IMPORTANT NOTICE

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THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

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

The materials relating to the offering of the Notes (the "Offering") do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the Offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the Offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction. The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd., nor any person who controls any of them nor any of their respective directors, officers, employees, agents or affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Deutsche Bank AG, London Branch or J.P. Morgan Securities Ltd.

Bank of Moscow

U.S.$400,000,000

6.807 per cent. Loan Participation Notes due 2017 with interest rate step up in 2012
issued by, but with limited recourse to,

Kuznetski Capital S.A.

for the sole purpose of financing a subordinated loan to
Joint Stock Commercial Bank — Bank of Moscow
Issue Price: 100%

Kuznetski Capital S.A., a company with limited liability ("*société anonyme*") incorporated under the laws of the Grand Duchy of Luxembourg (the "Issuer"), is issuing an aggregate principal amount of U.S.$400,000,000 6.807 per cent. Loan Participation Notes due 2017 with an interest rate step up in 2012 (the "Notes") for the sole purpose of financing a subordinated loan (the "Subordinated Loan") to Joint Stock Commercial Bank — Bank of Moscow (the "Bank") pursuant to a subordinated loan agreement dated May 4, 2007 (the "Subordinated Loan Agreement") between the Issuer and the Bank. Subject as provided in the Trust Deed (as defined herein) the Issuer will charge by way of a first fixed charge as security for all payment obligations in respect of the Notes to BNY Corporate Trustee Services Limited, acting through its London branch, as trustee (the "Trustee") for the benefit of the holders of the Notes (the "Noteholders"): (a) its rights and interests as lender under the Subordinated Loan Agreement and (b) amounts received pursuant to the Subordinated Loan in an account of the Issuer, in each case other than in respect of certain reserved rights, as more fully described in the Trust Deed.

In each case where amounts of principal, interest and additional amounts (if any) are stated to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders, on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to all principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement. Interest under the Subordinated Loan Agreement shall accrue at a rate of 6.807 per cent. per annum up to but excluding the date that is five years after the Closing Date (the "Reset Date") and, provided that the Subordinated Loan is not prepaid at or before such time, from and including the Reset Date at the Step Up Rate of Interest (as defined in the Subordinated Loan Agreement). The Issuer will have no other financial obligation under the Notes. **Noteholders will be deemed to have accepted and agreed that they will be relying solely and exclusively on the credit and financial standing of the Bank in respect of the financial servicing of the Notes.**

Interest on the Notes will be payable semi-annually in arrear on the Interest Payment Dates falling on May 10 and November 10 in each year, commencing on November 10, 2007, as described under "Terms and Conditions of the Notes — Interest".

Except as set forth herein (see "Taxation"), payments in respect of the Subordinated Loan and consequently the Notes will be made without any deduction or withholding for or on account of taxes of the Russian Federation or the Grand Duchy of Luxembourg ("Luxembourg"). 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 Subordinated 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 Subordinated Loan Agreement or have direct recourse to the Bank except through action by the Trustee under any of the Security Interests (as defined in the Terms and Conditions of the Notes).

The Subordinated Loan is intended to qualify for inclusion in own funds (capital) ("Own Funds") of the Bank under regulations of the Central Bank of Russia (the "CBR"). Under the terms of, and as more fully described in, the Subordinated Loan Agreement, the Bank will have the right to prepay the Subordinated Loan, in whole but not in part, together with accrued and unpaid interest thereon, (a) at 101 per cent. of the principal amount, if the CBR does not unconditionally approve the Subordinated Loan as Own Funds on or before July 9, 2007 (the "Approval Date") or (b) subject to certain conditions as described in Clause 6.2.1 of the Subordinated Loan Agreement, at par at any time after the Approval Date, if, as a result of any amendment to, classification of or change in (including a change in interpretation or application of) applicable requirements of Regulation No. 215-P (as defined in the Subordinated Loan Agreement) or other applicable requirements of the CBR, the Subordinated Loan would cease to qualify as Own Funds. In addition, (a) the Bank may, subject to the consent of the CBR, prepay the Subordinated Loan in whole but not in part on the Reset Date, together with accrued and unpaid interest thereon, all as described more fully in Clause 6.2.2 of the Subordinated Loan Agreement, (b) the Bank may, subject to the consent of the CBR, prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, if it must pay Russian or Luxembourg withholding taxes in respect of the Subordinated Loan, all as described more fully in Clause 6.3 of the Subordinated Loan Agreement, and (c) if it becomes illegal for the Issuer to allow the Subordinated Loan or the Notes to remain outstanding, the Bank must, subject to the prior consent of the CBR, prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, all as described more fully in Clause 6.4 of the Subordinated Loan Agreement.

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" ON PAGE 13.

The Notes and the Subordinated Loan have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The Notes are being offered outside the United States by the Managers in accordance with Regulation S under the Securities Act, and may not be offered or sold within the United States or for the account or benefit of U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Application has been made to 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") for the approval of this Prospectus, as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom.

Application has 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 of the London Stock Exchange plc (the "London Stock Exchange").

Interests in the Notes will be offered and sold in registered form in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be evidenced by a global Certificate (the "Global Certificate"), which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Ownership interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Definitive registered certificates ("Definitive Certificates") evidencing holdings of Notes will be available only in certain limited circumstances. See "Summary of Provisions relating to the Notes in Global Form".

Joint Lead Managers

Deutsche Bank | **JPMorgan**

Co-Managers

ALPHA BANK | **DZ BANK AG**

Dated May 8, 2007

This prospectus (the "Prospectus") comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "Prospectus Directive") and for the purpose of giving information with respect to the Issuer, the Bank, the Subordinated Loan and the Notes. Each of the Issuer and the Bank accepts responsibility for the information contained in this document. To the best of the knowledge and belief of the Issuer and the Bank, 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.

Each of the Issuer and the Bank, having made all reasonable enquiries, confirms that (a) this Prospectus contains all information with respect to the Issuer, the Bank and each of their subsidiaries, the Subordinated Loan Agreement and the Notes that is material to the issuance and offering of the Notes; (b) such information is true and accurate in every material respect and is not misleading in any material respect; (c) the opinions, assumptions and intentions expressed in this Prospectus on the part of each of the Issuer and the Bank are honestly held or made, have been reached after considering all relevant circumstances, and are based on reasonable assumptions and are not misleading in any material respect; (d) this Prospectus does not contain any untrue statement of a material fact nor does it omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading; and (e) all reasonable enquiries have been made by each of the Issuer and the Bank to ascertain and verify the foregoing.

Certain information in "Business –Overview" and "Business–Products and Services–Retail Banking" has been sourced from Kommersant Dengi magazine which has circulation in the Russian Federation and certain information in "Banking Industry and Banking Regulation in the Russian Federation–Description of the Russian Banking Industry" and "Banking Industry and Banking Regulation in the Russian Federation–Regulation of the Russian Banking Sector" has been sourced from official publications of the CBR. Each of the Issuer and the Bank confirms that this information has been accurately reproduced, and so far as each of the Issuer and the Bank is aware and is able to ascertain from information published by the third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Notwithstanding the previous paragraph, each of the Issuer and the Bank has extracted substantially all of the information contained in this Prospectus concerning the Russian banking market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and public filings made under various securities laws. Each of the Issuer and the Bank accepts responsibility for correctly extracting such information from such sources and confirms that such information has been correctly extracted from such sources. In addition, some of the information contained in this Prospectus has been extracted from official data published by Russian government agencies and the CBR. Each of the Issuer and the Bank confirms such information has been accurately reproduced and is able to ascertain from the information published by such third parties that no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used. Each of the Issuer and the Bank accepts responsibility for correctly extracting such information from its sources and confirms that such information has been correctly extracted from its sources. However, each of the Issuer and the Bank has relied on the accuracy of such information without carrying out an independent verification. The official data published by Russian federal, regional and local governments and the CBR is less complete and less reliable than similar data in Western countries. Official statistics may also be compiled on a different basis than that used in Western countries. Any discussion of matters related to Russia in this Prospectus must, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information. The veracity of some official data released by the Russian Government may be questionable.

None of the Managers set forth under the caption "Subscription and Sale", their respective affiliates or the Trustee makes any representation or warranty, express or implied, as to the accuracy or completeness of any of the information in this Prospectus. Each person receiving this Prospectus acknowledges that such person has not relied on the Managers, their respective affiliates or the Trustee in connection with its investigation of the accuracy of such information or its investment *decision. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Bank and its own determination of the suitability of such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to it in connection with such investment.*

The Notes have not been registered under the Securities Act or any state securities laws or the laws of any other jurisdiction, are subject to restrictions on transferability and resales, and unless so registered, may not be transferred or resold except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws. Each purchaser of the Notes should be aware that it may be required to bear the financial risks of this investment for an indefinite period of time.

No person has been authorized in connection with the offering of the Notes to make or provide any representation or information regarding the Issuer, the Bank or the Notes other than as contained in this Prospectus. Any such representation or information should not be relied upon as having been authorized by the Issuer, Bank, the Managers or the Trustee.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Bank or the Issuer since the date of this Prospectus. Unless otherwise stated, all information is given as at the date of this Prospectus.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy, the Notes in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Managers, the Bank, the Issuer and the Trustee to inform themselves about and to observe any such restrictions.

This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorized or is unlawful. For a description of certain further restrictions on offers, sales and deliveries of the Notes and distribution of this Prospectus, see the section of this Prospectus entitled "Subscription and Sale".

None of the Bank, the Managers, the Issuer or the Trustee or any of their respective affiliates or agents makes any representation about the legality of the purchase of the Notes by an investor under applicable investment or similar laws. Each prospective investor is advised to consult its own counsel and business advisor as to legal, tax, business, financial and related matters concerning the purchase of the Notes. The contents of this Prospectus are not to be construed as legal, business or tax advice.

Each prospective investor in the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes and must obtain any consent, approval or permission required of it for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Bank, the Managers, the Issuer or the Trustee or any of their respective affiliates or agents shall have any responsibility therefor.

This Prospectus contains summaries with respect to certain terms of the Trust Deed and the Subordinated Loan Agreement, but reference should be made to the actual documents for complete information with respect thereto. All summaries are qualified in their entirety by such reference. These documents will be made available free of charge to prospective investors upon request to the Bank or at the office of the paying and transfer agent in Luxembourg.

IN CONNECTION WITH THIS ISSUE, J.P. MORGAN SECURITIES LTD. (THE "STABILIZING MANAGER") OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING MANAGER MAY OVER-ALLOT NOTES (PROVIDED THAT THE

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

The Managers reserve the right to reject any offer to purchase the Notes in whole or in part and to sell to any prospective investor less than the full amount of Notes sought by such investor. The Managers and certain related entities may acquire a portion of the Notes for their own accounts.

FORWARD-LOOKING STATEMENTS

Some statements in this Prospectus as well as written and oral statements the Bank or its representatives make from time to time in reports, filings, news releases, conferences, teleconferences, web postings or otherwise, may be deemed to be "forward-looking statements". Forward-looking statements include statements concerning the Bank's plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements. The Bank uses the words such as "anticipates", "estimates", "expects", "believes", "intends", "plan", "may", "will", "should" and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in "Introduction to the Offering", "Risk Factors", "Business", "Banking Industry and Banking Regulation in the Russian Federation" and other sections of this Prospectus. The 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 judgment of the 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 the Bank's forward-looking statements and from past results, performance or achievements. Although the Bank believes that the estimates and the projections reflected in its forward-looking statements are reasonable, if one or more of the risks or uncertainties materialize or occur, including those which the Bank has identified in this Prospectus, or if any of the Bank's underlying assumptions prove to be incomplete or incorrect, the Bank's actual results of operations may vary from those expected, estimated or projected.

These forward-looking statements speak only as at the date of this Prospectus. The Bank is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Bank, or persons acting on the Bank's behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective investor in the Notes should not place undue reliance on these forward-looking statements.

ENFORCEABILITY OF JUDGMENTS IN THE RUSSIAN FEDERATION

The Bank is organized under the laws of the Russian Federation. None of the members of the Board of Directors, the Management Board and executive officers of the Bank is a resident of England, and all or a substantial portion of the assets of the Bank and such persons are located outside England. As a result, it may not be possible for investors to effect service of process within England upon the Bank or such persons or to enforce against any of them court judgments obtained in English courts. Russian courts may not enforce any judgment obtained in a court established in a country other than the Russian Federation unless there is (a) a treaty in effect between such country and the Russian Federation providing for reciprocal recognition and enforcement of court judgments and (b) a federal law of the Russian Federation providing for recognition and enforcement of foreign judgments. No such treaty exists between the Russian Federation and the United Kingdom and no such federal law has been passed. If there is such a treaty and a federal law, Russian courts may nonetheless refuse to recognize and enforce a foreign court judgment on the grounds provided in such treaty and in Russian legislation in effect on the date on which such recognition and enforcement is sought. The Arbitration Procedural Code of the Russian Federation establishes the procedures for the recognition and enforcement of foreign court judgments and contains an extensive list of grounds for refusal of such recognition and enforcement in the future. Moreover, Russian procedural legislation may change and no assurance can be given that in the future no other ground for refusal of such recognition and enforcement may arise.

The Subordinated Loan Agreement provides that, if any dispute or difference arises from or in connection with the Subordinated Loan Agreement, the Issuer may elect, by notice in writing to the Bank, to settle the claim by arbitration in accordance with the Rules of the London Court of International Arbitration. The seat of any such arbitration will be London, England. The United Kingdom and the Russian Federation are parties to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to, among other factors:

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

See also "Risk Factors—Risks Related to the Russian Federation and the City of Moscow—Foreign judgments may not be recognized in the Russian Federation".

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Bank's financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustments, from its audited financial statements (the "IFRS Financial Statements") as set forth on pages F-1 through F-69 of this document as at and for the years ended December 31, 2006 and 2005 and on pages F-70 through F-123 of this document as at and for the years ended December 31, 2005 and 2004 in each case prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IFRS"). Certain information appearing in the Bank's IFRS Financial Statements for the year ended December 31, 2004 was reclassified and additional line items were included therein as a result of the Bank's efforts to enhance the presentation of its financial information for the year ended December 31, 2004. In addition, certain notes and additional line items were included following the admission of the Bank's ordinary shares to trading on MICEX in 2004.

The rouble is the measurement currency for the IFRS Financial Statements. The IFRS Financial Statements and financial information included elsewhere in this document have, unless otherwise noted, been presented in roubles.

Currency

In this Prospectus, the following currency terms are used:

- "RUR", "Russian Roubles", "Roubles" or "roubles" means the lawful currency of the Russian Federation;
- "USD", "U.S. Dollars" or "U.S.$" means the lawful currency of the United States; and
- "EUR", "EURO", "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.

The Bank's Market Share Information

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

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.

Auditors

The Bank's IFRS Financial Statements as at and for the years ended December 31, 2006, 2005 and 2004 included in this document have been audited by BDO Unicon, independent auditors, who have expressed unqualified opinions on those statements, as stated in their report appearing herein. The address of BDO Unicon is 125/1, Warshavskoye shosse, Moscow 117545, Russian Federation.

In order to prevent any influence on the independence of the auditor, both the auditor and the Bank make efforts to eliminate any business relationship where the auditor would be involved in the promotion of the services of the Bank in the banking market. The auditor (or any official of the auditor) may not own any shares in the share capital of the Bank, the Bank may not lend money to the auditor or its officials and the officials of the auditor may not be members of the management bodies of the Bank.

The Bank selects its auditor on the basis of a tender. The rules of a tender for the selection of an auditor to carry out an annual statutory audit of the Bank were developed pursuant to Federal Law No. 119-FZ "On Auditing Activities", dated August 7, 2001, as amended, Resolution of the Government of the Russian Federation No. 409 "On the Measures to Ensure Statutory Audit", dated June 12, 2002 and "Recommended Methods of Organization of the Work of Tender Commissions in Connection with Tenders for the Selection of Accounting Firms to carry out a Statutory Annual Audit of Entities in which the Government owns at least 25 per cent. in the Charter (Partnership) Capital" No. 28-02-05/858, issued by the Ministry of Finance of the Russian Federation on April 24, 2003. The tender is held on an annual basis as an open tender. The tender is organized by the Board of Directors of the Bank.

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OVERVIEW

This overview does not contain all information that may be important to prospective investors in the Notes. Prospective investors in the Notes should read this entire Prospectus, including more detailed information regarding the Bank's business and the IFRS Financial Statements included elsewhere in this Prospectus. Investing in the Notes involves risks, and prospective investors should carefully consider the information set forth under "Risk Factors". Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

The Bank's financial information set forth herein has, unless otherwise indicated, been extracted, without material adjustments, from the IFRS Financial Statements as set forth on pages F-1 through F-123 of this Prospectus.

Overview

The Bank is one of the largest commercial and retail banks in the Russian Federation, as measured by assets, capital and volume of retail client deposits. The Bank offers a wide range of banking services including corporate and retail lending, deposit, payment and account services, foreign exchange and foreign trade operations, cash handling services, operations with precious metals, asset management and investment banking activities, custody services and other ancillary services to retail clients and to commercial and governmental entities.

The primary business areas of the Bank are:

- Corporate banking—which comprises products and services including corporate lending, syndicated loan services, investment banking services, trade finance, foreign trade and exchange operations, guarantees and payment and account services;
- Retail banking—which comprises a broad range of products and services including current (demand) and deposit (term) accounts both in roubles and foreign currencies, retail lending, including overdraft facilities, mortgage loans, consumer loans, car loans, credit and debit card services (as a member of VISA International, MasterCard International and the Russian payment system Union Card, as a sub-licensee of Diner's Club International and as a distribution agent of American Express), money transfers, asset management and Internet and telephone banking;
- Asset management—which comprises private banking, pension and fund management services;
- Investment banking – which comprises underwriting and arranging domestic and foreign debt issuances; and
- Treasury and proprietary securities trading activities—which comprises securities trading, foreign exchange, money market transactions, operations with precious metals and custody services.

The Bank was originally registered under Russian legislation as Open Joint Stock Company "Mosraschetbank" in March 1994. It received its initial banking license on March 15, 1994. The Bank's name was changed to "Moscow Municipal Bank — The Bank of Moscow" on March 22, 1995. The annual general shareholders meeting held on June 25, 2004, approved a change of the Bank's name to "Joint Stock Commercial Bank — Bank of Moscow". The name change was registered by the CBR on September 13, 2004. Since 1995, the City of Moscow represented by the City of Moscow Property Department (prior to 1998, the Moscow Property Fund and the City of Moscow Property Management Committee) has been the majority shareholder of the Bank. As at March 31, 2007, the City of Moscow represented by the City of Moscow Property Department directly owned 46.46 per cent. of the issued and paid-up share capital of the Bank. As at March 31, 2007, the combined direct and indirect shareholding of the City of Moscow was 59.96 per cent. of the Bank's issued and paid-up share capital.

On January 22, 2007, the CBR registered the eleventh issue of 6,900,000 ordinary nominal shares, which raised RUR 6,985,775,725. The placement of shares was completed on April 16, 2007 and the report on the results of issuance of such shares has been filed for registration with the CBR on April 17, 2007. After registration of the placement with the CBR, the City of Moscow represented by the City of Moscow Property Department, will own directly 43.999 per cent. of the issued and paid-up share capital of the Bank.

On August 18, 2006 the CBR registered the tenth issue of the Bank's shares. The Bank issued 5,600,000 ordinary voting shares which raised RUR 2,906,400,000. J.P. Morgan International Finance Ltd. purchased 48 per cent. of shares of the tenth issue. See "Principal Shareholders – Share Capital Increases".

In the course of 2007, the City of Moscow plans to establish an insurance group, "Stolichnaya Strakhovaya Gruppa" (the "Insurance Group") by consolidating the insurance assets of the City of Moscow (including its stake in the JSC Moscow Insurance Company, one of the principal shareholders of the Bank) and the insurance assets of the Bank of Moscow group and other companies. The control of the new Insurance Group will be with the City of Moscow and the Bank of Moscow group.

The Bank's assets increased by 55.5 per cent. from approximately RUR 245.8 billion as at December 31, 2005 to approximately RUR 382.3 billion as at December 31, 2006, compared to a 54.7 per cent. increase from approximately RUR 158.8 billion as at December 31, 2004 to approximately RUR 245.8 billion as at December 31, 2005. The Bank's net income increased by 48.2 per cent. from approximately RUR 11.4 billion as at December 31, 2005 to approximately RUR 16.9 billion as at December 31, 2006, compared to 42.8 per cent. from approximately RUR 8.0 billion as at December 31, 2004 to approximately RUR 11.4 billion as at December 31, 2005. In 2006, the Bank's net profit attributable to the shareholders of the Bank was approximately RUR 5.6 billion representing a 40 per cent. increase compared to net profit attributable to the shareholders of the Bank of approximately RUR 4.0 billion generated in 2005. In 2005, the Bank's net profit attributable to the shareholders of the Bank was approximately RUR 4.0 billion representing a 25 per cent. increase compared to net profit attributable to the shareholders of the Bank of approximately RUR 3.1 billion generated in 2004. Net interest income generated in 2006 on loans and securities (after creating provisions for loan impairment) amounted to approximately RUR 12.7 billion (approximately RUR 14.1 billion prior to creating provisions for loan impairment) compared to approximately RUR 8.8 billion (approximately RUR 9.5 billion prior to creating provisions for loan impairment) generated in 2005. Net interest income generated in 2005 on loans and securities (after creating provisions for loan impairment) amounted to approximately RUR 8.8 billion (approximately RUR 9.5 billion prior to creating provisions for loan impairment) compared to approximately RUR 5.1 billion (approximately RUR 5.6 billion prior to creating provisions for loan impairment) generated in 2004. As at December 31, 2006, net income from financial assets at fair value through profit and loss amounted to approximately RUR 0.139 billion and net commission income amounted to approximately RUR 3.1 billion compared to approximately RUR 0.05 billion and approximately RUR 2.0 billion, respectively, generated in 2005. As at December 31, 2005, net income from financial assets at fair value through profit and loss amounted to approximately RUR 0.05 billion and net commission income amounted to approximately RUR 2.0 billion compared to approximately RUR 1.2 billion and approximately RUR 1.4 billion, respectively, generated in 2004.

