed assets, less accumulated depreciation	261,633	-	-	261,633
Income tax assets	16,881	-	-	16,881
Other assets	65,002	-	-	65,002
<b>TOTAL ASSETS</b>	<b>31,624,120</b>	<b>4,956,680</b>	<b>1,246,581</b>	<b>37,827,381</b>
<b>LIABILITIES</b>				
Deposits of banks	1,366,212	-	-	1,366,212
Customer accounts	24,311,399	2,606,437	154,575	27,072,411
Debt securities issued	2,581,112	-	-	2,581,112
Provisions	22,086	-	-	22,086
Other liabilities	6,209	-	-	6,209
<b>TOTAL LIABILITIES</b>	<b>28,287,018</b>	<b>2,606,437</b>	<b>154,575</b>	<b>31,048,030</b>
<b>NET POSITION</b>	<b>3,337,102</b>	<b>2,350,243</b>	<b>1,092,006</b>	

	<b>Russian Federation</b>	<b>Other non-OECD countries</b>	<b>OECD countries</b>	<b>31 December 2004 Total RUR'000</b>
<b>ASSETS</b>				
Cash and balances with the Central Bank of the Russian Federation	3,633,616	-	-	3,633,616
Precious metals	25,351	-	-	25,351
Assets held-for-trading	1,184,880	-	-	1,184,880
Loans and advances to banks, less allowance for impairment losses	218,920	819,354	305,318	1,343,592
Loans to customers, less allowance for impairment losses	15,653,043	635,721	34,593	16,323,357
Investments available-for-sale	10,689	-	-	10,689
Fixed assets, less accumulated depreciation	248,030	-	-	248,030
Income tax assets	34,517	-	-	34,517
Other assets	14,769	-	-	14,769
<b>TOTAL ASSETS</b>	<b>21,023,815</b>	<b>1,455,075</b>	<b>339,911</b>	<b>22,818,801</b>
<b>LIABILITIES</b>				
Deposits of banks	305,523	-	951,634	1,257,157
Customer accounts	14,392,658	1,016,436	501,991	15,911,085
Debt securities issued	1,812,140	-	-	1,812,140
Provisions	20,402	23,822	-	44,224
Other liabilities	17,668	-	-	17,668
<b>TOTAL LIABILITIES</b>	<b>16,548,391</b>	<b>1,040,258</b>	<b>1,453,625</b>	<b>19,042,274</b>
<b>NET POSITION</b>	<b>4,475,424</b>	<b>414,817</b>	<b>(1,113,714)</b>	

	<b>Russian Federation</b>	<b>Other non-OECD countries</b>	<b>OECD countries</b>	<b>31 December 2003 Total RUR'000</b>
<b>ASSETS</b>				
Cash and balances with the Central Bank of the Russian Federation	3,342,783	-	-	3,342,783
Precious metals	7,448	-	-	7,448
Assets held-for-trading	88,147	-	-	88,147
Loans and advances to banks, less allowance for impairment losses	61,838	240,584	485,482	787,904
Loans to customers, less allowance for impairment losses	12,113,489	55,952	735,422	12,904,863
Investments available-for-sale	79,764	-	-	79,764
Fixed assets, less accumulated depreciation	265,125	-	-	265,125
Assets on discontinued operations	337,423	-	-	337,423
Income tax assets	17,859	-	-	17,859
Other assets	66,041	-	-	66,041
<b>TOTAL ASSETS</b>	<b><u>16,379,917</u></b>	<b><u>296,536</u></b>	<b><u>1,220,904</u></b>	<b><u>17,897,357</u></b>
<b>LIABILITIES</b>				
Deposits of banks	233,511	-	112,506	346,017
Customer accounts	11,047,041	425,607	872,868	12,345,516
Debt securities issued	1,538,228	-	-	1,538,228
Liabilities on discontinued operations	403,313	-	-	403,313
Provisions	45,954	-	-	45,954
Other liabilities	45,808	-	-	45,808
<b>TOTAL LIABILITIES</b>	<b><u>13,313,855</u></b>	<b><u>425,607</u></b>	<b><u>985,374</u></b>	<b><u>14,724,836</u></b>
<b>NET POSITION</b>	<b><u>3,066,062</u></b>	<b><u>(129,071)</u></b>	<b><u>235,530</u></b>	

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