The total capital of the Bank calculated in accordance with Basel Accord requirements increased by 27.8 per cent. from approximately RUR 32.0 billion as at December 31, 2005 to approximately RUR 40.9 billion as at December 31, 2006, compared to a 54.2 per cent. increase from approximately RUR 20.8 billion as at December 31, 2004 to approximately RUR 32.0 billion as at December 31, 2005. As at December 31, 2006, the Bank had a Tier 1 capital ratio of 10.2 per cent. and a total capital ratio of 13.3 per cent. compared to 11.1 per cent. and 15.7 per cent. as at December 31, 2005 and 16.4 per cent. and 18.0 per cent. as at December 31, 2004, respectively.

Additionally, the Bank had a total capital ratio calculated in accordance with the methods required by the CBR of 12.6 per cent. as at December 31, 2006, compared to 13.4 per cent. as at December 31, 2005 and 13.0 per cent. as at December 31, 2004. The decrease was attributable to the expansion of the Bank's lending activities. The minimum capital ratio established by the CBR is 10 per cent.

The Bank has a large and diverse funding base, servicing over 92,300 corporate and governmental clients and over 7.1 million retail clients, as at December 31, 2006. Total deposits increased to approximately RUR 259.5 billion as at December 31, 2006, compared to approximately 168.5 billion as at December 31, 2005 and to approximately RUR 116.6 billion as at December 31, 2004. Highly liquid assets (comprising cash and cash equivalents, bank deposits, trading securities and securities available for sale) represented approximately 28.9 per cent. of the Bank's balance sheet assets as at December 31, 2006 compared to approximately 28.4 per cent. as at December 31, 2005 and to approximately 35.0 per cent. as at December 31, 2004. The Bank's loan portfolio is generally secured with collateral. Unsecured loans to retail customers represented approximately 4.8 per cent. of the Bank's total loan portfolio as at December 31, 2005 compared to 1.8 per cent. and 0.1 per cent. as at December 31, 2004 and December 31, 2003, respectively. Such increase is due to expansion of the Bank's unsecured consumer lending programs. As at December 31, 2006, the Bank had approximately RUR 469.1 billion of collateral security over a net loan portfolio of approximately RUR 256.04 billion, compared with RUR 286.7 billion and RUR 163.2 billion, respectively, as at December 31, 2005. This made the Bank's net loan portfolio approximately 1.83 times over-collateralized as at December 31, 2006, compared to 1.8 times as at December 31, 2005 (39 per cent. of such collateral was represented by property, 40 per cent. by guarantees and 21 per cent. by securities, compared with 43 per cent., 39 per cent. and 18 per cent., respectively, as at December 31, 2005) Additionally, as at December 31, 2006, the Bank's ten largest corporate borrowers accounted for approximately 18.2 per cent. of the net loan portfolio of the Bank, compared with approximately 17.1 per cent. as at December 31, 2005 and with approximately 23.0 per cent. as at December 31, 2004.

A significant part of the Bank's business is derived from its affiliation with the City of Moscow. This business includes servicing municipal budget funds of the City of Moscow, financing projects of the City of Moscow and extending loans to and keeping accounts of enterprises affiliated with the City of Moscow. Related party lending, as defined in the IFRS Financial Statements, which includes lending to the City of Moscow and its municipal agencies, accounted for approximately 2.3 per cent. of the Bank's gross loan portfolio as at December 31, 2006 compared with approximately 2.5 per cent. as at December 31, 2005. As at December 31, 2006 most of those loans consisted of loans to enterprises owned by the City of Moscow which totaled RUR 5.97 billion, and as at December 31, 2005 of loans to municipal entities of the City of Moscow totaled RUR 4.2 Billion. Related party lending and loans to municipal entities of the City of Moscow accounted for 4.0 per cent. and 3.9 per cent. of the Bank's net and gross loan portfolio, respectively, as at December 31, 2004. The Bank believes that it has a strong franchise and brand name in Moscow and the Moscow region. The Bank is currently trying to leverage its franchise and brand recognition to expand its operations both in Moscow and in other Russian regions. Moscow and the Moscow region are the regions where the Bank's loan portfolio is most concentrated, representing approximately 49 per cent. of the Bank's total loan portfolio as at December 31, 2006. As at December 31, 2006, the Bank operated 49, full service offices and 52, sub-offices in Moscow and the Moscow region. In addition, the Bank has also established 470 desks in Moscow post offices, which distribute retail products to various groups of retail customers. As at December 31, 2006, the Bank also operated 51 branches outside Moscow and the Moscow region offering a wide range of banking services. These 51 branches also supervised further 157 sub-offices. As at December 31, 2006, the Bank had a presence in 56 regions of the Russian Federation, including major cities across the Russian Federation from St. Petersburg and Kaliningrad in the Northwest to Vladivostok and Petropavlovsk-Kamchatsky in the Far East. The regional presence of the Bank is enhanced through co-operation with local banks, such as OAO AKB "Zarechye," in which the Bank holds a minority interest.

In addition, the Bank owns four foreign subsidiaries: Foreign Bank "Moscow-Minsk" ("Moscow-Minsk Bank") in Minsk, Byelorussia, JSCB "Latvian Businessbank" ("Latvian Business Bank") in Riga, Latvia, AS "Estonian Credit Bank" ("Eesti Krediidipank"), in Tallin, Estonia and "BM Bank" LLC, in Kiev, Ukraine. On March 2, 2006 the BM-Bank was admitted to the Deposit Insurance Fund of Ukraine.

Business Strategy

The Bank's strategic objective is to strengthen its position among the largest Russian banks, as measured by key business indicators. To achieve this, the Bank has approved a medium-term strategy, which includes the following key initiatives:

- further developing its leading position in key sectors of the Russian banking market;
- maintaining its strong commitment to capital and risk management;
- improving its recurring profitability;
- expanding its branch network;
- attracting additional corporate business; and
- attracting additional retail clients.

See "Business — Business Strategy."

Market Position and Competitive Strengths

The Bank is a leading Russian bank based in Moscow and operating primarily in Moscow and the Moscow region. The Bank has a leading market position among the largest banks in the Russian Federation, offering a wide range of retail and corporate products and services. According to *Kommersant Dengi* magazine, a Russian business weekly, as at December 31, 2006, the Bank was the third largest Russian bank in terms of the volume of retail deposits, the fourth largest bank in the Russian Federation in terms of assets and the fifth in terms of commercial loan portfolio.

The Bank believes that it benefits from a combination of the following competitive advantages over other banks operating in Russia:

- relationship with the City of Moscow;
- sophisticated risk management policies and procedures;
- experienced management; and
- independence from Russian financial and industrial groups.

Credit Ratings

On October 27, 2005, Moody's upgraded the long– and short-term foreign currency deposit ratings of the Bank to "Baa2" and "Prime-2", respectively. The ratings outlook was assessed as "stable".

On May 26, 2006 Moody's upgraded the long-term foreign currency rating of senior unsecured debt to A3. Outlook remained stable.

On August 1, 2006 Fitch upgraded the long-term rating of the Bank to "BBB" (Stable Outlook) from "BBB-" following the upgrade of the long-term foreign currency rating for the City of Moscow from "BBB" to "BBB+". The Bank's other ratings were affirmed at Short-term "F3", Individual "D", Support "2" and National Long-term "AA+"(rus).

The Notes have been rated "BBB-" by Fitch and are expected to be assigned upon issue a rating of "Baa1" by Moody's.

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

INTRODUCTION TO THE OFFERING

Notes Issued:	U.S.$400,000,000 aggregate principal amount of 6.807 per cent. Loan Participation Notes due 2017 with a step up rate in 2012.
Issuer:	Kuznetski Capital S.A.
Bank:	Joint Stock Commercial Bank—Bank of Moscow, an open joint stock company registered under the laws of the Russian Federation, with its registered office and business headquarters at 8/15, Bldg. 3, Rozhdestvenka Str., Moscow, 107996 Russian Federation.
Managers:	Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd., ALPHA BANK A.E. and DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main.
Trustee:	BNY Corporate Trustee Services Limited.
Principal Paying and Transfer Agent:	The Bank of New York, acting through its London branch.
Paying and Transfer Agent and Registrar in New York:	The Bank of New York, New York office.
Issue Price:	100 per cent. of the principal amount of the Notes.
Use of Proceeds:	The Issuer will use the gross proceeds of the issue of the Notes for the sole purpose of financing the Subordinated Loan to the Bank. The proceeds of the Subordinated Loan, expected to be U.S.$400,000,000 before taking account of commissions and expenses, will be used by the Bank for general corporate purposes, which include, among other things, funding loans to major corporate clients and investment in consumer loan programs. The net proceeds the Bank will receive from the offering, after paying estimated commissions and expenses incurred in connection with the offering, are expected to be approximately U.S.$398,370,000.
Interest:	On each Interest Payment Date (being May 10 and November 10 in each year commencing on November 10, 2007), 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 Subordinated Loan Agreement, which interest under the Subordinated Loan accrues at a rate of 6.807 per cent. per annum from and including the Issue Date to but excluding the Reset Date and, provided that the Subordinated Loan Agreement is not prepaid at or before such time, from and including the Reset Date, at the Step Up Rate of Interest (as defined in the Subordinated

Loan Agreement), all as more fully described under "Terms and Conditions of the Notes".

Limited Recourse:	The Notes will constitute the obligation of the Issuer to apply an amount equal to the gross proceeds from the issue of the Notes solely for the purpose of financing the Subordinated Loan to the Bank pursuant to the terms of the Subordinated Loan Agreement. The Issuer will only account to the holders of the Notes for all amounts equivalent to those (if any) received from the Bank in respect of principal, interest or any additional amounts under the Subordinated Loan Agreement, less amounts in respect of the Reserved Rights (as defined under "Terms and Conditions of the Notes").
Status of the Notes:	The Notes constitute unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without preference among themselves, all as more fully described under "Terms and Conditions of the Notes — Status and Limited Recourse".
Status of the Subordinated Loan:	The claims of the Issuer under the Subordinated Loan Agreement constitute the direct, unconditional and unsecured subordinated obligations of the Bank and will rank at least equally with all other unsecured and subordinated obligations of the Bank (whether actual or contingent) having a fixed maturity (except for such obligations preferred by mandatory provisions of law). The claims of the Issuer against the Bank in respect of the principal of, interest on and additional amounts (if any) in respect of the Subordinated Loan will be subordinated in the event of the insolvency (bankruptcy) and/or winding up of the Bank, to the claims of all Senior Creditors (as defined in the Subordinated Loan Agreement).
Form:	The Notes will be issued in registered form in the denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by a Global Certificate. The Global Certificate will only be exchangeable for Definitive Certificates in the limited circumstances described under "Summary of the Provisions Relating to the Notes in Global Form".
Prepayment Option:	Under the terms of, and as more fully described in, the Subordinated Loan Agreement, the Bank will have the right to prepay the Subordinated Loan in whole but not in part, together with

	accrued but unpaid interest thereon, (a) at 101 per cent. of the principal amount of the Subordinated Loan if the CBR does not unconditionally approve the Subordinated Loan Agreement or the Subordinated Loan as Own Funds on or before the Approval Date, or (b) subject to certain conditions as detailed in Clause 6.2.1 of the Subordinated Loan Agreement, at any time after the Approval Date, if, as a result of any amendment to, classification or change in (including a change in interpretation of) applicable requirements of Regulation No. 215-P (as defined in the Subordinated Loan Agreement) or other applicable requirements of the CBR, the Subordinated Loan Agreement and the Subordinated Loan would cease to qualify as Own Funds. In addition, the Bank may, subject to the consent of the CBR, prepay the Subordinated Loan in whole but not in part on the Reset Date, together with accrued and unpaid interest thereon, all as described more fully in Clause 6.2.2 of the Subordinated Loan Agreement.
Tax Redemption or Redemption for Changes in Circumstances:	The Bank may, subject to the prior consent of the CBR, prepay the Subordinated Loan in whole but not in part, together with accrued but unpaid interest thereon if, by reason of the introduction of any change in any applicable law, regulation or regulatory requirements or directive of any Agency (as defined in the Subordinated Loan Agreement), it must pay Russian or Luxembourg withholding taxes in respect of the Subordinated Loan or certain increased costs of the Issuer with respect to the Subordinated Loan, all as described more fully in Clause 6.3 of the Subordinated Loan Agreement.
Illegality:	If, by reason of the introduction of any change in any applicable law, regulation, regulatory requirements or directive of any Agency (as defined in the Subordinated Loan Agreement), the Issuer determines that it would be unlawful to allow all or part of the Subordinated Loan or the Notes to remain outstanding or to give effect to any of its obligations in connection with the Subordinated Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the Subordinated Loan (an "Event of Illegality"), the Bank and the Issuer shall consult to a basis which eliminates the application of an Event of Illegality. If such a basis is not determined within 30 days, the Bank must, at the written request of the Issuer and subject to the prior consent of the CBR, prepay

the Subordinated Loan, in whole but not in part, all as described more fully in Clause 6.4 of the Subordinated Loan Agreement.

Acceleration Event/Relevant Event:

If an Acceleration Event (as defined in the Subordinated Loan Agreement) has occurred and is continuing, the Issuer may by notice in writing to the Bank, (a) declare the Subordinated Loan Agreement to be cancelled; and/or (b) declare all amounts payable under the Subordinated Loan by the Bank to be immediately due and payable.

If an Acceleration Event or a Relevant Event (as each term is defined in "Terms and Conditions of the Notes") occurs, the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in favor of the Noteholders.

Rating:

The Notes have been rated "BBB-" by Fitch and are expected to be assigned upon issue a rating of "Baa1" by Moody's.

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

Withholding Tax:

All payments of principal and interest under the Subordinated Loan and in respect of the Notes will be made without deduction or withholding for or on account of all taxes, duties, imposts, assessments or governmental charges of Luxembourg or the Russian Federation save as required by law. If any taxes, duties, levies, imposts, assessments or governmental charges are payable in either or both of the above jurisdictions, the sum payable by the 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

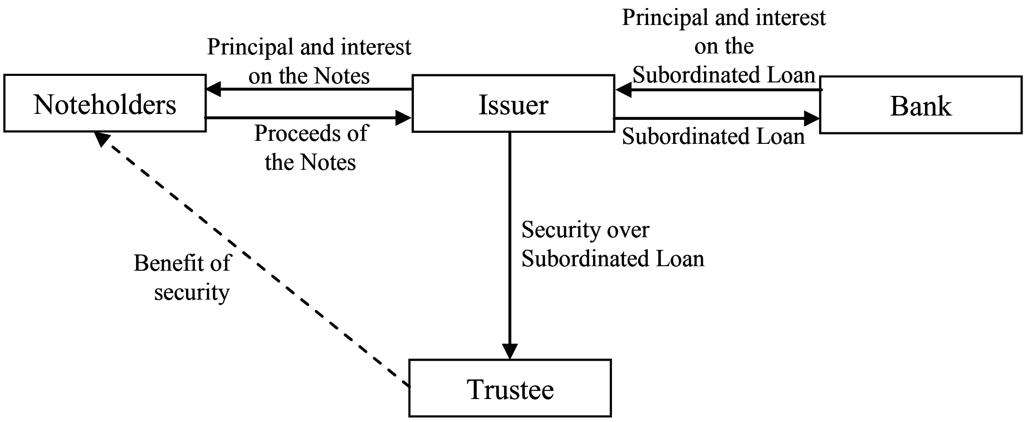
	been made or required to be made. The sole obligation of the Issuer in this respect will be to pay to the Noteholders sums equivalent to the sums received from the Bank for this purpose. See "Terms and Conditions of the Notes".
Listing:	Application has been made to admit the Notes to listing on the Official List of the UK Listing Authority and to trading on the Gilt-Edged and Fixed Interest Market of the London Stock Exchange.
Selling Restrictions:	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, without limitation, the European Economic Area (including the United Kingdom, Luxembourg and the Russian Federation) only in compliance with applicable laws and regulations. See "Subscription and Sale".
Governing Law:	The Notes, the Subordinated Loan Agreement and the Trust Deed will be governed by, and construed in accordance with, English law.
Risk Factors:	An investment in the Notes involves a high degree of risk. See "Risk Factors".
Security Codes:	ISIN: XS0299183250 Common Code: 029918325

DESCRIPTION OF THE TRANSACTION

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

The transaction will be structured as a subordinated loan to the Bank as borrower from the Issuer as lender. The Subordinated Loan Agreement has characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes.

The following diagram illustrates the structure of the transaction:



The Issuer will issue the Notes for the sole purpose of funding the Subordinated Loan to the Bank. The Notes will have the benefit of, be subject to, and be constituted by, the Trust Deed. The Issuer will not have any obligations to the Noteholders, other than the obligation to account to the Noteholders in respect of the payments of principal, interest and any additional amounts if, and only to the extent, received from the Bank pursuant to the Subordinated Loan Agreement, less any Reserved Rights (as defined in the Terms and Conditions of the Notes). As provided in the Trust Deed, the Issuer will:

- charge to the Trustee all its rights, title, interests and benefits in and to principal, interest and other amounts now or hereafter payable under the Subordinated Loan Agreement and its right, title, interest and benefit in and to receive amounts which may be or become payable to it under any claim, award or judgment relating to the Subordinated Loan Agreement (other than its right to amounts in respect of certain Reserved Rights);
- charge to the Trustee sums held on deposit from time to time, in an account in London in the name of the Issuer with the Principal Paying and Transfer Agent (as defined in the Subordinated Loan Agreement), together with the debts represented thereby (other than interest, if any, from time to time earned thereon and the Reserved Rights) pursuant to the Trust Deed; and
- assign absolutely its rights under the Subordinated Loan Agreement (save for those rights charged or excluded above) to the Trustee upon the closing of the offering of the Notes.

The Bank will be obliged to make payments under the Subordinated Loan to the Issuer's account in accordance with the terms of the Subordinated Loan Agreement. The Issuer will agree in the Trust Deed not to agree to any amendments to, or any modification or waiver of, or authorize any breach or proposed breach of, the terms of the Subordinated Loan Agreement unless the Trustee has given its prior written consent or unless authorized to do so by an Extraordinary Resolution (as defined in the Trust Deed) or Written Resolution (as defined in the Trust Deed) of the Noteholders (except in relation to Reserved Rights).

The Issuer will further agree to act at all times in accordance with the instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement, other than as provided in the Trust Deed and except in relation to Reserved Rights. Any amendments, modifications, waivers or authorizations made with the Trustee's consent shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) of the Terms and Conditions of the Notes and shall be binding on the Noteholders. The Issuer will also agree in the Agency Agreement to require that all payments to be made by the Bank under the Subordinated Loan Agreement be directed to the Issuer's account with the Principal Paying and Transfer Agent. Formal notice of the security interests created by the Trust Deed will be given to the Bank, which will be required to acknowledge the same. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the performance of the Subordinated Loan.

In the event that the Trustee enforces the security interests granted to it, the Trustee will assume certain rights and obligations towards the Noteholders, as more fully set out in the Trust Deed.

Payments in respect of the Notes will be made without any deduction or withholding for or on account of Russian or Luxembourg taxes, except as required by law. See "Terms and Conditions of the Notes—Taxation". In the event that any deduction or withholding is required by law, the Issuer will be required, except in certain limited circumstances, to pay additional amounts to the extent that it receives corresponding amounts from the Bank under the Subordinated Loan Agreement. In addition, payments under the Subordinated Loan Agreement shall be made without deduction or withholding for or on account of Russian or Luxembourg taxes, except as required by law. In the event that any deduction or withholding is required by law with respect to payments under the Notes or the Subordinated Loan Agreement, the Bank will be obliged, except in certain limited circumstances, to increase the amounts payable under the Subordinated Loan Agreement, by an amount equivalent to the required tax payment. See "Risk Factors—Risks Related to the Subordinated Loan, the Notes and the Trading Market—Interest payments on the Subordinated Loan may be subject to withholding tax or other taxes, —Tax might be withheld on dispositions of the Notes in the Russian Federation, reducing their value, and —The Notes may be redeemed early if withholding tax becomes payable or the Issuer incurs certain increased costs or it becomes unlawful to allow the Subordinated Loan or the Notes to remain outstanding".

Under the terms of, and as more fully described in, the Subordinated Loan Agreement, the Bank will have the right to prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, (a) at 101 per cent. of the principal amount if the CBR does not unconditionally approve the Subordinated Loan as Own Funds on or before the Approval Date, or (b) subject to certain conditions as described in Clause 6.2.1 of the Subordinated Loan Agreement, at par at any time after the Approval Date, if, as a result of any amendment to, classification of or change in (including a change in interpretation or application of) applicable requirements of Regulation No. 215-P (as defined in the Subordinated Loan Agreement) or other applicable requirements of the CBR, the Subordinated Loan would cease to qualify as Own Funds.

In addition, (a) the Bank may, subject to the consent of the CBR, prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, on the Reset Date, as described more fully in Clause 6.2.2 of the Subordinated Loan Agreement, (b) the Bank may, subject to the consent of the CBR, prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, if it must pay Russian or Luxembourg withholding taxes in respect of the Subordinated Loan, as described more fully in Clause 6.3 of the Subordinated Loan Agreement, and (c) if it becomes illegal for the Issuer to allow the Subordinated Loan or the Notes to remain outstanding, the Bank must, subject to the prior consent of the CBR, prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, as described more fully in Clause 6.4 of the Subordinated Loan Agreement.

Neither the Subordinated Loan nor the Notes have been guaranteed by the City of Moscow or any other shareholder of the Bank.

RISK FACTORS

Prospective investors should consider carefully, among other things, the risks set forth below and other information contained in this Prospectus prior to making any investment decision with respect to the Notes. The Bank notes that in a number of situations, which it cannot always control, these risks may materialize and may negatively affect the Bank's ability to comply with its payment obligations under the Subordinated Loan Agreement and, as a result, the debt service by the Issuer on the Notes. These risk factors, individually or together, could have a material adverse effect on the Bank, the Issuer and/or their respective businesses, operations and financial conditions and/or the rights under the Notes of the holders of the Notes. In addition, the value of the Notes could decline due to any of these risks, and investors may lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks each of the Bank or the Issuer, as the case may be, faces. There may be additional risks of which the Bank or the Issuer is not currently aware, and any of these risks could have a negative effect on the Bank's ability to comply with its payment obligations under the Subordinated Loan Agreement or the debt service by the Issuer on the Notes. Prospective investors are urged to consult with their own legal, financial and tax advisors before making an investment in the Notes.

Risks Related to the Subordinated Loan and the Notes

The Bank's payment obligations under the Subordinated Loan are subordinated to the claims of its unsubordinated creditors.

The Bank's obligations in respect of the payment of principal and interest under the Subordinated Loan are subordinated in right of payment to the claims of its unsubordinated creditors. As a result, in case of the entry into force of a final decision of a competent Russian court finding the Bank bankrupt, the Bank's assets will be available to satisfy obligations in respect of the Subordinated Loan only after the claims of all creditors whose claims are senior to the Subordinated Loan have been satisfied in full. Such remaining assets may not be sufficient to satisfy all or even part of the Bank's obligations under the Subordinated Loan.

The Subordinated Loan Agreement does not prohibit or limit the incurrence by the Bank of unsubordinated indebtedness, other subordinated indebtedness that will rank equally with the indebtedness under the Subordinated Loan, or other liabilities. Incurrence of such additional indebtedness or other liabilities could adversely affect the Bank's ability to make payments under the Subordinated Loan. As at December 31, 2006, the Bank had approximately RUR 345,534 million of unsubordinated indebtedness outstanding (in addition to indebtedness incurred in the ordinary course of its banking business, such as deposits). The Bank anticipates that, from time to time, it will incur additional indebtedness in multiple currencies, including unsubordinated indebtedness.

In addition, in order for the Subordinated Loan to qualify as Own Funds under CBR regulations, the terms of the Subordinated Loan Agreement cannot and do not, with certain exceptions, contain events of default or early repayment provisions. Nonetheless, following the occurrence of an Acceleration Event, amounts payable under the Subordinated Loan Agreement may be declared due and payable. However such actions may not result in payment of principal, accrued interest and additional amounts, if any, due under the Subordinated Loan Agreement being paid in full, because such payments may be made only after all unsubordinated obligations are satisfied in full.

The Notes may be redeemed prior to their scheduled maturity due to uncertainties surrounding Russian regulatory capital regulations.

With respect to regulatory capital for banks and subordinated loans in particular, the concept of subordinated debt is relatively new in Russia, and the rules governing subordinated debt may be subject to further review, clarification and development. In particular, the regulatory capital regulations of the CBR are currently rudimentary as compared with regulatory capital legislation enacted in other jurisdictions, which could lead to uncertainty and a lack of clarity in the interpretation and application of such regulations.

As required under Regulation No. 215-P (as defined in the Subordinated Loan Agreement), the Bank has submitted a draft of the Subordinated Loan Agreement to the CBR for review. See "The Banking Industry and Banking Regulation in the Russian Federation—Regulation of the Russian Banking Sector". On April 18, 2007, the Bank received the preliminary conclusions of the CBR, confirming that the draft Subordinated Loan Agreement generally satisfies the conditions set forth in Regulation No. 215-P. This preliminary approval required the Bank, among other things, to submit to the CBR a copy of the Subordinated Loan Agreement and documents confirming disbursement of funds to be received by the Bank under the Subordinated Loan Agreement to the Bank's account. This preliminary approval does not have the effect of legislation, and as such it may, at any time, be revised, revoked and/or disapplied.

The Bank expects the CBR to deliver its final approval and conclusion (*zakluchenie*) on the regulatory capital treatment of the Subordinated Loan within 60 days after the issue date of the Notes. There can, however, be no assurance that such approval and conclusion will be granted. Under the Subordinated Loan Agreement, if the CBR does not grant such final approval or conclusion, the Bank may prepay (as described below) the Subordinated Loan, which would result in the early repayment of the Notes.

There is a risk either that the interpretation of such capital treatment could change or that the regulatory capital rules could be subsequently amended or clarified. As a result, the Bank could lose the regulatory capital treatment granted to the Subordinated Loan Agreement and, therefore, be entitled to exercise its right to prepay (as described below) the Subordinated Loan, which would result in the early repayment of the Notes.

Under the terms of, and as more fully described in, the Subordinated Loan Agreement, the Bank will have the right to prepay the Subordinated Loan in whole but not in part, together with accrued and unpaid interest thereon, (a) at 101 per cent. of the principal amount, if the CBR does not unconditionally approve the Subordinated Loan as Own Funds on or before the Approval Date or (b) subject to certain conditions as described in Clause 6.2.1 of the Subordinated Loan Agreement, at par at any time after the Approval Date, if, as a result of any amendment to, classification of or change in (including a change in interpretation or application of) applicable requirements of Regulation No. 215-P or other applicable requirements of the CBR, the Subordinated Loan would cease to qualify as Own Funds.

Prepayment of the Subordinated Loan will require consent of the CBR

Certain of the provisions of the Subordinated Loan Agreement providing for the prepayment of the Subordinated Loan are subject to the consent of the CBR, including prepayment on the Reset Date. There can be no guarantee that the consent of the CBR will be forthcoming even if the Subordinated Loan would otherwise be subject to prepayment pursuant to such provisions and, consequently, there is no certainty that the Bank would be able to prepay at such time.

Interest payments on the Subordinated Loan may be subject to withholding tax or other taxes

Based on the professional advice it has received, the Bank believes that interest payments to the Issuer on the Subordinated Loan will not be subject to withholding under the terms of the double tax treaty between the Russian Federation and Luxembourg. However, if the withholding tax is not reduced or eliminated pursuant to the terms of an applicable double tax treaty, interest payments on borrowed funds made by a Russian entity to a non-resident are subject to Russian withholding tax at a rate of 20 per cent. There can be no assurance that such an exemption from withholding tax based on the double tax treaty between the Russian Federation and Luxembourg will be available.

Upon any enforcement by the Trustee of the security granted to it by the Issuer by way of the security interests in the Trust Deed, payments under the Subordinated Loan Agreement (other than in respect of Reserved Rights) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by the Bank to the Trustee will in general be subject to Russian withholding tax at a rate of 20 per cent. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. The Bank will be required to gross-up the amount of interest in such circumstances. It may be impossible for Noteholders to claim a refund of such tax withheld.

It is currently unclear whether the provisions of the Subordinated Loan Agreement obliging the Bank to gross-up payments will be enforceable in the Russian Federation. If a Russian court does not rule in favor of the Issuer, the Trustee and Noteholders, there is a risk that gross-up for withholding tax will not take place and that payment made by the Bank under the Subordinated Loan Agreement will be reduced by Russian withholding tax withheld by the Bank at a rate of 20 per cent. Noteholders would be unable to accelerate the Subordinated Loan if the Bank failed to comply with its gross-up obligations under the Subordinated Loan unless such failure resulted in an Acceleration Event. The Bank would not be entitled to exercise its prepayment option as a result of any such imposition of withholding unless the CBR consented thereto and in any event not prior to the Reset Date. See “Taxation”.

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

If a non-resident Noteholder that is a legal person or organization sells Notes and receives proceeds from a source within the Russian Federation, there is a risk that the part of the payment, if any, representing accrued interest may be subject to a 20 per cent. Russian withholding tax. Where proceeds from a disposition of the Notes are received from a source within the Russian Federation by an individual non-resident Noteholder, a similar withholding tax would be charged at a rate of 30 per cent. on gross proceeds from such disposal of the Notes less any available cost deduction available under Russian law. The imposition or possibility of imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation”.

The Notes may be redeemed early if withholding tax becomes payable or the Bank incurs certain increased costs or it becomes unlawful under Russian law to allow the Subordinated Loan or the Notes to remain outstanding

In the event that the Bank is required to increase the amounts payable under the Subordinated Loan Agreement, including in the event that any tax is or becomes applicable to such payments, or the Issuer incurs increased costs reimbursable by the Bank, or it is unlawful to allow the Subordinated Loan or the Notes or any part of them to remain outstanding, the Bank must, at any time, at the request of the Issuer, and in each case subject to the prior consent of the CBR, prepay the Subordinated Loan in whole together with accrued interest at any time, and (to the extent that it has actually received the relevant funds from the Bank) the Issuer shall redeem all outstanding Notes in accordance with the Conditions. See “Form of Subordinated Loan Agreement—Repayment and Prepayment”, “Form of Subordinated Loan Agreement—Payments”, “Terms and Conditions of the Notes—Redemption and Purchase”, “Terms and Conditions of the Notes—Taxation” and “Taxation—The Russian Federation”.

Changes to the credit ratings of the Bank, the City of Moscow or the Russian Federation may adversely affect the trading price of the Notes

Outstanding eurobonds of the Russian Federation are rated “Baa2” by Moody’s, “BBB-” by Standard & Poor’s and “Baa2” by Fitch. Outstanding eurobonds of the City of Moscow are rated “BBB+” by Fitch, “Baa2” by Moody’s and “BBB+” by Standard & Poor’s. The Notes have been rated “BBB-” by Fitch and are expected to be assigned upon issue a rating of “Baa1” by Moody’s. Any changes in the credit ratings of the Bank, the City of Moscow or the Russian Federation could adversely affect the trading price of the Notes. A change in the credit rating of one or more other Russian corporate borrowers or banks could also adversely affect the trading price of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.

Payments under the Notes are limited to the amount of certain payments received by the Issuer under the Subordinated Loan Agreement

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

There may be circumstances in which the Bank is unable to repay the Subordinated Loan at maturity

At maturity the Bank may not have the funds to fulfill its obligations under the Subordinated Loan Agreement and it may not be able to arrange for additional financing. If the maturity date of the Subordinated Loan occurs at a time when other arrangements prohibit the Bank from repaying the Subordinated Loan, the Bank would try to obtain waivers of such prohibitions from the lenders under those arrangements, or it could attempt to refinance the borrowings that contain the restrictions. If the Bank could not obtain the waivers or refinance these borrowings, it would be unable to repay the Subordinated Loan.

The Bank will have the ability to incur more debt and this could increase the risks described above

The Bank may decide to incur additional debt in the future that will be senior to the Subordinated Loan Agreement. The Subordinated Loan Agreement contains no limitations on the Bank's ability to incur additional debt. If new debt is added to the Bank's current debt levels, the magnitude of the related risks described herein could increase, and such factors could have an adverse effect on the ability of the Bank to pay amounts due in respect of the Subordinated Loan Agreement and, therefore, ultimately the Bank's ability to pay amounts due in respect of the Notes.

Noteholders have no direct recourse against the Bank

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

There is no existing market for the Notes

There is no existing market for the Notes. Application has been made to the UK Listing Authority for the Notes to be admitted to trading on the London Stock Exchange. However, there can be no assurance that such application will be granted or that an active trading market for the Notes will develop or be maintained. If an active trading market for the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

Noteholders' rights could be negatively affected by Luxembourg insolvency laws

The Issuer is incorporated under the laws of Luxembourg. Insolvency laws in Luxembourg could negatively affect the ability of Noteholders to enforce their rights under the Notes by application of any applicable bankruptcy, insolvency, reprieve from payment (*sursis de paiement*), moratorium and other similar laws affecting creditors' rights generally. Under the Trust Deed, the Issuer will charge and assign all its present and future rights and interests (other than the Reserved Rights, as such term is defined in the Trust Deed) in respect of the Subordinated Loan and the relevant account to the Trustee as security for the payment obligations of the Issuer under the Notes.

Risks related to the Bank's Business and Industry

The City of Moscow may significantly influence the Bank

The City of Moscow is the Bank's majority shareholder and, as at March 31, 2007, owned, directly and indirectly, 59.96 per cent., of the issued and outstanding share capital of the Bank. Although the City of Moscow is not closely involved in the day-to-day management of the Bank, as the majority shareholder it reviews and approves the Bank's strategic and planning decisions. Out of 13 members of the Board of Directors of the Bank, seven are nominated by the City of Moscow. As a result, the City of Moscow can exert significant influence over certain actions requiring shareholder approval, including, but not limited to, the election of the members of the Board of Directors, declaration and payment of dividends, appointment of management and other policy decisions. Since its establishment in March 1994, the Bank has paid dividends to shareholders, including the City of Moscow, only for 1997, 2003, 2004, 2005 and 2006. In 2004, the Bank announced dividends for 2003 in the amount of RUR 118.9 million (or approximately 4.4 per cent. of the Bank's statutory profit after taxation in 2003). In 2005, the Bank announced dividends for 2004 in the amount of RUR 92.7 million (or approximately 3.0 per cent., of the Bank's statutory profit after taxation in 2004). In 2006, the Bank announced dividends for 2005 in the amount of RUR 162.0 million (or approximately 4.0 per cent. of the Bank's statutory profit after taxation in 2005) and distributed such dividends in full. Although the Bank currently plans to capitalize a majority of its profits, the Bank intends to adhere to its current dividend policy (to pay no more than 7.0 per cent. of the Bank's statutory profit after taxation as dividends for each financial year) in the near future.

In January 2007, the Bank obtained written confirmation from the City of Moscow addressed to counterparties of the Bank indicating that the City of Moscow confirms its readiness to provide comprehensive assistance and support for the conclusion and subsequent performance of the agreements which the Bank has and may enter into in the future with foreign government and non-government institutions. This written confirmation, which has not been revoked or modified, is not, however, legally binding on the City of Moscow and does not constitute a guarantee by the City of Moscow of the Bank's payment obligations in respect of the Subordinated Loan. In addition, no funds have been specifically reserved in the City of Moscow's municipal budget for the payment of any financial obligations of the City of Moscow arising out of this confirmation. Accordingly, there can be no assurance that the City of Moscow will be willing or able to make any payments based on this confirmation.

The Bank may lose some or all of the City of Moscow's business

The Bank's relationship with the City of Moscow began in 1995. The Bank is to a certain extent dependent on the business it derives from its affiliation with the City of Moscow. This business includes servicing municipal budget funds of the City of Moscow, financing projects of the City of Moscow and extending loans to and keeping accounts of enterprises affiliated with the City of Moscow in each case on an arm's length basis. As at December 31, 2006, the City of Moscow and more than 1,000 of its municipal entities deposited a significant portion of their budget funds with the Bank. Budget funds of the City of Moscow and these entities accounted for approximately 29.0 per cent. and 4.9 per cent., respectively, of the Bank's total deposit portfolio (or approximately 21.5 per cent. and 3.6 per cent., respectively, of the Bank's total liabilities) as at December 31, 2006, compared with 26.4 per cent. and 4.6 per cent., respectively, of the Bank's total deposit portfolio (or approximately 20.1 per cent. and 3.5 per cent., respectively, of the Bank's total liabilities) as at December 31, 2005, and with approximately 28.1 per cent. and 5.4 per cent. of the Bank's total deposit portfolio (or approximately 23.5 per cent. and 4.5 per cent. of the Bank's total liabilities) as at December 31, 2004. Related party lending, as defined in the IFRS Financial Statements, which includes lending to the City of Moscow, its municipal entities and associated companies, accounted for approximately 2.3 per cent. of the Bank's gross loan portfolio as at December 31, 2006 compared with approximately 2.5 per cent. as at December 31, 2005. As at December 31, 2006 most of those loans consisted of loans to enterprises owned by the City of Moscow totalling RUR 5.97 billion, and as at December 31, 2005 of loans to municipal entities of the City of Moscow totalling RUR 4.2

billion. Related party lending and loans to municipal entities of the City of Moscow accounted for 4.0 per cent. and 3.9 per cent. of the Bank's net and gross loan portfolio, respectively, as at December 31, 2004. However, if the City of Moscow ceases to be the controlling or principal shareholder of the Bank, it and other businesses affiliated with the City of Moscow may also cease to use the Bank's services or significantly reduce the volume of the business of the Bank. In December 2005, the Bank was among three commercial banks selected by the City of Moscow through an open tender authorized to keep the budget funds of the City of Moscow. The Bank has also been involved in the financing of certain City of Moscow projects, generally on a competitive tender basis since 1995. Although the Bank believes that it will continue to be selected by the City of Moscow to finance many projects of the City of Moscow, there can be no assurance that other banks will not participate in the financing of such projects and reduce significantly the Bank's business with the City of Moscow.

The Bank may be unable to reduce industry and borrower concentrations in its loan portfolio

The Bank's loan portfolio has concentrations among certain industries and borrowers. As at December 31, 2006, the manufacturing, construction, financial and other services and trade sectors accounted for approximately 16.5, per cent, 16.6, per cent, 18.0 per cent, and 13.3, per cent, respectively, of the Bank's loan portfolio, compared to approximately 18.6 per cent, 18.5 per cent, 19.6 per cent, and 13.7 per cent, respectively, as at December 31, 2005, to approximately 24.1 per cent, 23.3 per cent, 15.6 per cent, and 10.1 per cent, respectively, as at December 31, 2004 and to approximately 12.8 per cent, 18.1 per cent, 24.4 per cent, and 17.4 per cent, respectively, as at December 31, 2003. As at December 31, 2006, the Bank's ten largest corporate borrowers accounted for approximately 18.2 per cent, of the total net loan portfolio of the Bank and the 20 largest borrowers accounted for approximately 24.9 per cent. of the total loan portfolio of the Bank (compared to 16.9 per cent. and 27.6 per cent., respectively, as at December 31, 2005 and 23.0 per cent. and 38.5 per cent., respectively, as at December 31, 2004). This significant decline in concentration is due primarily to increased diversification of the Bank's loan portfolio and partial repayment of the loans by large clients of the Bank during 2004, 2005 and 2006. Although the Bank intends to continue to diversify its loan portfolio, there can be no assurance that it will be able to *attract a* more diverse corporate customer base. In the event it fails to do so, the Bank's exposure to particular industries or borrowers may have a material adverse effect on its business, financial condition, results of operations and prospects if there is a downturn in any one or more of these industries or if the Bank loses the business of a significant borrower.

A significant part of the Bank's funding is based on deposits that can be withdrawn on demand

The Bank believes that its policy of increasing its long-term retail deposits secures funding necessary for the development of long-term lending. The Bank has liquidity risk management procedures and analyses its incoming and withdrawn deposits on the basis of scenario analysis and stress testing. See "Business - Asset, Liability and Risk Management - Credit, Market and Liquidity Risks - Liquidity Risk". Nevertheless, the Bank cannot completely eliminate liquidity risk. A significant part of the Bank's funding base comprises retail customer deposits and deposits of municipal budget funds of the City of Moscow. As at December 31, 2006, the City of Moscow and more than 1,000 of its municipal entities deposited a significant portion of their budget funds with the Bank. See "- The Bank may lose some or all of the City of Moscow's business." The Civil Code of the Russian Federation (the "Civil Code") allows the immediate withdrawal of all retail deposits (i.e., the deposits made by individuals), including term deposits, at any time and therefore the Bank holds liquidity reserves in excess of the regulatory minimum. Unplanned withdrawals of deposits by the Bank's clients could lead to liquidity gaps that the Bank will have to cover, thus incurring additional expenses, and ultimately may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

Instability of the Russian banking sector may adversely affect the Bank's operations

In the summer of 2004, the Russian banking industry experienced a liquidity crisis. The crisis was triggered by the decision of the CBR's banking oversight committee that on May 12, 2004 withdrew the banking license of the Commercial Bank for Assistance to Entrepreneurship (OOO KB "Sodbiznessbank") for alleged violations of the Russian Federation Law on Counteraction of Legitimization (Laundering) of the Proceeds of Crime and Financing of Terrorism, dated 7 August 2001, as amended (the "Money Laundering Law"), and of its internal anti-money laundering compliance procedures. The CBR subsequently withdrew the banking license of three other smaller Russian banks. ZAO "KB Guta Bank" ("Guta Bank"), one of the largest Russian banks, was acquired by OAO VTB ("VTB"), a bank owned by the Russian Government. As a consequence of these events private depositors withdrew deposits from certain banks that were considered to be at risk. During the crisis, the Bank's depositors withdrew approximately USD 120 million from their accounts. In June 2004, the CBR reduced its refinancing rate and the rate paid on compulsory reserves with the aim of stabilizing the banking market and in order to avert a general liquidity crisis. Since December 2005, the CBR has been gradually decreasing its refinancing rate from 12 per cent. as of December 26, 2005, 11.5 per cent. as of June 26, 2006, 11 per cent. as of October 23, 2006 and 10.5 per cent. as of January 26, 2007. Additionally, the CBR withdrew approximately 60 licenses to carry out banking operations in 2006 and approximately 10 licenses since the beginning of 2007. In general, the CBR's policy is aimed at ensuring the transparency of the shareholding structure, ensuring compliance with anti-money-laundering regulation, enhancing the quality of internal control and ensuring close monitoring of compliance with prudential ratios by banks and credit institutions.

While the Bank believes there are no grounds to indicate that the Bank is likely to be downgraded or lose its banking license on these or other grounds, it is difficult to predict what impact a prolonged or serious banking crisis, the bankruptcy of a number of banks or any downgrading of the Bank's ratings would have on the Bank's business, financial condition, results of operations or prospects. Any changes in the credit ratings of the Bank or one or more Russian corporate borrowers or banks, the City of Moscow or the Russian Federation could adversely affect the price of the Notes.

A significant part of the Bank's transactions is conducted with related parties

A significant portion of the Bank's liabilities are from related parties and a portion of the Bank's earnings is derived from activities and transactions with related parties including the City of Moscow and entities affiliated with the City of Moscow or over which the City of Moscow may be able, directly or indirectly, to exert a significant degree of influence. As at December 31, 2006, loans to the Bank's related parties accounted for approximately 2.4 per cent, of the Bank's gross loan portfolio compared to approximately 2.6 per cent, of the Bank's gross loan portfolio as at December 31, 2005. As at December 31, 2006, the City of Moscow and more than 1,000 of its municipal entities deposited a significant portion of their budget funds with the Bank. See "- The Bank may lose some or all of the City of Moscow's business". The Bank also has made loans to ZAO Inteko, a construction and manufacturing company which, although not a related party for IFRS purposes, is controlled by the wife of the Mayor of the City of Moscow. In addition, the Bank acted as a manager in connection with a domestic bond issue by ZAO Inteko for which the Bank received underwriting fees commensurate with market practice. While transactions with such entities are carried out on an arm's length basis and are subject to the same approval procedures and lending limits as transactions with unrelated parties, such related parties' demand for such products and services from the Bank may decline if the City of Moscow were to cease to be the controlling or principal shareholder of the Bank, which could have a material adverse effect on the Bank's business, financial condition, results of operation or prospects. See also "- The Bank may lose some or all of the City of Moscow's business."

The Bank faces competition in the Russian banking market

The Russian market for financial and banking services is highly competitive. Although the industry is dominated by a few Moscow-based banks, according to the CBR, 1,178 banks and non-banking credit organizations operated in the Russian Federation as at April 1, 2007. Due to the quantity and variety of banks in the Russian Federation, the Bank faces competition from different banks in each of the Russian business sectors and regions in which it operates. The Bank also faces increased competition as a result of recent and proposed Russian banking reforms. Although foreign banks are currently allowed to operate in the Russian Federation only through their locally licensed subsidiaries, the Bank expects that access of foreign banks to the Russian market will become much easier if the Russian Federation accedes to the World Trade Organization. However, it is currently not clear when such accession is expected to occur, it at all.

All of the Bank's major competitors in the retail deposit market have aggressively expanded their retail operations since 2001. The Bank experiences tough competition from the leading retail market operators, such as Sberbank (having the largest branch network in Moscow and in the Russian Federation), OAO "Ural-Siberian Bank" ("UralSib") and Alfa Bank, as well as from aggressive expansion by OAO AKB "Rosbank" ("Rosbank") and VTB. Several international banks, including Raiffeisenbank, International Moscow Bank, Citibank and Bank Société Générale Vostok have been providing retail services in the Russian Federation for the last several years. The Bank views Russian Standard Bank and OOO "Home Credit and Finance Bank" ("HCFB") as major competitors in the consumer loan sector of retail banking. If the Bank is unable to respond to this increased competition, it may have difficulty in realizing its strategy of diversifying its customer base, which may have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

In the market for the provision of banking services to corporate clients, the Bank competes directly with the largest Russian and international banks. The development of cross-border credit has resulted in intense competition in providing lending services to major Russian enterprises and exporters. Using comparatively inexpensive resources raised in the international financial markets and syndicated loans to finance large Russian enterprises, major international banks have expanded rapidly into this market segment. In the corporate banking sector, the Bank's primary competitors are Sberbank, VTB, OAO "Gazprombank" ("Gazprombank"), Alfa Bank, Rosbank and UralSib. In the investment banking sector, the Bank's primary competitors are Rosbank, Gazprombank, ZAO "Investment Company Troika Dialog" ("Troika Dialog") and VTB. The Bank competes with other Russian banks for high-volume corporate clients with an interest in developing a long-term working relationship.

In the second half of 2006, the CBR adopted a package of regulatory measures designed to liberalize the process by which Russian banks raise equity financing. Such measures include elimination of, or significant reductions in, restrictions applicable to foreign investors acquiring shares of Russian banks. If adopted as currently proposed, such measures could enable the Bank's current competitors to access more easily sources of capital and, as a result, compete more effectively with the Bank and lead to the entry into the market of new competitors, which could materially and adversely affect the Bank's business, financial condition, results of operations and prospects.

The amendments to the Civil Code of the Russian Federation have been implemented by the Federal Law dated February 26, 2007 No 5-FZ "On Introduction of Amendments to the article 1062 of the Part II of the Civil Code of the Russian Federation" (the "Law on Derivatives"). In accordance with the Law on Derivatives, transactions with derivative financial instruments became enforceable in Russia, provided that at least one party to the respective transaction has a Russian banking license or a Russian securities market participant's license or a Russian license to deal in the regulated exchange. Individuals may become parties to such transactions only if such transaction is made through a regulated exchange. Previously transactions depending on occurrence of an event which might not happen were deemed wagering contracts and, therefore, were unenforceable in Russia. The Law on Derivatives establishes the minimum legal framework to enable to deal with the derivative financial instruments, including NDFs and various hedging contracts in the Russian market. The Law on Derivatives is viewed very positively by the market participants. The Law on Derivatives entered into force on February 9, 2007.

The Federal Law of the Russian Federation dated December 2, 1990 No. 395-I "On Banks and Banking Activity" as amended, provides that (i) notification to the CBR is required in case of an acquisition of a shareholding in Russian banks and credit institutions if such acquisition results in the total shareholding held exceeding 5 per cent. of the charter capital of respective bank or credit institution, and (ii) preliminary approval of the CBR is required in case of an acquisition of shares in Russian banks and credit institutions if such acquisition results in the total shareholding exceeding 20 per cent. of the charter capital of the relevant bank or credit institution. By federal law dated December 29, 2006 No. 246-FZ the notification requirement was extended to an acquisition resulting in the total shareholding exceeding 1 per cent. of the charter capital of a Russian bank or credit institution.

Regulation No. 1790-U of the CBR dated January 26, 2007 abolished the requirement for non-residents to obtain preliminary consent of the CBR in order to acquire shares in Russian banks and credit institutions. Standard rules applicable to Russian residents for notification to, and obtaining prior approval of, the CBR in case of acquisition of shares in Russian banks and credit institutions (as specified above) shall apply to non-resident buyers.

The Bank may lose some or all of its banking and lending business and some or all of its funding sources (deposits from commercial and governmental entities) to its competitors, which may have a material adverse effect on its business, financial condition, results of operations or prospects.

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

The limited number of Russian corporate clients that meet the Bank's conservative financial and credit requirements may significantly inhibit the Bank's ability to increase its corporate and investment banking businesses while maintaining an acceptable level of credit risk. It is difficult for the Bank to assess accurately the default risk on loans and other instruments because of the unpredictability of economic conditions in the Russian Federation and abroad. Financial statements of most of the Bank's corporate clients are not prepared in accordance with United States Generally Accepted Accounting Principles or IFRS and are not audited in accordance with United States Generally Accepted Auditing Standards or IFRS. Even though the Bank requires regular disclosure of clients' financial information, such financial information may not always present a complete and comparable picture of each such client's financial condition. Furthermore, few small or medium enterprises or retail customers have credit histories and currently there are limited third party resources available to banks to ascertain the credit history of individual retail borrowers. Although new legislation was enacted at the end of 2004 to introduce an institute of credit bureaus that will accumulate the credit histories of individual borrowers, there are currently very few credit bureaus that can provide banks with reliable and meaningful information. Therefore, the Bank may be unable to evaluate correctly the current financial condition of each prospective borrower and to determine its long-term economic outlook on the basis of its procedures for determining credit risk. The Bank's failure to assess correctly the credit risk of potential borrowers, or inability to attract corporate clients that meet the Bank's financial and credit requirements or acceptance of a higher degree of credit risk, may have a material adverse effect on its business, financial condition, results of operations or prospects.

The Bank's financial position and results of operations may be affected by falling interest rate margins and adverse interest rate movements

In recent years, the Russian economy has grown at a stable pace. The rate of inflation has slowed, the rouble has generally strengthened in real terms and the population's real income and purchasing power have grown. These positive economic trends, combined with the growth in foreign investment, the development of cross-border operations and the increasing opportunities for commercial and governmental entities to obtain funding in the international capital markets, have resulted in declining interest rates and decreasing market spreads and bank margins in the Russian Federation. Interest rates in the Russian Federation have reached historically low levels as a result of these factors as well as the stabilization of the economy in the Russian Federation and low interest rates in the international financial markets during recent years.

The Bank has sought to compensate for decreased lending margins through more effective use and diversification of its funding into lower cost funding sources such as salary payment programs and debit cards, which reduce funding costs and increase fee income. Although the Bank has implemented these measures as well as interest rate risk management procedures, there can be no assurance that these strategies will protect the Bank from the negative effects of future interest rate fluctuations and that adverse interest rate movements will not affect its business, financial condition, results of operations or prospects.

The Bank's loan portfolio may not continue to grow at the same rate

In 2006, the Bank's net loan portfolio (excluding interbank loans and off-balance sheet credit related commitments) grew by 56.8 per cent, to RUR 256.0 billion, representing 66.98 per cent, of the Bank's total assets. In 2005, the Bank's net loan portfolio grew by 79.3 per cent, to RUR 163.2 billion, representing 66.4 per cent, of the Bank's total assets. In 2004, the Bank's net loan portfolio grew by 41.8 per cent, to approximately RUR 91.0 billion or 57.4 per cent. of the Bank's total assets. There is no assurance that in the future the Bank's loan portfolio will grow at the same or similar rates. The Bank's strategy is to diversify its loan portfolio and to increase lending to historically underserved or underfunded industries in the Russian Federation, small businesses and individuals. See "Business -Strategy". However, the Bank has previously experienced periods of over-liquidity caused by sharp increases of funds deposited by the City of Moscow with the Bank, which may exacerbate the impact on the Bank's loan portfolio resulting from any downturns in the Russian economy generally or in the industries to which the Bank provides financing. This, in turn, may have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

The Bank's income from proprietary securities and currency operations is volatile

The Bank engages in significant proprietary securities operations and derives a significant portion of its operating income from such operations. The Bank's income from proprietary activities was RUR 1,814.9 million (23.9 per cent, of operating income) in 2006, RUR 660.3 million (12.4 per cent, of operating income) in 2005 and RUR 1.691.4 million (45.2 per cent, of operating income) in 2004. See "Business - Banking Services and Activities - Treasury and Proprietary Securities Activities".

The Bank's income from securities operations depends on numerous factors beyond its control, such as overall market trading activity, interest rate levels, fluctuations in exchange rates and general market volatility. The Bank has in place limits for its trading securities portfolio on various types of securities and securities trading and single issuer limits, which are designed to maintain its securities portfolio risk at an acceptable level. Nevertheless, market price fluctuations may adversely affect the value of the Bank's securities portfolio. The main source of this risk is the Bank's portfolio of Russian government debt securities. As at December 31, 2006 Russian government securities accounted for approximately 44.0 per cent. of the aggregate amount of the Bank's securities portfolio (compared to 54.2 per cent. as at December 31, 2005), Rouble-denominated Russian government securities accounted for 35.2 per cent. of the aggregate amount of the Bank's securities portfolio (compared to 32.5 per cent. as at December 31, 2005) and U.S. Dollar-denominated Russian government securities accounted for 8.8 per cent. of the aggregate amount of the Bank's securities portfolio (compared to 21.8 per cent. as at December 31, 2005). See "Business - Selected Statistical and Other Information - Investment Portfolio" and "Business - Asset, Liability and Risk Management -Credit, Market and Liquidity Risks - Market Risks."

In 2006, a net gain of RUR 1,034 million was recorded from the Bank's activities in financial assets at fair value through profit and loss, compared with RUR 48.3 million for 2005 year and RUR 1,230.8 million in 2004. Incurrence of a loss on the Bank's securities operations could adversely affect its financial position and results of operations.

The Bank also trades currency on behalf of its clients and for its own account and maintains open currency positions, which gives rise to exposure to currency risk. Although the Bank has in place limits aimed at reducing currency risk and adheres to the CBR limits on open currency positions, currency exchange rates and the volatility of the rouble may materially adversely affect the Bank's business, financial condition, results of operations or prospects. See "Business - Asset, Liability and Risk Management - Market Risks - Currency Risk".

The Bank may bear significant credit risk

The Bank considers credit risk to be a serious threat to its business and strives to continue to improve its credit risk control and management systems. See "Business - Asset, Liability and Risk Management - Credit, Market and Liquidity Risks - Credit Risks". Historically, low default rates on loans extended by the Bank to its customers have enabled it to set relatively low reserves against its loan portfolio. However, the Bank's strategy of increased lending to medium and small corporate clients and individuals to expand and diversify its loan portfolio, may increase its credit risk exposure. Lending to such clients may carry a greater risk of default than lending to large corporate clients and may lead to an increase of overdue amounts and, consequently, to higher loan impairment provisions. See "Business - Business Strategy" and "- The Bank may be unable to assess adequately the credit risk of potential borrowers".

While the Bank considers that its current procedures for determining credit risk are adequate, there can be no guarantee that the Bank would be able to enforce any security in the event of a borrower's default or that the relevant collateral would be sufficient to cover the value of the loan secured on it. See "- A decline in the value or illiquidity of the collateral securing the Bank's loans may adversely affect the Bank's loan portfolio and it may be difficult for the Bank to enforce collateral or other security under Russian law". There can be no assurance that the Bank would be able to enforce its pledge over such assets or that the value of such collateral, if enforceable, would be sufficient to cover the value of the loan.

The Bank's market share in providing lending services to companies operating in some industries, such as the manufacturing and construction sectors, is already such that its ability to increase its business may be restricted by exposure and other risk management limitations. The inability to expand its lending business in these areas could have a negative impact on the Bank's results of operations and financial condition. Although the Bank aims to continue to diversify its loan portfolio and improve its credit risk management, it is possible that its credit risk levels will increase, which may negatively affect its business, financial condition, results of operations or prospects. In addition, in 2004, the Bank launched programs of "scoring loans" and credit card loans that are extended to retail customers on an unsecured basis and require relatively higher loan provisioning compared to the loans extended to corporate customers. Although the amount of such loans currently constitutes a relatively small portion of the Bank's loan portfolio, if all or part of such loans are not repaid, the Bank will experience an increase in non-performing loans and its business, financial condition, results of operations or prospects may be adversely affected.

A decline in the value or illiquidity of the collateral securing the Bank's loans may adversely affect the Bank's loan portfolio and it may be difficult for the Bank to enforce collateral or other security under Russian law

A substantial portion of the Bank's loans to legal entities and individuals in the Russian Federation is secured by collateral over such assets as real estate, land leasing rights, production equipment, securities, precious metals, raw materials, inventory and/or guaranteed. See "Business -Asset, Liability and Risk Management - Credit, Market and Liquidity Risks - Credit Risk" and "Business - Lending Policies and Procedures". Downturns in the relevant markets or a general deterioration of economic conditions in the Russian Federation may result in declines in the value of collateral securing a number of loans to levels below the outstanding principal balance and accrued interest on those loans. If collateral values decline they may not be sufficient to cover uncollectible amounts of the Bank's secured loans. A decline in the value of collateral securing the Bank's loans or its inability to obtain additional collateral may, in some cases, require the Bank to reclassify the relevant loans, establish additional allowances for loan impairment and increase reserve requirements.

Under Russian law, security (which includes pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the underlying secured or guaranteed obligation becomes void. Furthermore, foreclosure under Russian law generally requires a court judgment and a sale of the collateral through a public auction. A court may delay such sale through a public auction for a period of up to a year upon a pledgor's application. A mortgage under Russian law is a pledge over real estate, such as land and buildings, which requires state registration in order to be valid. Such state registration may be difficult to obtain, especially for real estate under construction. Russian law has no pledge perfection system for collateral other than mortgages or pledges of shares in joint stock companies, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, the Bank may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans, which may, in turn, materially adversely affect the Bank's business, financial condition, results of operations or prospects.

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

The Bank's risk management strategies and procedures may leave it exposed to unidentified and unanticipated risks

Although the Bank invests substantial time and effort in its risk management strategies and procedures and historically has had low default and provisioning levels, its strategies and procedures for risk management may nevertheless fail under certain circumstances, particularly when confronted with risks that it has not identified or anticipated. Some of the Bank's risk management methods are based upon observations of historical market behavior. The Bank applies statistical techniques to these observations to arrive at quantifications of its market risk exposures. See "Business - Asset, Liability and Risk Management - Credit, Market and Liquidity Risks".

Even though publicly available information and historical data accumulated by the Bank includes the behavior of all market sectors during the 1998 crisis, it only covers a ten-year period, limiting the coverage of the Bank's models. Moreover, in developing its statistical models, the Bank may not identify or anticipate some circumstances and quantifications and may not take all risks into account. If the Bank's measures to assess and mitigate risks prove insufficient, its losses may be greater than expected.

The Bank's business entails operational risks

The Bank is exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems. Given the Bank's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, the Bank's information technology systems do not fully support its operations and a number of transactions at the Bank are processed manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that are difficult to detect. See "- The Bank faces technological risks" and "Business - Information Technology". The Bank maintains a system of controls designed to keep operational risk at appropriate levels. However, there can be no assurance that it will not suffer losses from failure of these controls to detect or contain operational risk in the future. The Bank also manages its operational risk through obtaining outside insurance. See "Business - Asset, Liability and Risk Management - Credit, Market and Liquidity Risks - Operational Risks". However, the Bank does not carry insurance coverage at levels comparable to those customary in other countries for a bank of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. The same is true of many Russian banks and other companies, as the Russian insurance sector is not fully developed and insurance is not widely relied upon to manage operational risk.

The Bank's accounting systems may not be as sophisticated or robust as those of companies organized in jurisdictions with a longer history of compliance with international accounting standards.

The recent introduction of international accounting standards in Russia means that Russian companies are not as experienced with or knowledgeable about international accounting standards as companies in countries that have a longer history of complying with international accounting standards. As a result, Russian companies, including the Bank, may not have fully developed and implemented the required methodologies for the preparation of international financial statements, including the internal control frameworks, development methodologies or risk assessment activities on which the preparation of international financial statements depends. Historically, the financial information provided by the Bank's subsidiaries has not always been consistently robust to allow for the Bank's accounting personnel to process and consolidate the information for the purposes of producing its financial statements. As the Bank develops and implements accounting systems, the Bank may identify further issues with the financial information provided by the Bank's subsidiaries that may impact the Bank's historical financial statements. Notwithstanding the above, the Bank believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity.

The Bank faces technological risks

The Bank's banking business requires the development of sufficient communication channels and software, the creation of large automated systems and considerable computer capacity located throughout the Russian Federation. The Bank positions itself as a full-service commercial bank that offers high quality services to clients in all Russian regions and it seeks to ensure the same technological capabilities for all of its business units. Matching the capacities of its information systems, network and technologies and the pace of its business development requires considerable expenditure.

The expansion of operations and the introduction of new technologies result in correspondingly greater risks, as the financial consequences of any failure of equipment, networks or software become more severe. Taking into account international experience, the Bank invests considerable time and money in order to upgrade its technologies in a timely manner, centralize its information systems, create appropriate reserves and duplicate capacities, develop internal audit functions and control the operation of its hardware and software. Nevertheless, the Bank cannot eliminate the possibility of a banking system failure that may, for some time, impact its operational activities and lead to expenses that may materially adversely affect its financial performance or reputational damage that may affect the Bank's ability to attract new customers.

The Bank depends on its senior management and key personnel and it may have difficulty attracting and retaining qualified professionals

Future operating results of the Bank depend to a large extent upon the continued contributions of senior managers and key personnel. The Bank could be adversely affected if any of the senior managers or key personnel of the Bank cease to actively participate in the management of its business. In addition, the Bank depends in large part on its ability to attract, train, retain and motivate highly skilled employees and management. However, there is significant competition for employees with experience in banking, technology and programming. In particular, competition within the Russian banking industry is intense for personnel with relevant experience, especially in regions outside Moscow where the number of potential qualified personnel is relatively limited. In the future, it may be increasingly difficult for the Bank to hire and retain qualified personnel. In addition, the Bank may lose some of its most talented personnel to its competitors. In order to recruit qualified and experienced employees and to minimize the possibility of their departure to other banks, the Bank provides compensation packages that it believes are consistent with the evolving standards of the Russian labor market, and as a result may encounter larger than expected operational costs. If the Bank cannot attract, train, retain and motivate qualified personnel, then it may be unable to compete effectively in the Russian banking industry and its growth strategies may be limited, which in each case could materially adversely affect the Bank's business, financial condition, results of operations and prospects.

The Bank may fail to manage its growth adequately

Overall growth in the Bank's business requires greater allocation of management resources away from day-to-day operations, continued development of its financial and information management control system, continued training of management and other personnel, presence of adequate supervision and maintenance of consistency of client services across extended regions throughout the Russian Federation. The Bank's failure to maintain its growth while at the same time maintaining adequate focus on existing business divisions may have a material adverse effect on its business, financial condition, results of operations or prospects.

The Bank's strategy includes a substantial expansion of its branch network and increase in the size of its overall loan portfolio in a relatively short period of time. Expansion of the Bank's branch network may entail significant investment, as well as increased operating costs. There is no guarantee that the Bank will achieve a positive return on the investment that it makes in the expansion of its branch network or that very rapid growth in the Bank's loan portfolio would not, over time, result in an overall decline in the credit quality of the expanded loan portfolio. Despite an increase in both Tier 1 and total capital, their respective ratios have decreased during 2006. The Bank expects that it may need to increase its charter capital in the future to continue to meet capital adequacy standards if it maintains its current rapid growth of loan portfolio. See also "- The Bank may be unable to assess adequately the credit risk of potential borrowers" and "- The Bank's loan portfolio may not continue to grow at the same rate".

The Bank will have the ability to incur more debt and this could increase the risks described above

The Bank may decide to incur additional debt in the future that will be senior to the Subordinated Loan Agreement. The Subordinated Loan Agreement contains no limitations on the Bank's ability to incur additional debt. If new debt is added to the Bank's current debt levels, the magnitude of the related risks described above could increase, and the foregoing factors could have an adverse effect on the ability of the Bank to pay amounts due in respect of the Subordinated Loan Agreement and, therefore, ultimately the Bank's ability to pay amounts due in respect of the Notes.

The Russian deposits insurance system is relatively new and there can be no assurance that implementation of the system will not negatively affect the Russian banking industry

On 26 October 2004, the CBR's banking oversight committee approved the Bank's participation in the retail deposits insurance scheme established by Federal Law No. 177-FZ "On Insurance of Deposits of Individuals in Banks of the Russian Federation", dated December 23, 2003 (the "Deposit Insurance Law"), which mandates protection of bank deposits of individuals. The Deposit Insurance Law establishes a deposit insurance scheme in which all Russian banks must participate or lose their ability to accept retail deposits and open bank accounts for individuals. The enactment of the Deposit Insurance Law is expected to strengthen competition in the retail deposit market as all Russian banks that choose to participate in the deposit insurance scheme will have the ability to offer protected deposits. The deposit insurance scheme is aimed at increasing the confidence in the banking system in Russia. Currently, the maximum limit of insurance coverage in respect of deposits of one individual with one bank is extended up to RUR400,000. There is no limit on the number of bank deposits which can be held by the same individual in order to be covered by the deposits insurance scheme. For 2006, the Bank had contributed approximately 5.4 per cent., of its operating income to the scheme and for the year ended December 31, 2005, the Bank had contributed approximately 5.4 per cent., of its operating income to the scheme. Although the Bank believes that it is currently in compliance with the requirements set out in the Deposit Insurance Law for participation in the deposit insurance scheme, if the CBR were to take action against the Bank for non-compliance with the retail deposit scheme, the Bank would not be able to accept retail deposits and open bank accounts for individuals which could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects. In addition, the CBR has required banks to comply with certain regulatory requirements on a daily basis. See "Banking Industry and Banking Regulation in the Russian Federation -Regulation of the Russian Banking Sector".

These and other recent changes in the Russian banking and financial regulations are aimed at bringing the regime more in line with that of more developed countries. However, due to the recent changes in the regulatory system, banks operate in a new and relatively unclear regulatory environment. It is difficult to forecast how the changes in banking and financial regulation will affect the Russian banking system and no assurance can be given that the regulatory system will not change in a way that will impair the Bank's ability to provide a full range of banking services or to compete effectively, thus materially adversely affecting the Bank's business, financial condition, results of operations or prospects.

If an existing license required by the Bank in connection with its operations is revoked, or the Bank fails to receive a license from the CBR or other relevant bodies when required, the Bank will be adversely affected

All banking and various related operations in the Russian Federation require specific licenses from the CBR and/or the Federal Service for Financial Markets ("FSFM"). The Bank has obtained such licenses in connection with its current banking operations. Although the Bank has been successful in obtaining CBR and FSFM licenses in the past, there can be no assurance that the Bank will be able to obtain new licenses in the future. Each of the CBR and FSFM may, in its discretion, impose additional requirements or deny the Bank's request for licenses, which may prevent the Bank from continuing its business and materially affect its financial condition, results of operations and prospects. The loss of or breach of the terms of, or the failure to obtain, a CBR or an FSFM license in the future would result in cash-flow difficulties and penalties such as fines imposed by the CBR and/or the FSFM on the Bank, which may, in turn, affect the Bank's ability to fulfill its payment obligations, including, without limitation, under the Subordinated Loan, and would have a material adverse effect on its business, financial condition, results of operations and prospects. A loss of the Bank's general banking license, will result in its inability to perform any banking operations.

In addition, if certain mandatory economic ratios are not met, the Bank is exposed to the risk that the CBR may impose sanctions on the Bank for such non-compliance. Such sanctions could include a fine, initiation of a temporary administration of the Bank by the CBR or revocation of its general banking license. Under Russian law, the CBR may appoint a temporary administrator for a term of four to six months if a bank fails to comply with CBR orders to remedy breaches, or if those breached by such a bank have created an actual threat to the interests of its creditors (depositors). A bank's general banking license may be revoked after the repeated imposition on the bank of other sanctions during the same calendar year.

Certain covenants in the Bank's debt agreements restrict its ability to borrow and invest, which could impair its ability to expand or finance future operations

On September 23, 2004, the Bank entered into a loan agreement (the "September Loan Agreement") with the Issuer, pursuant to which the Issuer extended a loan totalling U.S.$250 million to the Bank, which was funded by the issuance of the 2004 Notes by the Issuer. On April 21, 2005, the Bank entered into a syndicated credit facility (the "Syndicated Credit Facility") agreement with ABN AMRO Bank N.V., Deutsche Bank AG and other banks in relation to a syndicated loan of U.S.$200 million for a term of two years at an interest rate of LIBOR plus 1.6 per cent, per annum. On May 23, 2005, the Bank entered into a loan agreement (the "May 23 Loan Agreement") with the Issuer, pursuant to which the Issuer extended a loan totalling U.S.$300 million to the Bank, which was funded by the issuance of the 2005 Notes by the Issuer. On November 25, 2005, the Bank entered into a subordinated loan agreement (the "2005 Subordinated Loan Agreement") with the Issuer, pursuant to which the Issuer extended a subordinated loan totalling U.S.$300 million to the Bank, which was funded by the issuance of the loan participation notes (the "2005 Subordinated Notes") by the Issuer. On April 28, 2006, the Bank entered into a credit facility (the "USD 400 million Facility") with the Bank of Tokyo-Mitsubishi UFJ, Ltd., as arranger, for an aggregate principal amount of up to USD400 million. On May 10, 2006, the Bank entered into a loan agreement (the "May 10 Loan Agreement") with the Issuer, pursuant to which the Issuer extended a loan totalling USD500 million to the Bank, which was funded by the issuance of the 2006 Notes by the Issuer. On October 27, 2006, the Bank entered into a syndicated credit facility (the "October Syndicated Credit Facility") agreement with Deutsche Bank AG, West LB, Sumitomo Mitsui Banking Corporation and BNP Paribas as arrangers in relation to a syndicated loan of USD500 million for a term of two years at an interest rate of LIBOR plus 0.5 per cent, per annum. On November 22, 2006 the Bank entered into a loan agreement ("the November 22 Loan Agreement") with Barclays Bank PLC pursuant to which the Bank acquired the right to draw RUR 5,000,000,000 for a term of 3 years at a rate of 7.25 per cent. per annum. On December 14, 2006, the Bank entered into a subordinated loan agreement with ABN AMRO Bank N.V. for an amount of U.S.$100 million for a term of ten years and with optional redemption rights after five years (the "ABN AMRO Loan Agreement"). On March 12, 2007, the Bank entered into a syndicated loan agreement with ICICI Bank for an amount of U.S.$ 105 million for the term of three years at the rate of 6-month LIBOR plus 0.55 per cent. per annum (the "ICICI Loan Agreement"). On March 23, 2007, the Bank entered into a transaction with Barclays Bank PLC in an amount equivalent to RUR 5 billion for a term of two years (the "Barclays Loan Agreement"). The 2005 Subordinated Loan, the September Loan Agreement, the May 23 Loan Agreement, the May 10 Loan Agreement, the Subordinated Loan Agreement, the Syndicated Credit Facility agreement, the USD 400 million Facility, the October Syndicated Credit Facility agreement, the November 22 Loan Agreement, the ABN AMRO Loan Agreement, the ICICI Loan Agreement and the Barclays Loan Agreement and the USD400 million Facility contain a number of covenants that impose significant operating and financial restrictions on the Bank and certain of its subsidiaries. These restrictions, the terms of which vary in each of such agreements, significantly limit, and in some cases prohibit, among other things, the ability of the Bank and certain of its subsidiaries to incur additional indebtedness, create liens on assets, enter into business combinations or engage in certain activities with companies within the Bank's group. A failure by the Bank to comply with these restrictions would constitute a default under the September Loan Agreement, the May 23 Loan Agreement, the May 10 Loan Agreement, the 2005 Subordinated Loan Agreement, the Syndicated Credit Facility agreement, the USD400 million Facility, the October Syndicated Credit Facility agreement or the November 22 Loan Agreement and could result in a cross-default under other agreements to which the Bank is a party. In the event of such a default, the Bank's obligations under one or more of these agreements could, under certain circumstances, become immediately due and payable, which would have a material adverse effect on the Bank's business, financial condition, results of operations or prospects. Such failure would not enable the Noteholders to accelerate the prepayment of the Subordinated Loan by the Bank.

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

The risk-adjusted capital guidelines promulgated by the Basel Committee on Banking Supervision, or the Basel Accord, which form the basis for the capital adequacy guidelines of the CBR have come into force. The implementation of the Basel Accord in Russia is not expected to occur until after 2008. The effect these revised guidelines will have on the Bank's requirements for capital and its capital position are not currently known. If any future alterations to the capital adequacy standards under the Basel Accord with regard to limits on the deployment and use of capital require the Bank to maintain higher capital levels or limit the use of significant portions of the Bank's capital such that it is unable to execute its strategy of expanding its retail and SME lending business and maintain its traditionally strong position in corporate lending, this could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects.

Risks related to the Russian Federation and the City of Moscow

Governmental instability could adversely affect the value of investments in the Russian Federation

The course of reform carried out in the Russian Federation over the past years has in some respects been uneven, and the composition of the Government, in particular the prime minister and the other heads of federal ministries has at times been unstable. Future changes in the Government, major policy shifts or lack of consensus between President Putin, the Government, Russian parliament and powerful economic groups could disrupt or reverse economic and regulatory reforms.

The presidential elections scheduled for 2008 following the end of President Putin's second term may trigger a new wave of political instability in Russia. In addition, Mayor Luzhkov's term ends in 2007 and there is no assurance that he will be re-elected. The results of the presidential succession process or the mayoral elections could affect the Bank's business, financial condition, results of operations or prospects.

Conflict between federal and regional authorities and other conflicts could create an uncertain operating environment that would hinder the Bank's long-term planning ability and could adversely affect the value of investments in the Russian Federation

The Russian Federation consists of 86 regions (including the City of Moscow, the Bank's major shareholder), some of which exercise considerable autonomy in their internal affairs. In certain areas, the division of authority between federal and regional governmental authorities remains uncertain. Lack of consensus between local and regional authorities and the Government often results in enactment of conflicting legislation at various levels and may result in political instability. This lack of consensus hinders the Bank's long-term planning efforts and creates uncertainties in its operating environment, both of which may prevent the Bank from effectively and efficiently carrying out its business strategy. However, the recent amendments to Russian legislation whereby heads of regions are nominated by the President of the Russian Federation and appointed by regional legislatures (instead of direct election by the population) are designed to minimize conflict between federal and regional authorities and secure stability across the Russian Federation.

Additionally, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. The further intensification of violence, including terrorist attacks and suicide bombings, or its spread to other parts of the Russian Federation, could have significant political consequences, including the imposition of a state of emergency in some or all of the Russian Federation. Moreover, any terrorist attacks and the resulting heightened security measures are likely to cause disruptions to domestic commerce and exports from the Russian Federation, and could materially adversely affect the Bank's business and the value of investments in the Russian Federation, such as the Notes.

Investors in emerging markets, such as the Russian Federation, are subject to greater risks than in more developed markets, including significant political, legal and economic risks and risks related to fluctuations in the global economy

Investors in emerging markets, such as the Russian Federation, should be aware that these markets are subject to greater risks than more developed markets, including in some cases significant political, legal and economic risks. Emerging market governments and judiciaries often exercise broad, unchecked discretion and are susceptible to abuse and corruption. Emerging economies, such as the Russian economy, are subject to rapid change and the information set out herein may become outdated quickly. The economy of the Russian Federation, like other emerging economies, is particularly vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in the Russian Federation or other emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. These developments could severely limit the Bank's access to capital and could adversely affect the purchasing power of its clients and, consequently, the Bank's products and services.

Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who can bear losses and fully appreciate the significance of the risks involved.

If reform policies in the Russian Federation are not pursued or are pursued at a slower rate, the Bank's business and its ability to obtain financing could be harmed

Under President Putin, the political and economic situation in the Russian Federation has become more stable, thus creating better conditions for economic growth. While President Putin has maintained stability and policies generally oriented towards the continuation of economic reforms, changes in the government, major policy shifts or a lack of consensus among various influential political groups could disrupt or reverse economic and regulatory reforms. Notwithstanding initiatives to combat corruption, the Russian Federation, like many other markets, continues to experience corruption. Any deterioration of the investment climate in the Russian Federation could restrict the Bank's ability to obtain future financing in international capital markets thereby limiting its growth strategy and the Bank's business, financial condition, results of operations and prospects could be harmed if governmental instability recurs or if reform policies are reversed.

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

Since the dissolution of the Soviet Union, the Russian Federation has experienced:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of "black" and "grey" market economies;
- high levels of capital flight;
- corruption and extensive penetration of organized crime into the economy;
- social and governmental instability;
- lack of consensus between federal and local governments;
- ethnic and religious tensions;
- significant increases in unemployment and underemployment;
- high poverty levels among the population; and
- outdated and deteriorating physical infrastructure.

The Russian economic situation has improved significantly since the 1998 crisis. The gross domestic product is growing steadily at relatively high rates. The rate of inflation has decreased. The CBR has accumulated hard currency reserves comparable to and, in some instances, exceeding those of more developed economies. However, future downturns in the Russian economy are possible and could diminish demand for the Bank's products and services and its ability to retain existing clients and could prevent the Bank from executing its growth strategy. Future downturns in the Russian economy could also prevent the Bank from obtaining financing needed to fund its regional expansion, which could cause its business to suffer. Therefore, the Bank has carried out scenario analyses and stress tests with macroeconomic scenarios with adverse effects comparable to the 1998 crisis. The Bank closely monitors the possible adverse effects of such events on the Bank's business, financial condition and results of operations. See "Business - Asset, Liability and Risk Management - Credit, Market and Liquidity Risks". However, there can be no assurance that, notwithstanding these risk management initiatives, the Bank has appropriately prepared itself for all such possible crises.

Fluctuations in the global economy may adversely affect the economy of the Russian Federation and the Bank's business

The economy of the Russian Federation is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could affect the Russian economy. In addition, a number of the Bank's large corporate clients are primarily engaged in the extraction, production and/or export of oil, gas, iron ore and precious metals. The financial condition of each of these corporate clients partly depends on the extraction or prices of the relevant commodities. A decrease in the prices of these commodities or an increase in production costs that is not offset by a corresponding price increase may negatively impact the financial condition of these corporate clients and may result in, among other things, a decrease in the funds that such clients hold on deposit with the Bank, a reduction in the volume of foreign currency and/or investment operations which these clients carry out with the Bank, as well as possible defaults, or the need for increased allowances, with regard to their obligations to the Bank. These developments in the global economy and global markets could have an adverse effect on the Bank's business and prospects and the trading price of the Notes.

Further deterioration in the physical infrastructure could have a material adverse effect on the Bank's business

Further deterioration of the physical infrastructure of the Russian Federation may harm the national economy, disrupt the transportation of goods and supplies, add to the costs of doing business in the Russian Federation and, as a result, could have a material adverse effect on the Bank's business.

In May 2005, a fire and explosion in one of the Moscow power substations built in 1963 caused a major power outage in a large section of Moscow and some surrounding regions, which resulted in a suspension of half of the Moscow metro lines, leaving thousands of people blocked underground. The blackout also affected all the other types of electric-powered public transport, led to road traffic accidents and massive traffic congestion, disrupted electricity and water supplies in office and residential buildings and affected mobile communications. Trading on exchanges and the operation of many banks, stores and markets were also halted.

The Bank was directly affected by the blackout. The Bank's Moscow headquarters had to be switched to an emergency electricity generator. Six of the Bank's branches in Moscow were rendered inoperative for the duration of the blackout. While the Bank has implemented a number of measures designed to counter the effects of interruptions in the electricity supply, including installation of larger capacity generators at its Moscow headquarters, similar future disruptions could adversely affect the Bank's business and results of operations.

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investments and for business activity

The Russian Federation is still developing the legal framework required to become a market economy and the new legal regime was only established by the 1993 Federal Constitution. The Bank's business is subject to the Civil Code, other federal laws and decrees, orders and regulations issued by the President, the Russian Government and the CBR. These laws and regulations are supplemented by regional and local rules and regulations. Several fundamental Russian laws have become effective only recently and, as a result, there is little experience in the application of such laws and many provisions thereof are subject to different interpretations. The recent nature of much Russian legislation and the rapid evolution of the Russian legal system casts doubt on the enforceability and underlying constitutionality of certain laws and results in ambiguities and inconsistencies. The Russian Federation is a civil law jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions. Sometimes judges and courts of first instance are inexperienced in business and corporate law. Enforcement of court judgments can in practice be very difficult in the Russian Federation. In addition, Russian legislation occasionally leaves gaps in the regulatory regime. The risks of the current Russian legal system include: limited judicial and administrative guidance on interpreting Russian legislation, the relative inexperience of judges in interpreting Russian legislation and bankruptcy procedures that are not well developed and are subject to abuse.

The Russian currency control system could adversely affect the Bank's ability to make payments under the Subordinated Loan

Under the currency control regime established by Federal Law No. 173-FZ "On Currency Control and Regulation", dated 10 December 2003, as amended (the "Currency Law"), a limited number of requirements and restrictions can be imposed in respect of currency operations. For instance, in certain cases the Federal government and/or the CBR have the right to impose restrictions on parties performing currency transactions, such as performance of certain operations through special accounts. It is difficult to assess the effect that such restrictions have on the Bank's business or on the payments that the Bank will make under the Subordinated Loan, should the relevant regulations applicable to the Bank be adopted. Moreover, the Currency Law or related regulations may result in uncertainties or disputes in interpretation. As a result, there may be negative effects on the Bank's business and its ability to make payments under the Subordinated Loan. However, many of the restrictions set out in accordance with the Currency Law including the requirement to perform certain operations through special accounts to create obligatory interest-free provisions with the CBR fell away effective from July 1, 2006.

As of January 1, 2007, the requirement to perform settlements between residents and non-residents under the transactions with domestic securities (denominated in roubles or entitling to receive roubles) only in roubles unless otherwise provided by the CBR ceased to be in effect. This allows, among other things, non-residents of Russia to purchase the shares of Russian companies from Russian residents. In general, the current policy of the Russian Federation is aimed at a gradual liberalization of currency control regulations.

Changes in the Russian tax system could have a material adverse effect on the Bank

The Russian Federation has not finalized the reform of its tax policies, although this process has been ongoing since the early 1990s. During this period, numerous taxes and duties were introduced and abolished. Tax legislation in the Russian Federation changes frequently and some of the sections of the Russian Tax Code are relatively new. Taxes payable by Russian companies are substantial and include value added tax, excise duties, profit tax, payroll-related taxes, property taxes and other taxes. Federal and local tax laws and regulations of the Russian Federation are subject to frequent change, varying interpretations and inconsistent enforcement. In addition, the federal and local tax collection system increases the likelihood that the Russian Federation will impose arbitrary or onerous taxes and penalties in the future, which could adversely affect the Bank's business. In some instances, the Russian tax authorities have retroactively applied some provisions and rules despite this violating Russian law. Uncertainty related to Russian tax laws exposes the Bank to the risk of significant fines and penalties and to enforcement measures despite the Bank's best efforts at compliance and could result in a greater than expected tax burden. Changing conditions complicate tax planning and related business decisions. The Bank is a significant taxpayer and the introduction of new taxes or tax provisions or changes in interpretation of existing tax laws and regulations may affect its overall tax efficiency and may result in additional tax liabilities. As a result, the Bank could be required to increase its tax payments in the future, which may adversely affect its financial results.

Although the Bank will undertake to minimize such exposure with tax planning, there can be no assurance that additional tax exposure will not arise in the future. Additional tax exposure could cause the Bank's financial results to suffer. In addition, the financial statements of Russian companies of the same business group are not consolidated for tax purposes under Russian law. As a result, each entity in the Bank's group pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the Bank's group, which may result in higher taxes for the group overall than if taxes were assessed on a consolidated basis.

Foreign judgments may not be recognized in the Russian Federation

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognized by courts in the Russian Federation only if:

- an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country in which the judgment is rendered; and
- a federal law of the Russian Federation provides for the recognition and enforcement of foreign court judgments.

No such federal law has been passed and no such treaty exists between the United States or the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments. Thus, enforcement of court judgments against the Bank in the Russian Federation may be impossible. Also, the Subordinated Loan provides that controversies, claims and causes of action brought by any party thereto against the Bank may be settled by arbitration. The Russian Federation is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, it may be difficult to enforce arbitral awards in the Russian Federation due to a number of factors, including the lack of experience of Russian courts in international commercial transactions and their limited experience in the enforcement of foreign arbitral awards. Furthermore, there is a risk that, as the submission to arbitration in the Subordinated Loan is at the option of only one of the contracting parties, a competent court in Russia may not recognize such a submission to arbitration or any arbitral award that is given by any such arbitration proceedings. The possible need to re-litigate in the Russian Federation a judgment obtained in a foreign court or an arbitral award not so recognized on the merits may significantly delay the enforcement of such judgment. Under Russian law, certain amounts may be payable by the claimant upon the initiation of any action or proceeding in any Russian court. These amounts in many instances depend on the amount of the relevant claim. See "Enforceability of Judgments in the Russian Federation".

Russian bankruptcy and insolvency law differs from comparable law in Western European countries and the United States

Russian bankruptcy and insolvency law often differs from comparable laws in Western European countries or the United States and may be subject to varying interpretations. There is little precedent to predict how claims on behalf of the Noteholders against the Bank would be resolved in case of its bankruptcy or insolvency. In addition under Russian law, the Bank's obligations under the Subordinated Loan Agreement would be subordinated to, among others, the following obligations:

- Costs related to bankruptcy litigation;
- Claims of retail depositors and of retail customers who have other types of accounts with the Bank;
- Personal injury obligations (claims in tort);
- Severance pay and employment-related obligations;
- Secured and non-subordinated obligations; and

- Tax and other payment obligations to the Russian government;

In the event of the Bank's bankruptcy or insolvency, this subordination may substantially decrease the amounts available for repayment of the Subordinated Loan and, as a result, the Notes.

Rights of the Bank's shareholders and reporting and legal requirements

The Bank's corporate affairs are governed by its charter (the "Charter"), its internal regulations, including the corporate governance code, laws governing banks and companies registered in the Russian Federation. See "Management" and "Banking Industry and Banking Regulation in the Russian Federation". The rights of shareholders and the responsibilities of members of the Bank's Board of Directors and the Bank's Management Board under Russian law are different from, and may be subject to, certain requirements not generally applicable to companies organized in the United States, United Kingdom or other jurisdictions. See "Management".

A principal objective of the securities laws of the United States and the United Kingdom and certain other countries is to promote the full and fair disclosure of all material corporate information to the public. The Bank and its subsidiaries in the Russian Federation are subject to Russian law requirements, which obligate them to publish, amongst other things, annual financial statements and information on material events relating to the relevant company (such as, for example, major acquisitions and increases in share capital). However, there is less publicly available or other information about the Bank and its subsidiaries than the information regularly published by or about listed companies in the United States, the United Kingdom or certain other jurisdictions.

Federal Law "On Banks and Banking Activity", No. 395-1 dated December 2, 1990, as amended (the "Banking Law"), contains certain regular disclosure requirements, including the requirement to publish annual financial statements in accordance with Russian Accounting Rules ("RAR"). Due to the fact that the Bank's systems and processes are tailored to Russian statutory requirements, it takes the Bank longer than most Western companies to prepare its IFRS consolidated annual financial reports.

In accordance with the Banking Law, the Bank must publish quarterly reports in accordance with RAR within 29 days and file such quarterly reports with the CBR within 30 days of the end of the relevant quarter. Such reports prepared in accordance with RAR include certain financial information, including a balance sheet, income statement and information on its assets, capital reserves and allowances for problematic loans. The Bank began publishing annual IFRS financial statements starting with the year ended December 31, 2002.

In accordance with Russian legislation applicable to securities issuers, the Bank must also file quarterly reports prepared in accordance with RAR with the FSFM within 30 days after the end of the relevant quarter. Such reports include information about the Bank, its management, subsidiaries, affiliates, selected financial and business information (such as events of litigation and quarterly financial statements prepared in accordance with RAR) but do not contain all of the information contained in the IFRS Financial Statements.

Some transactions between the Bank and interested parties or affiliated companies require the approval of disinterested directors or shareholders and the failure to obtain these approvals could adversely affect the Bank's business

The Bank is required by the Joint-Stock Companies Law (as defined herein) and the Charter to obtain the approval of disinterested directors or shareholders for transactions with "interested parties". In general terms, "interested parties" include any of the Bank's shareholders that, together with their affiliates, own at least 20 per cent., of the voting shares of the Bank, members of the Board of Directors of the Bank, the President of the Bank or any entities in which these entities or individuals own a specified interest or occupy specified positions. Due to the technical requirements of Russian law, these same parties may be deemed to be "interested parties" also with respect to certain transactions between entities within the Bank's group. From time to time, the Bank and its subsidiaries engage in various transactions that require special approvals under Russian law, and the Bank's subsidiaries may engage in transactions that require "interested party" transaction approvals in accordance with Russian law. The failure to obtain the necessary "interested party" transaction approvals could have a material adverse effect on the Bank's business.

In addition, the concept of "interested parties" is defined by 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. The 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 transactions that are important to the Bank's business.

Shareholder rights provisions under Russian law may impose additional costs on the Bank, which could cause the Bank's financial results to suffer

Under Russian law, the Bank's shareholders who vote against or abstain from voting on some decisions have the right to sell their shares to the Bank at market value. The obligation of the Bank to purchase shares in these circumstances, which is limited to 10 per cent., of the Bank's net assets calculated at the time the decision is taken according to RAR, could have an adverse effect on the Bank's cash flow and the Bank's ability to service its indebtedness. The decisions that trigger this right to sell shares include:

- a reorganization;
- approval by shareholders of a "major transaction", the value of which comprises a certain percentage of the Bank's assets, calculated in accordance with RAR, in the event that the board of directors was unable to reach a unanimous decision to approve the transaction and regardless of whether the transaction is actually consummated; and
- an amendment of the Charter in a manner that limits shareholder rights.

Amendments to the Joint Stock Companies Law, which were adopted on 7 August 2001 and became effective on January 1, 2002, provide that shareholders who vote against or abstain from voting on a decision to place shares or convertible securities through a closed subscription (or private placement) have a pre-emptive right to acquire additional shares or convertible securities at the same price *pro rata* to the number of shares they own. This requirement may lead to further delays in completing offerings of equity and convertible debt securities and may lead to uncertainty with respect to sales of newly-issued shares to strategic investors and affect the Bank's ability to raise funds in the equity capital markets in the future.

Unlawful or arbitrary action by the regulatory authorities may have an adverse affect on the Bank's business and the value of an investment in the Notes

Regulatory authorities have a high degree of discretion in the Russian Federation and at times exercise their discretion arbitrarily, without hearing or prior notice, and sometimes in a manner that is contrary to law. Unlawful or arbitrary actions have included unscheduled inspections by regulators, suspension or withdrawal of licenses and permissions, unexpected tax audits, criminal prosecutions and civil actions. Unlawful or arbitrary regulatory action directed at the Bank could have a material adverse effect on the Bank's business, financial condition, results of operations or prospects and on the value of the Notes.

Developing securities laws and regulations in the Russian Federation may limit the Bank's ability to attract future investment and could subject the Bank to fines or other enforcement measures despite its best efforts at compliance, which could cause the Bank's financial results to suffer and harm its business

The regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in the Russian Federation than in the United States and Western Europe.

Disclosure and reporting requirements, anti-fraud safeguards, insider trading restrictions and fiduciary duties are relatively new to the Russian Federation and are unfamiliar to most Russian companies and managers. In addition, Russian securities rules and regulations can change rapidly, which may adversely affect the Bank's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in other areas impose requirements on Russian issuers not found in other markets and result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether certain regulations, decisions and letters issued by the various regulatory authorities apply to the Bank. The Bank may be subject to fines or other enforcement measures despite the Bank's best efforts at compliance, which could cause its financial results to suffer and harm its business.

Crime and corruption could disrupt the Bank's ability to conduct its business

Levels of organized criminal activity, particularly property crimes in large metropolitan centers, continue to be significant. In December 2004 and January 2005, bombs were reported to have exploded in the vicinity of the Bank's offices in Moscow. In addition, the Russian and international press have reported high levels of official corruption in the Russian Federation and the former Soviet Union, including the bribing of officials for the purpose of initiating investigations by the Government agencies. Additionally, published reports indicate that a significant number of Russian media regularly publish biased articles in exchange for payment. Reportedly, in March 2005, a CBR database containing confidential information about all interbank cash transfers during the period from April 2003 until September 2004 was illegally offered for sale in the market by computer hackers. Such database included information on corporate and individual customers of various Russian banks and their transactions. The Bank's business, and the value of the Notes, could be materially adversely affected by illegal activities, corruption or by claims implicating the Bank in illegal activities.

Inexperience and lack of independence of certain members of the judiciary and the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent the Bank or investors in the Notes from obtaining effective redress in a court proceeding, including in respect of expropriation or nationalization

The independence of the judicial system and its immunity from economic, political and nationalistic influences in the Russian Federation remains largely untested. The court system is understaffed and underfunded. The Russian Federation is a civil law jurisdiction and, as such, judicial precedents have no binding effect on subsequent decisions. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims. The Bank and/or its clients may be subject to such claims and may not be able to receive a fair trial. Furthermore, law enforcement agencies do not always enforce or follow court judgments.

Information that the Bank has obtained from the Russian Government and other sources may be unreliable

The Bank has extracted substantially all of the information contained in this Prospectus concerning the Russian banking market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and public filings made under various securities laws. The Bank accepts responsibility for correctly extracted and reproduced such information from its sources and confirms that such information has been correctly extracted and reproduced from its sources. However, the Bank has relied on the accuracy of such information without carrying out an independent verification. In addition, some of the information contained in this Prospectus has been extracted from official data published by Russian government agencies and the CBR.

The official data published by the Russian Government may be less complete and less reliable than similar data in the United States and Western Europe. Official statistics may also be compiled on a different basis than that used in Western countries. When reading this Prospectus, prospective investors should be aware that the Russian data and statistics that the Bank has included could be incomplete or inaccurate. In addition, because there are no current and reliable official data regarding the Russian banking market, including the Bank's competitors, the Bank has relied, without independent verification, on some publicly available information. This includes press releases and information from various private publications, some or all of which could be based on estimates or unreliable sources.

Risks related to the Trading Market

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Bank's own and its competitors' operating results, adverse business developments, changes to the regulatory environment in which the Bank operates, changes in financial estimates by securities analysts, and the actual or expected sale of a large number of Notes, as well as other factors. Historically, the market for non-investment grade debt, such as the Notes, has been subject to disruptions that have caused substantial volatility in the prices of such securities. Any such disruptions may harm Noteholders. 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 market price of the Notes without regard to the Bank's results of operations, prospects or financial condition. Additionally, the market for securities bearing emerging market risks, such as risks relating to Russia, may be volatile. Market conditions for such securities are, to a varying degree, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reactions to developments in one country may, and historically has, affected securities of issuers in other countries, including Russia. Any such volatility may adversely affect the liquidity of the market for, or the price of, the Notes.

Limited liquidity of the Notes

Although application has been made to list the Notes on the London Stock Exchange, there is currently no market for the Notes. There can be no assurance that a secondary market for any of the Notes will develop, or, if a secondary market does not develop, that it will provide the holders of the Notes with liquidity or that it will continue for the life of the Notes. Consequently, any Noteholders must be prepared to hold such Notes for an indefinite period of time or until the time of scheduled or actual redemption of the Notes.

Risks relating to the Counterparties

Trustee conflicts of interest

In connection with the exercise of its functions, the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

Legality of purchase

None of the Issuer, the Trustee, the Managers nor any affiliate of any such person assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective purchaser of the Notes (whether for its own account or for the account of any third party), whether under the laws of the jurisdiction of its incorporation or (if different) the jurisdiction in which it operates, or for compliance by that prospective purchaser (or any such third party) with any law, regulation or regulatory policy applicable to it.

Risks relating to the Issuer

The Issuer is a company with limited liability without significant operations or revenues (See "The Issuer"). As such, its only asset in respect of the financial servicing of the Notes is the Subordinated Loan and its ability to meet its obligations under the Notes will be dependent upon the payments of the Bank under the Subordinated Loan. Noteholders will be relying solely and exclusively on the credit and financial standing of the Bank in respect of the financial servicing of the Notes.

SELECTED FINANCIAL INFORMATION

The Bank's selected financial information presented below has been prepared in accordance with IFRS and derived or extracted from the bank's audited consolidated IFRS Financial Statements as at years ended December 31, 2006, 2005 and 2004. The selected financial information presented below should be read in conjunction with the IFRS Financial Statements included elsewhere in this Prospectus.

	As at and for the year ended December 31,					
	2006		2005		2004	
	RUR million	USD million(1)	RUR million	USD million(1)	RUR million	USD million(1)
Income Statement Data						
Net interest income (before provisions)	14,081.1	534.8	9,459.0	328.6	5,647.0	203.5
Net fee and commission income(2)	3,134.6	119.0	2,032.8	70.6	1,392.9	50.2
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	139.8	5.3	48.3	1.7	1,230.8	44.4
(Provision for)/recovery of provision for loan impairment	(1,345.9)	(51.1)	(645.3)	(22.4)	(513.9)	(18.5)
Profit before taxation and minority interest	7,628.6	289.7	5,222.2	181.4	4,014.6	144.7
Net profit attributable to shareholders of the Bank	5,623.6	213.6	4,010.3	139.3	3,094.2	111.5
Balance Sheet Data						
Loans to customers, net of provision for impairment	256,042.1	9,723.9	163,248.2	5,671.8	91,033.5	3,280.6
Financial assets at fair value through profit or loss	37,161.4	1,411.3	29,776.1	1,034.5	26,460.1	953.6
Total assets	382,258.8	14,517.4	245,769.4	8,538.8	158,836.3	5,724.1
Of which related party transactions	9,226.9	350.4	4,862.9	169.3	6,868.7	250.6
Customer accounts	259,501.1	9,855.3	168,524.8	5,855.1	116,953.4	4,214.7
Due to other banks	38,015.3	1,443.7	21,153,4	734.9	7,193.4	259.2
Debt securities issued by the Bank, including the 2004 Notes, the 2005 Notes and the Subordinated Notes	50,645.4	1,923.4	29,076.3	1,010.2	14,109.5	508.5
Total liabilities	350,289.4	13,303.3	222,065.7	7,715.3	139,363.1	5,022.3
Of which related party transactions	89,153.6	3,385.9	53,807.3	1,869.4	39,086.2	1,408.6
(Off-balance sheet liabilities, undrawn credit lines, guarantees and letters of credit issued)	34,418.4	1,307.1	36,364.6	1263.4	11,374.6	409.9
Total shareholders' equity	31,546.8	1,198.1	23,480.7	815.8	19,399.5	699.1

Notes:

(1) Translated at the official CBR rate of RUR 26,3311 = USD 1.00 as at December 31, 2006, RUR 28.7825 = USD 1.00 as at December 31, 2005 and RUR 27.7487 = USD 1.00 as at December 31, 2004 for information purposes only.

(2) Represents the aggregate of the following line items: fee and commission income and fee and commission expense.

SELECTED FINANCIAL RATIOS AND OTHER INFORMATION

The information below has been derived or extracted from the Bank's audited IFRS Financial Statements. The selected financial ratios and other information presented below should be read in conjunction with the IFRS Financial Statements included elsewhere in this Prospectus.

	As at and for the year ended December 31,		
Profitability Ratios	**2006**	**2005**	**2004**
Return on shareholders' equity[(1)]	20.44%	18.70%	19.23%
Return on total assets[(2)]	1.79%	1.98%	2.22%
Net Interest margin[(3)]	5.25%	5.51%	5.17%
Net interest spread[(4)]	4.67%	4.54%	4.58%
Non-interest expenses/net interest income before provisions for losses plus non-interest income[(5)]	53.85%	55.33%	53.73%
Non-interest expense as a percentage of net interest income before provisions for losses	74.21%	76.42%	92.17%
Non-interest expense as a percentage of average total assets	3.33%	3.57%	3.74%
Loan Portfolio Quality			
Classified loans/gross loans	7.25%	8.05%	1.21%
Non-performing loans/gross loans	0.60%	0.33%	0.33%
Allowance for loan losses/gross loans	1.29%	1.22%	1.40%
Allowance for loan losses/classified loans	17.73%	15.15%	116.38%
Allowance for loan losses/non-performing loans	213.53%	374.60%	423.32%
Balance Sheet and Capital Adequacy Ratios			
Customer deposits as a percentage of total assets	67.89%	68.57%	73.40%
Net loads as a percentage of total assets	66.98%	65.54%	57.31%
Tier 1 capital ratio (BIS)[(6)]	10.20%	11.10%	16.40%
Total shareholders' equity as a percentage of total assets	8.25%	9.55%	12.21%
Liquid assets as a percentage of total assets	28.91%	28.36%	35.0%
Risk weighted capital adequacy ratio	13.30%	15.70%	18.00%
Liquidity Ratios			
Net loans/total assets	66.98%	66.42%	57.31%
Net loans/client deposits	98.67%	96.87%	78.08%
Other information			
Change in CPI (period-end % year-on-year)	9.00%	10.90%	11.75%
Conversion factor inflating Russian Roubles (Based on CPI)	1.00	1.00	1.00

Notes:

(1) Net income divided by average total shareholders' equity. The average total shareholders' equity was calculated as an arithmetic average of the Bank's shareholders' equity as at December 31 of the preceding year and December 31 of the relevant year.

(2) Net income divided by average total assets. The average total assets were calculated as an arithmetic average of the Bank's total assets as at December 31 of the preceding year and December 31 of the relevant year.

(3) Net interest income divided by income generating average assets.

(4) Interest income divided by income generating assets, less interest expense divided by interest liabilities.

(5) This ratio does not include income/expense on foreign currency revaluation.

(6) Tier 1 capital calculated in accordance with the Bank for International Settlements methodology. See "Business—Capital Adequacy".

USE OF PROCEEDS

The Issuer will use the gross proceeds of the issue of the Notes for the sole purpose of financing the Subordinated Loan to the Bank. The proceeds of the Subordinated Loan, expected to be U.S.$400,000,000 before taking account of commissions and expenses, will be used by the Bank for general corporate purposes, which include, among other things, funding loans to major corporate clients and investment in consumer loan programs. Total commissions and expenses relating to the offering of the Notes are expected to be approximately U.S.$1,630,000. The net proceeds the Bank will receive from the offering, after paying estimated commissions and expenses incurred in connection with the offering and admission listing, will be approximately U.S.$398,370,000.

EXCHANGE RATES

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

	High	**Low**	**Average**(1)	**Period End**
		(RUR per U.S. Dollars)		
2007 (to and including March 31)	26.58	25.97	26.23	26.01
2006	28.48	26.18	27.09	26.33
2005	29.00	27.46	28.32	28.78
2004	29.45	27.75	28.73	27.75
2003	31.88	29.25	30.61	29.45
2002	31.86	30.14	31.39	31.78
2001	30.30	28.16	29.22	30.14
2000	28.87	26.90	28.13	28.16

Note:

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

CAPITALIZATION OF THE BANK

The following table has been extracted from the IFRS Financial Statements included elsewhere in this Prospectus and sets out the Bank's consolidated capitalization (excluding debt incurred in the normal course of the Bank's banking business) as at December 31, 2006, calculated in accordance with IFRS, and as adjusted to reflect the borrowing under the Subordinated Loan Agreement.

	As at December 31, 2006			
	Actual	**As adjusted**[(1)]	**Actual**	**As adjusted**[(1)]
	RUR million		*In USD million*[(2)]	
Total short term debt	2,018.9	2,018.9	76.7	76.7
Long term debt				
Borrowing under the Subordinated Loan Agreement	–	10,532.4	–	400.0
Loans from Kuznetski Capital S.A.	35,934.4	35,934.4	1,364.7	1,364.7
Other borrowings	36,892.1	36,892.1	1,401.1	1,401.1
Total long term debt	**72,826.5**	**83,358.9**	**2,765.8**	**3,165.8**
Total debt	**74,845.4**	**85,377.8**	**2,842.5**	**3,242.5**
Share capital[(3)]	14,786.8	14,786.8	561.6	561.6
Issuance income	2,346.4	2,346.4	89.1	89.1
Treasury stock	(11.5)	(11.5)	(0.4)	(0.4)
Fair value reserve for securities available for sale	0.5	0.5	0.0	0.0
Revaluation of premises				
Revaluation of premises	358.2	358.2	13.6	13.6
Accumulated exchange differences	(64.0)	(64.0)	(2.4)	(2.4)
Retained earnings	14,130.4	14,130.4	536.6	536.6
Shareholders' equity	**31,546.8**	**31,546.8**	**1,198.1**	**1,198.1**
Total capitalization	**106,392.2**	**116,924.6**	**4,040.6**	**4,440.6**

Notes:

(1) Adjusted figures correspond to the capitalization of the Bank as at December 31, 2006, as adjusted to reflect borrowings under the Subordinated Loan Agreement as if such borrowings had occurred on December 31, 2006.

(2) Translated at a rate of RUR 26,3311 = USD1.00 as at December 31, 2006 for information purposes only.

(3) Includes an adjustment of capital due to hyperinflation.

BUSINESS

The Bank's financial information set forth herein, unless otherwise indicated, has been extracted or derived from its IFRS Financial Statements as at and for the years ended December 31, 2006, 2005 and 2004 included on pages F-1 through F-123 of this Prospectus.

Overview

The Bank is one of the largest commercial and retail banks in the Russian Federation, as measured by assets, capital and volume of retail client deposits. According to *Kommersant Dengi* magazine, a Russian business weekly, as at December 31, 2006, the Bank was the third largest Russian bank in terms of the volume of retail deposits, the fourth largest bank in the Russian Federation in terms of assets and the fifth in terms of commercial loan portfolio. The Bank offers a wide range of banking services including corporate and retail lending, deposit, payment and account services, foreign exchange and foreign trade operations, cash handling services, operations with precious metals, asset management and investment banking, custody services and other ancillary services to retail clients and commercial and governmental entities. To attract new corporate customers, the Bank develops products and services targeted at small and medium size enterprises, or SMEs, and large companies, including those owned by financial and industrial groups that do not include major credit institutions. In all areas of its business, the Bank is developing and launching new products and services in order to be able to offer a more diversified package of banking services available to its current and potential customers.

The primary business areas of the Bank are:

- *Corporate banking* – which comprises products and services including corporate lending, syndicated loan services, investment banking services, trade finance, foreign trade and exchange operations, guarantees and payment and account services;
- *Retail banking* – which comprises a broad range of products and services including current (demand) and deposit (term) accounts in both Russian Roubles and foreign currencies, retail lending including overdraft facilities, mortgage loans, consumer loans, car loans, credit and debit card services (as a member of VISA International, MasterCard International and the Russian payment system Union Card, as a sub-licensee of Diner's Club International and as a distribution agent of American Express), money transfers, asset management and Internet and telephone banking;
- *Asset management* – which comprises private banking, pension and fund management services;
- *Investment banking* – which comprises underwriting and arrangement of domestic and foreign debt issuances; and
- *Treasury and proprietary securities trading activities* – which comprises securities trading, foreign exchange, money market transactions, operations with precious metals and custody services.

The Bank was originally registered under Russian legislation as OAO "Moscow Settlements Bank" in March 1994. It received its initial banking license on March 15, 1994. The Bank currently operates on the basis of general banking license No. 2748, issued by the CBR on October 14, 2004. The Bank also holds a professional securities market participant license and a license for trading in precious metals. The Bank's principal registration number recorded in the Unified Registry of Legal Entities is 1027700159497. The updated statutory and other documents of the Bank may be inspected at its registered office at Ul. Rozhdestvenka, 8/15, Building 3. Article 4 of the Charter lists the Bank's main objectives. The telephone number of the Bank is +7 495 745 8000. The Bank's name was changed to "Moscow Municipal Bank – The Bank of Moscow" on March 22, 1995. The annual general shareholders' meeting held on June 25, 2004, approved a change of the Bank's name to "Joint

Stock Commercial Bank – Bank of Moscow" (Open Joint Stock Company). The name change was registered by the CBR on September 13, 2004.

In March 1995, the Mayor of the City of Moscow issued an order for the City of Moscow to purchase shares of the Bank in order to:

- improve clearance services for the implementation of the City of Moscow budget and for budget and off-budget accounts maintained by municipal entities and organizations;
- exercise close control of the application of budget funds;
- ensure day-to-day management of temporarily available budget funds;
- expand the banking infrastructure in the City of Moscow;
- provide banking facilities to major municipal programs aimed at attracting funds from Moscow-based retail customers and other commercial and governmental entities;
- ensure the implementation of foreign economic programs and the privatization program in Moscow;
- enhance the management of the City of Moscow's interests in commercial and municipal entities;
- arrange the issuance of municipal securities;
- improve business involving real estate owned by the City of Moscow; and
- carry out independent evaluations of investment projects and programs as requested by the City of Moscow.

Since 1995, the City of Moscow represented by the City of Moscow Property Department (prior to 1998, represented by the Moscow Property Fund and the City of Moscow Property Management Committee) has been the majority shareholder of the Bank. As at March 31, 2007, the City of Moscow owned, directly and indirectly, 59.96 per cent. of the issued and outstanding share capital of the Bank. In January 2007, the Bank obtained written confirmation from the City of Moscow addressed to counterparties of the Bank indicating that the City of Moscow confirms its readiness to provide comprehensive assistance and support for the conclusion and subsequent performance of the agreements which the Bank has and may enter into in the future with foreign government and non-government institutions. This written confirmation, which has not been revoked or modified, is not, however, legally binding on the City of Moscow and does not constitute a guarantee by the City of Moscow of the Bank's payment obligations in respect of the Subordinated Loan. In addition, no funds have been specifically reserved in the City of Moscow's municipal budget for the payment of any financial obligations of the City of Moscow arising out of this confirmation.

The Bank believes that it has a strong franchise and brand name in Moscow and the Moscow region. The Bank is currently trying to leverage its franchise and brand recognition to expand its operations both in Moscow and in other Russian regions. Almost half of the Bank's loans are to borrowers in Moscow and the Moscow region (representing approximately 49 per cent. of the Bank's aggregate loan portfolio as at December 31, 2006). As at December 31, 2006, the Bank operated 49 full service offices and 52 sub-offices in Moscow and the Moscow region that provide a more limited range of services. In addition, the Bank had 470 desks in Moscow post offices, which distribute the Bank's retail products. As at December 31, 2006, the Bank also operated 51 branches outside Moscow and the Moscow region offering a wide range of banking services. These 51 branches also supervised a further 157 sub-offices. As at December 31, 2006, the Bank had a presence in 56 regions of the Russian Federation, including major cities, across the Russian Federation from St. Petersburg and Kaliningrad in the Northwest to Vladivostok and Petropavlovsk-Kamchatsky in the Far East. The regional presence of the Bank is enhanced through co-operation with local banks, such as OAO AKB "Zarechye" (Kazan, Republic of Tatarstan), in which the Bank holds a minority interest.

In addition, the Bank owns four foreign subsidiaries: Moscow-Minsk Bank, in Minsk, Byelorussia, Latvian Business Bank, in Riga, Latvia, Eesti Krediidipank, in Tallin, Estonia and BM Bank, in Kiev, Ukraine. In November 2004, the Bank continued its international expansion by opening a representative office in Frankfurt-am-Main, Germany. The Bank also has correspondent accounts for approximately 200 domestic banks and has a direct correspondent relationship with approximately 550 foreign banks, including Bank of China, Barclays, BNP Paribas, Dresdner Bank AG, HSBC, Deutsche Bank AG, JP Morgan Chase Bank, State Bank of India, UBS AG and others.

The Bank is a member of the Bill of Exchange Market Participants Association (AUVER), the Forwards Section of MICEX, the Russian Trading System (RTS), the National Securities Market Participants Association (NAUFOR), the Securities Trading Section of MICEX, the Association of the Russian Banks, the National Securities Association, the Moscow International Currency Association (MMVA), the National Currency Association (NVA), the Professional Association of Registrars, Transfer Agents and Depositories (PARTAD), the Moscow Industrialists and Entrepreneurs Confederation, the Moscow Chamber of Commerce and Industry and the Russian Industrialists and Entrepreneurs (Employers) Union.

Business Strategy

The Bank's strategic objective is to strengthen its position among the largest banks in the Russian Federation, as measured by key business indicators. To achieve this, the Management Board of the Bank has approved a medium-term strategy, which includes the following key initiatives:

Further developing its leading position in key sectors of the Russian banking market. According to independent sources, in terms of various parameters including assets, number of corporate clients, number of retail clients and the aggregate amount of its commercial loan portfolio, the Bank currently consistently ranks among the ten largest banks in the Russian Federation, and among the top five banks in the Russian Federation. The Bank's objective is to provide high-quality, reliable banking services to all clients (retail customers as well as commercial and governmental entities) throughout the Russian Federation in order to strengthen its position in the Russian banking market as a modern, first-class bank. The Bank plans to maintain its primary focus on the Russian banking market, as well as strengthening its operations outside the Moscow region through the expansion of its branch network. It also believes that there is significant opportunity to expand the range of its products and services as the Russian banking market develops and matures and that this can be done without significant detriment to the quality of its loan portfolio.

Maintaining its strong commitment to capital and risk management. The Bank believes that the capitalization of the Bank after its eleventh capital increase registered with the CBR on April 16, 2007, together with internal capital generation, has helped the Bank maintain adequate capital ratios. The Bank plans to allocate its capital to higher margin products and services and to products and services in developing and expanding markets. The Bank believes its risk management processes are effective. It believes that maintaining its focus on vigorous risk management is essential to maintaining a strong capital position. A decrease in the Bank's capital adequacy ratios as at December 31, 2006 compared to December 31, 2005 indicates that the Bank may need to increase its charter capital in the future in order to match its current growth.

Improving its recurring profitability. The Bank believes that one of its key challenges is to improve recurring profitability by focusing on revenue diversification, market oriented policies, controlling costs, diversification of its client base and the introduction of new business lines. The domestic corporate bond market is currently expanding, opening new opportunities for investment banking activities and asset management. Additionally, public and business confidence in the leading Russian banks is growing, making it possible for the Bank to attract new and retain existing corporate and retail customers.

Expanding its branch network. The Bank has loans to customers located in 56 of the 86 regions of the Russian Federation. While the Moscow region will remain the Bank's priority among Russian regions, further expansion of the Bank's regional network will aid in further decreasing the geographic concentration of its business. It therefore plans to continue to expand its representation in the major economic centers of the Russian Federation.

Attracting additional corporate business. The Bank expects its corporate lending to continue to grow in the medium term. The Bank has identified a number of new lending opportunities and demand from small and medium-sized enterprises ("SMEs"), in particular, for short-term and medium-term loans to cover their working capital needs as well as for account services. Non-performing or problematic loans in the corporate lending sector are likely to grow slightly as a percentage of the Bank's total loan portfolio as a result of expanding its customer base to SMEs. However, the Bank believes that the diversification of its customer base will help it to attain a more stable funding base, independent of the City of Moscow and its affiliates, while maintaining a strong credit risk profile.

Attracting additional retail clients. The rapid development of the retail banking market is one of the key features in the development of the present-day banking system in the Russian Federation. The general public is gradually becoming a key source of income for banks in the Russian Federation. The Bank aims to continue to strengthen its position as a leading Russian retail bank by increasing the volume of funds attracted from retail customers. The initiatives the Bank is taking to achieve this include:

- *Expanding and strengthening the Muscovite Social Card project in partnership with VISA International.* The Muscovite Social Card is a combination of a bank debit card, a form of identification card, an insurance identification card and a Moscow public transportation travel card. The Bank believes that the project will have a highly beneficial effect on its retail banking franchise in Moscow since a potential cardholder must also open an account with the Bank.

- *Enhancing its retail lending product range to include such products as credit cards, mortgage loans, car loans and score-based loans*. Since 2002, the real income of the Russian population has been growing, and the Bank believes that this increase should create greater demand for consumer loans. The Bank believes the market in consumer and mortgage lending is currently underdeveloped and aims to meet this increased demand through an expanded range of loan product offerings.

- *Enhancing private banking services*. The Bank believes that the increase in real income of the Russian population, especially in Moscow and the Moscow region, will lead to opportunities in the private banking sector which the Bank believes is currently underdeveloped and the Bank plans to extend its range of customer-tailored products to meet the demands of wealthy individual customers.

- *Expanding its relationship with the City of Moscow to attract more retail deposits*. The Bank's relationship with the City of Moscow helps to ensure that the Bank is a well-recognized brand, not just in Moscow but also across the Russian regions, and the Bank intends to further develop its relationship with the City of Moscow to attract more retail deposits by participating in new projects which may be initiated by the City of Moscow in the future.

- *Participating in pension fund management*. Recent reforms of the state pension system in the Russian Federation now allow Russian citizens to transfer a percentage of their state pension contributions to a private fund management company approved by the Government. The strategic partner of the Bank is authorized to manage pension funds of Russian citizens. This company has attained a leading position among private pension funds management companies, serving approximately 100,000 customers.

Market Position and Competitive Strengths

The Bank has a leading market position among the top banks in the Russian Federation that offer a wide range of corporate and retail products and services.

The Bank believes its strong market position is attributable to a combination of the following competitive advantages:

- ***Relationship with the City of Moscow***. The Bank leverages its relationship with the City of Moscow to help it create a strong brand in the Russian banking market. The Bank believes that its affiliation with the City of Moscow is a strength in attracting both retail and corporate clients. Additionally, business from the City of Moscow has given the Bank a capital base from which it is able to finance the expansion of its other businesses and attract other clients.

- ***Risk management policies and procedures***. The Bank's risk management policies and procedures are supported by sophisticated risk analysis tools. The Bank believes that the quality of its risk analysis tools is a key reason for the relatively low level of its non-performing loans. Its conservative approach is central to its strategy in all of its businesses.

- ***Experienced management***. The Bank's senior management team has extensive experience in the banking industry. Members of senior management have had experience working in the banking sector in the Russian Federation, other CIS countries and outside the CIS. In 2006, Profile magazine ranked Andrei F. Borodin, the President and Chairman of the Management Board, as the third most influential Russian financier. Mr. Borodin previously won the "Best Banker of the Year in Russia" award in 2000 and 2001 (by The Banker magazine) and the "Best Manager of the Year in Russia" award in the financial sector in 2001 and 2003 (by The Company magazine).

- ***Independence from Russian financial and industrial groups***. The Bank is not controlled or affiliated with any Russian financial or industrial group. Therefore, the Bank can conduct business with companies that compete with one another and such businesses are unlikely to refuse to do business with the Bank on the basis of any affiliation with a competitor. The Bank believes that its non-affiliation with any financial or industrial group makes it easier for it to expand and diversify its corporate customer base and maintain industry concentrations in its loan portfolio within acceptable levels.

Competition

The Bank faces competition from many foreign and domestic banks in each of the different business areas and regions of the Russian Federation in which it operates. According to the CBR, as at December 31, 2006, 1,189 banks and other non-bank credit organizations were operating in the Russian Federation. The Russian banking industry is highly concentrated in Moscow and the Moscow region, where approximately 51.0 per cent. of all Russian banks were based as at December 31, 2006, according to the CBR. The Russian banking sector is also characterized by a high level of concentration of capital. According to the CBR, as at December 31, 2006, approximately 90.7 per cent. of the banking sector's total assets were held by the 200 largest Russian banks. Sberbank remains the largest bank in the Russian Federation in terms of assets, volume of banking operations, client base and number of branch offices.

In the corporate banking sector, the Bank competes to attract those corporate clients that can provide significant volumes of business and that have an interest in developing a long-term working relationship. A number of the Bank's competitors have affiliations with industrial groups and thus have easier access to these large corporate clients. Other banks have strong branch networks so that the Bank also competes with them on a regional basis. The Bank faces strong competition from foreign banks in the corporate lending market since they are often able to offer potential borrowers better lending terms, including lower interest rates. The Bank also faces increased competition as a result of recent and proposed Russian banking reforms lifting many of the restrictions imposed on foreign banks, which have, thus far, limited their access to the Russian banking market. The Bank considers its primary competitors among Russian banks in the corporate and retail financing sectors to be Sberbank, VTB, Gazprombank, Rosbank, Alfa Bank and Uralsib and among foreign banks to be International Moscow Bank, Raiffeisenbank and Citibank. The Bank views Russian Standard Bank and HCFB as major competitors in the consumer loan sector of retail banking. In the investment banking sector, the Bank considers its primary competitors to be VTB, Rosbank, Gazprombank, Troika Dialog and Renaissance Capital.

Although the Bank competes with the same group of Russian banks across its retail products as it does on the corporate side, it mainly competes with foreign banks in the private banking products and services offered to high net worth retail customers. The Bank believes that the retail services market in 2006 has been influenced by a number of factors, including:

- increased competition from the leading retail market operators - primarily, Sberbank and VTB;
- the aggressive entry into the market, including through acquisitions, by relatively new players such as Rosbank and Uralsib, which are rapidly expanding their branch networks. This may instigate some redistribution of deposits among banks in the retail sector; and
- the continued efforts of foreign banks to attract wealthy Russian retail customers.

The Bank believes that over the next few years the banking environment will be characterized by tougher competition, lower profit margins and tightening of banking supervision, which will result in the further consolidation of the banking sector. In addition, the Bank believes that the top 20 banks will have to increase their capitalization, expand their branch networks and offer leading Russian companies banking products that are able to compete with those provided by foreign competitors.

The Bank also expects to see an increase in the range of banking products and services provided by major foreign credit institutions under the Currency Law. The Bank believes that the removal of most of the restrictions related to banking services provided by foreign credit institutions to Russian residents will increase competition for the customer base available to Russian banks and will affect the competitive position of domestic banks that lend to major corporate customers.

Despite such new competition, the Bank expects its business relationship with its traditional customers to continue to strengthen. See, however, "Risk Factors – Risks Related to the Bank's Business and Industry – The Bank may lose some or all of the City of Moscow's business". The Bank intends to focus its strategy on the further development of its product range, and on the development of its Moscow and regional network, which it considers to be one of the key competitive factors for the retail banking market. The Bank also intends, to the extent market conditions permit, to maintain the interest rates it offers to its retail and corporate clients at a level comparative with other major banks.

Banking Services and Activities

The Bank offers a wide range of banking services, including lending, securities trading, deposit, payment and account services, foreign exchange and foreign trade operations, cash handling services, operations with precious metals, custody services and other ancillary services to retail clients and commercial and governmental entities.

Corporate Banking

The Bank's products and services to commercial and governmental entities (including entities of the City of Moscow and the state enterprises owned by the City of Moscow) include corporate lending, syndicated loan services, investment banking services, trade finance, foreign trade and exchange operations, guarantees and payment and account services. The Bank is committed to increasing the range and volume of its services to commercial and governmental entities and developing long-term relationships with them. The Bank strives to anticipate the needs of its clients and the new trends developing in the Russian banking sector. See "– Business Strategy".

Customer Base. The Bank provides corporate banking products and services to a variety of commercial and governmental entities including federal, regional and municipal authorities and entities partly– or wholly-owned by them. As at December 31, 2006, the Bank had over 92,300 corporate and governmental clients. Many of the Bank's customers are subject to the influence of the City of Moscow although they are not considered to be related parties for IFRS purposes. See "Risk Factors – Risks Related to the Bank's Business and Industry – The Bank may lose some or all of the City of Moscow's business" and "Related Party Transactions". The Bank's corporate customer base represents some of the most dynamic sectors of the Russian economy, including:

- manufacturing;
- construction;
- financial services;
- trade; and
- fuel and energy.

Examples of the Bank's corporate clients are OAO Helicopter Plant of Kazan and state enterprise "Uralvagonzavod" in the manufacturing sector, OAO Clavmosstroy Holding and ZAO Inteko in the construction sector, large enterprises such as OAO Central Fuel Company, OAO Moscow Fuel Company, OAO "Itera" and OAO "Mosenergo" ("Mosenergo") in the fuel and energy sector, state enterprise "Mosgortrans" and OAO "Russian Railways" in the transportation sector, entities such as retail companies "Metro Cash & Carry", "Tehnosila", "Euroset", "Pharmacy chain 36,6", financial companies such as "Troika Dialog", MICEX and one of the world's largest diamond producers AK ALROSA (ZAO) in other sectors. The Bank is also expanding its loan portfolio to include clients in the chemical and petrochemical, machine building and metal working, food, ferrous and non-ferrous metallurgy, petroleum production, coal mining, light industry and communications sectors.

The City of Moscow. The City of Moscow is a significant client for the Bank's corporate banking business. As at December 31, 2006, the City of Moscow and more than 1,000 of its municipal entities deposited a significant portion of their budget funds with the Bank. Budget funds of the City of Moscow and these entities accounted for approximately 29.0 per cent. and 4.9 per cent., respectively, of the Bank's total deposit portfolio (or approximately 21.5 per cent. and 3.6 per cent., respectively, of the Bank's total liabilities) as at December 31, 2006, compared with 26.4 per cent. and 4.6 per cent., respectively, (or approximately 20.1 per cent. and 3.5 per cent., respectively) as at December 31, 2005, and with approximately 28.1 per cent. and 5.4 per cent. (or approximately 23.5 per cent. and 4.5 per cent.) as at December 31, 2004. Related party lending, as defined in the IFRS Financial Statements, which includes lending to the City of Moscow its municipal entities and associated companies, accounted for approximately 2.3 per cent. of the Bank's gross loan portfolio as at December 31, 2006 compared with approximately 2.5 per cent. as at December 31, 2005. As at December 31, 2006 most of those loans consisted of loans to enterprises owned by the City of Moscow totaled RUR 5.97 billion, and as at December 31, 2005 of loans to municipal entities of the City of Moscow totaled RUR 4.2 billion. Related party lending and loans to municipal entities of the City of Moscow accounted for 4.0 per cent. and 3.9 per cent. of the Bank's gross loan portfolio, respectively, as at December 31, 2004.

The Bank has also been involved in the financing of certain City of Moscow projects, generally on a competitive tender basis, since 1995. In addition, the Bank finances, on commercial terms, companies that carry out contractual work for the City of Moscow. The Bank conducts business with the City of Moscow on an arm's length basis and on market terms. The Bank has extended loans to major Moscow construction companies that operate in such large Moscow development areas as Butovo, Maryinsky Park and Kurkino. The Bank's participation in financing residential property construction in Moscow since 2000 has facilitated the construction of over two million square meters of housing. The Bank also lends funds to construction companies involved in social projects such as the construction of schools and hospitals. Socially important highways and bridges, such as the Third Transportation Ring, the Lefortovo Tunnels and several Moscow Metro stations, were constructed using financing from the Bank. The Bank has also financed municipal projects, including the reconstruction of Moscow Manezh and the Moscow Planetarium. In cooperation with the City of Moscow, the Bank also implements major social projects launched by the City of Moscow (e.g., the Muscovite Social Card and the single communal payment document described under "– Retail Banking – Banking Cards" below). For more information on the Bank's relationship with the City of Moscow, see "Risk Factors – Risks Related to the Bank's Business and Industry – The Bank may lose some or all of the City of Moscow's business" and "Related Party Transactions".

Currently, the Bank is involved in financing the modernization of Leningradsky prospect, construction of tunnels and overpasses on the Krasnopresnenskoye Highway (the Serebryany Bor tunnels) and the renewal of the national park-museum Tsaritsyno. The major borrowers for these projects include leading companies of the Moscow construction industry, such as Glavmosstroy Holding, SU-155, Mosinzhstroy and Transstroy Corporation. In addition, the Bank is involved in financing the construction of high-rise buildings that are part of the Moscow New Ring program.

The financing of municipal projects is conducted through short-term and medium-term lending, tenders and other guarantees granted to companies that carry out municipal contract work, letters of credit issued to customers and participation in investment projects. As at December 31, 2006, loan products given by the Bank to finance municipal projects totaled RUR 32 billion compared to RUR 45.0 billion and RUR 32.6 billion during 2005 and 2004, respectively.

In January 2007, the Bank obtained written confirmation from the City of Moscow, addressed to counterparties of, the Bank, indicating that the City of Moscow confirms its readiness to provide comprehensive assistance and support for the conclusion and subsequent performance of the agreements which it has and may enter into in the future with foreign government institutions. This written confirmation, however, is not legally binding on the City of Moscow and does not constitute a guarantee by the City of Moscow of the Bank's payment obligations in respect of the Subordinated Loan. In addition, no funds have been specifically reserved in the City of Moscow's municipal budget for the payment of any financial obligations of the City of Moscow arising out of this confirmation. See "Risk Factors – Risks Related to the Bank's Business and Industry – The City of Moscow may significantly influence the Bank and its interests may conflict with those of Noteholders".

Products and Services

Corporate lending. The Bank offers a wide range of credit products to corporate clients, including loans, credit lines, overdrafts and bank guarantees. As at December 31, 2006, approximately 85.9 per cent. (compared to approximately 90.8 per cent. and 94.8 per cent., as at December 31, 2005 and 2004) of the Bank's total loan portfolio comprised loans to commercial and governmental entities as part of its corporate banking business. Loan terms vary depending on each particular client's needs, risk limits and the Bank's capital position. Approximately 70.0 per cent. of corporate loans are evaluated and extended based on standard credit risk evaluation procedures and approximately 30.0 per cent. of corporate loans are approved by the Bank's management on a case-by-case basis. See "– Lending Policies and Procedures – Collateral".

As at December 31, 2006, the gross corporate loan portfolio of the Bank grew by approximately 48.4 per cent. to approximately RUR 222.8 billion from approximately RUR 150.2 billion, as at December 31, 2005, compared with a 71.5 per cent. increase from approximately RUR 87.6 billion, as at December 31, 2004. As at December 31, 2006, 35.9 per cent. of the loan portfolio had a maturity profile of less than six months and 64.9 per cent. was due within one year compared with 40.2 per cent. and 71.6 per cent., as at December 31, 2005 and with 39.5 per cent. and 84.1 per cent., as at December 31, 2004. Lending is predominantly Rouble-denominated; approximately

66.3 per cent. of the loan portfolio as at December 31, 2006 was Rouble-denominated, compared with 70.3 per cent. as at December 31, 2005. Loans denominated in foreign currencies are generally extended to corporate clients with revenues denominated in foreign currencies.

In 2006, the Bank launched a new range of loan products to SMEs. Loans outstanding of the Bank to SMEs represent approximately 10 per cent of its corporate loan portfolio.

As at December 31, 2006, the ten largest corporate borrowers accounted for approximately 18.2 per cent. of the total gross loan portfolio of the Bank, compared with approximately 17.1 per cent. as at December 31 2005 and with approximately 23.0 per cent. as at December 31, 2004.

The Bank lends to organizations across a variety of industries. The most significant increase in lending during 2004, 2005 and 2006 was to the manufacturing, construction, financial and other services, trade sectors and lending to individuals. See "– Customer base" and "Risk Factors – Risks Related to the Bank's Business and Industry – The Bank may lose some or all of the City of Moscow's business".

Syndicated loans. The Bank believes that there are substantial business opportunities in the syndicated loans sector in the Russian Federation. The Bank has been a pioneer in arranging international syndicates for loan facilities governed by Russian law. It was also the first Russian bank to arrange a syndicated loan facility governed by English law in the international market. Among the Bank's syndicated loan projects was the USD 91.5 million syndicated loan to AK ALROSA (ZAO) in September 2002, the first Russian syndicated loan co-managed by a number of international banks and governed by Russian law. Other projects include the USD 16 million syndicated loan in August 2003 to state enterprise "Kristall", the largest European diamond cutting factory, for which the Bank acted as lead manager. In December 2003, the Bank acted as an arranger and largest lender in a USD 9.0 million/RUR 360.0 million dual currency syndicated loan for KMB Bank. The Bank acted as a sole mandated lead arranger, bookrunner and a facility agent for a RUR 1 billion debut syndicated loan for the Republic of Sakha (Yakutia) in October 2004 and for a RUR 1.65 billion second syndicated loan for the Republic of Sakha (Yakutia) in September 2006. In 2004, the Bank was the only Russian bank ranked by Euromoney magazine among the top-20 bookrunners of Russian syndicated loans. In October 2005, the Bank acted as an arranger in a USD 50 million/RUR 1 billion dual currency syndicated loan for Pharmacy Chain 36.6. In May 2006, the Bank acted as a sole mandated lead arranger and a facility agent for a RUR700 million debut syndicated loan for the City of Novosibirsk. In September 2006, the Bank acted as a sole mandated lead arranger and a facility agent for a RUR 1 billion syndicated loan for pharmacy distributor NPK "Katren".

All these syndicated loans have been repaid except for the Syndicated Loan to NPK "Katren" and the second loan to the Republic of Sakha (Yakutia) which are due in 2009.

Investment banking. The Bank offers a variety of investment banking services, including underwriting, corporate finance, research and asset management. Since 2000, the Bank has offered a wide range of services in connection with domestic bond issuances. Acting as a lead manager and underwriter, the Bank participated in the placement of RUR 32.5 billion in bonds issued by 18 issuers in 2003, RUR 56.6 billion in bonds issued by 16 issuers in 2004, RUR 81.6 billion in bonds issued by 30 issuers in 2005 and RUR 120 billion in bonds issued by 48 issuers as at December 31, 2006. In March 2006, the Bank acted as joint arranger of the RUR 4.0 billion domestic bond offering by OAO Glavmosstroy. In April 2006, the Bank acted as arranger in connection with the placement by the Government of the Moscow Region of RUR 12.0 billion in bonds. In July 2006, the Bank acted as arranger of the RUR 3.0 billion domestic bond offering by Pharmacy Chain 36.6. In September 2006, the Bank acted as joint arranger of the RUR 3.0 billion domestic bond offering by OAO "Centertelecom". In October 2006, the Bank acted as arranger of the RUR 2.0 billion domestic bond offering by OOO "Razguliay-Finance". In November 2006, the Bank acted as arranger of the RUR 1.5 billion domestic bond offering by OOO "Terna-Finance". In December 2006, the Bank acted as arranger of the RUR 1 billion domestic bond offering by OAO " Volga Textile Company".

According to Cbonds, a Russian news agency, the Bank ranked eighth in terms of total corporate bonds underwriting and arranging by Russian banks for Russian issuers in 2004, fifteenth in 2005 and sixth in 2006. The Bank considers its investment banking activities to be a significant means of developing its banking relationships with strategic corporate customers.

Trade finance. The Bank's trade finance product range includes import financing (through issuance of letters of credit and payment guarantees and through the "buyer's credit" scheme offered by export credit agencies) and various ancillary services. As at December 31, 2006 the aggregate amount of trade finance instruments issued by the Bank increased by 234 per cent. to approximately RUR 17.1 billion, compared to approximately RUR 7.3 billion as at December 31, 2005. This increase is primarily due to a steep rise in the volume of letters of credit with post financing (by 328 per cent.) and 88 per cent. growth of the guarantees transactions. As at December 31, 2005, the aggregate amount of trade finance instruments issued by the Bank increased by 10.6 per cent. to approximately RUR 7.3 billion, compared to approximately RUR 6.6 billion as at December 31, 2004. The increase is due primarily to the growing expansion of the Bank in the trade finance market. In 2004, the Bank began to develop its trade financing infrastructure, focusing on the development of relationships with foreign and local banks. During 2004, in addition to then-existing agreements with major foreign banks and export credit agencies, such as HERMES (Germany), EGAP (State Insurance Corporation of the Czech Republic), MEHIB (Hungarian Export Development Corporation), EDC (Export Development Corporation of Canada), Hungarian Eximbank and Czech Export Bank, the Bank established business relations with the U.S. EXIM Bank, Swiss export credit agency ERG, Eximbanka Slovakia, the Export-Import Bank of India and IFTRIC from Israel. In 2004, the Bank signed framework credit agreements with German banks AKA-Bank, Dresdner Bank AG, Commerzbank and UBS AG. During 2005, the Bank signed framework agreements for the ECA covered financings with a number of major international banks: Banco Bilbao Vizcaya Argentaria, S.A., Hungarian Export Import Bank, Czech Export Bank and Credit Swiss First Boston.

The bulk of the Bank's trade finance portfolio is represented by high-quality customers (e.g., OAO "Kazan helicopter plant", OAO "Mosmetrostroy", OAO "Donskoy Tabak", OAO "Power Machines" and Chelyabinsk Pipe Rolling Plant). Trade financing transactions grew with European and Middle East countries. By geographical breakdown, Russian counterparties accounted for approximately 36 per cent. of the total portfolio of trade finance instruments, whereas European and Asian counterparties accounted for approximately 34 per cent. and 17 per cent., respectively, as of December 31, 2006. The Bank anticipates that transactions of the Bank's customers with such countries will demonstrate further growth.

During 2006, the geographical scope and coverage of the Bank's trade finance business continued to expand significantly. The Bank is one of the leading Russian financial institutions in terms of servicing Russian-Chinese and Russian-Indian trade. In addition, the Bank experienced a significant increase in the volume of letter of credit transactions with developing countries where the principal foreign trade partners of the Bank are based. The Bank continues to participate in the inter-governmental commissions of the Russian Federation with China, India and CIS countries, which address the practical issues of cooperation with foreign financial institutions. The Bank also continued to finance equipment imports under projects aimed at urban development in Moscow and other Russian cities.

The Bank plans to increase the number of banks that have trade financing-related facilities opened with the Bank. The Bank also plans to expand facilities opened by banks located in those Asian countries with which the Bank's customers actively cooperate, particularly in India, China and Japan, as well as in other Asian countries. In addition, the Bank plans to extend its customer base among export insurance agencies and export-import banks, primarily in the Asian region.

International Borrowings. In September 2004, the Bank carried out a debut Eurobond issue totalling U.S.$250 million with a maturity date of five years and an interest rate of 8 per cent. The lead managers on the issue were ABN AMRO Bank N.V. and Merrill Lynch International with BNP

Paribas as co-lead manager. The bonds were issued in accordance with the Regulation S to investors outside the United States and in accordance with Regulation 144A to U.S. investors.

In May 2005, the Bank issued bonds amounting to U.S.$300 million with a maturity date of five and a half years and with an interest rate of 7.375 per cent. The joint lead managers were J.P. Morgan Securities Ltd. and BNP Paribas. The bonds were issued according to Rule 144A to U.S. investors. In April 2005, the Bank of Moscow also entered into an unsecured syndicated loan for an amount of U.S.$200 million with ABN AMRO Bank N.V., Depfa Bank and Deutsche Bank AG as arrangers. The unsecured syndicated loan has a term of two years and a margin of 160 basis points over LIBOR. In November 2005, the Bank issued subordinated Eurobonds amounting to U.S.$300 million Eurobond with a maturity date of ten years and optional redemption rights after five years with an interest rate of 7.5 per cent. The joint lead managers were Barclays Capital and Merrill Lynch International. The bonds were issued in accordance with the Regulation S to investors outside the United States.

In 2006, the Bank continued expanding its presence in the international loan market. In April 2006, the Bank entered into a syndicated loan in the amount of U.S.$400 million with Barclays Capital, Commerzbank AG, Depfa Investment Bank Limited and JPMorgan as arrangers for a term of three years and with a margin of 70 basis points. In May 2006, the Bank issued Eurobonds amounting to U.S.$500 million with a maturity date of seven years and with a coupon of 7.335 per cent. The joint lead managers were Barclays Capital and JPMorgan. In October 2006, the Bank entered into a syndicated loan with Deutsche Bank AG, BNP Paribas, WestLB and SMBC as arrangers in the amount of U.S.$500 million for a term of two years and a margin of 50 basis points over LIBOR. In November 2006, the Bank issued a début RUR5 billion Eurobond with a coupon of 7.25 per cent. The joint lead managers were Barclays Capital and JPMorgan. In December 2006, the Bank entered into a subordinated loan with ABN AMRO Bank N.V. for an amount of U.S.$100 million.

In March 2007, the Bank entered into a syndicated loan agreement with ICICI Bank for the amount of U.S.$ 105 million for a term of three years at the rate of 6-month LIBOR plus 0.55 per cent. per annum. Also in March 2007, the Bank entered into a Rouble-denominated transaction with Barclays Bank PLC in the amount equivalent to RUR 5 billion for a term of two years.

In the future, the Bank expects to continue raising additional funds in multiple currencies for the development of its business operations.

Payment and account services. The Bank provides payment services to commercial and governmental entities through its branches and its correspondent banking network. Companies operating nationwide receive banking services through the Bank's branch network. The amount held in the Bank's current (demand) accounts by commercial and governmental entities increased by 61.1 per cent. as at December 31 2006 to RUR 90.3 billion compared with an increase of 46.1 per cent. to RUR 56.1 billion as at December 31, 2005 from RUR 38.4 billion as at December 31, 2004, which accounted for approximately 34.8 per cent., 33.3 per cent. and 32.9 per cent. of the Bank's total deposits, respectively.

As at December 31, 2006, 92.1 per cent. of the Bank's deposits from commercial and governmental entities (including City of Moscow budget funds) were in Russian Roubles and 7.9 per cent. in foreign currencies, compared with 85.9 per cent. and 14.1 per cent. and 86.5 per cent. and 13.5 per cent., respectively, as at December 31, 2005 and 2004. The Bank assists commercial and municipal entities with opening bank accounts and advises them on the use of various banking products in their business. See "Risk Factors – Risks Related to the Bank's Business and Industry – The Bank may lose some or all of the City of Moscow's business"

Retail Banking

The Bank offers its retail banking clients a wide range of financial products and services. These include current (demand) and deposit (term) accounts both in Russian Roubles and foreign currencies, loan services including overdraft facilities, mortgage loans, consumer loans, car loans, credit and debit card services (as a member of VISA International, MasterCard International and the Russian payment system Union Card, as a sub-licensee of Diner's Club International and a distribution agent of American Express), money transfers, asset management and Internet and telephone banking. As at 31 December 2006, the Bank was servicing over 7.1 million retail customers compared to approximately 5.6 million and 4.2 million as at December 31, 2005 and 2004 respectively.

Deposits. The Bank offers a variety of interest-bearing bank accounts designed for different categories of retail customers, including high-income earners, working individuals and pensioners. The Bank's deposit accounts include current and term accounts and are denominated in Russian Roubles, U.S. Dollars and Euros. Account terms vary from demand deposits to term deposits of up to two years, which may be extended, once or multiple times, depending on the type of account. The Bank believes that it is well-positioned in the retail customer deposit market. According to *Kommersant Dengi* magazine, as at December 31, 2006, the Bank was the third largest bank in the Russian Federation after Sberbank and VTB in terms of the aggregate amount of deposits from retail clients.

As at December 31, 2006, the Bank had approximately RUR 86.5 billion in retail deposits, compared with RUR 70.1 as at December 31, 2005, including approximately RUR 18.0 billion (representing approximately 6.9 per cent. of total deposits) in demand deposits and approximately RUR 68.5 billion (representing approximately 26.4 per cent. of total deposits) in term deposits. This represented a 23.4 per cent. increase in retail customer deposits compared with December 31, 2005. The aggregate cash amount of deposits from retail clients constituted approximately 24.7 per cent. of the Bank's total liabilities as at December 31, 2006 compared with 31.6 per cent. as at December 31, 2005 and with 33.4 per cent. as at December 31, 2004.

As at December 31, 2005, the Bank had approximately RUR 70.1 billion in retail deposits including approximately RUR 12.0 billion (representing approximately 7.1 per cent. of total deposits) in demand deposits and approximately RUR 58.1 billion (representing approximately 34.5 per cent. of total deposits) in term deposits. This represented a 50.7 per cent. increase in retail customer deposits compared to December 31, 2004, at which date the Bank had approximately RUR 46.5 billion in retail deposits including approximately RUR 6.3 billion (representing approximately 5.4 per cent. of total deposits) in demand deposits and approximately RUR 40.2 billion (representing approximately 34.5 per cent. of total deposits) in term deposits. The relative decline of retail deposits within the Bank's liabilities is primarily due to an increase in term deposits by corporate customers and an increase in the Bank's funding base as a result of the issue of the 2004 Notes, 2005 Notes, the 2005 Subordinated Notes and 2006 Notes.

The recent relatively low growth in retail deposits is due to a withdrawal of foreign currency deposits because of an appreciation of the Russian Rouble. As at December 31, 2006, approximately 78.9 per cent. of the Bank's total retail deposits was in Russian Roubles. See "Risk Factors – Risks Related to the Bank's Business and Industry – A significant part of the Bank's funding is based on deposits that can be withdrawn on demand".

Retail lending. The Bank provides a wide range of loan products to retail customers. As at December 31, 2006, loans to retail clients accounted for approximately RUR 36.6 billion, or 14.1 per cent. of the Bank's loan portfolio, compared with approximately RUR 15.1 billion (or 9.1 per cent. of the Bank's loan portfolio) as at December 31, 2005 and with RUR 4.8 billion (or 5.2 per cent. of the Bank's loan portfolio) as at December 31, 2004.

The Bank currently extends the following types of loan to retail customers:

Car loans. The Bank's car loan program was launched in 2002. A car loan can be given for a period of between six months and seven years up to a maximum of USD 200,000 or its equivalent in Russian Roubles or Euros and can be up to 100 per cent. of the purchase price of the car. Such loans are secured by a pledge of the purchased cars.

Mortgage loans. The Bank's mortgage loan program was also launched in 2002 and has developed further as a result of new mortgage loan legislation adopted at the end of 2004. A mortgage loan can be given for a period of between three and 25 years for the purchase of real estate existing on the secondary market or that is under construction. A mortgage may be 100 per cent. of the purchase price of the property and can be denominated in Russian Roubles, U.S. Dollars or Euros. All of the loans are secured by a pledge of the purchased real estate.

Bank card overdrafts. Overdrafts are available to holders of Muscovite Social Cards and cards issued under payroll direct deposit plans. An overdraft may not exceed 98 per cent. of the average monthly income amount deposited during the three most recent months. The uninterrupted debt period for overdrafts is 80 days. The term of contract is equal to the effective period of the relevant card. These loans are unsecured.

Scoring loans. In 2003, the Bank introduced express loans, also known as "scoring loans", for which the borrower's creditworthiness is assessed by a numerical score. It typically takes 30 to 40 minutes to extend a scoring loan. These loans are unsecured. The loan amounts range from RUR 5,000 to RUR 150,000 and can be extended for a period of six, 12, 18 or 24 months.

Consumer loans. The Bank grants these loans for consumer purposes. The borrowers are assessed primarily by a numerical score system and then on a case-by-case basis. Similarly to scoring loans, these loans are unsecured. The loan amounts start from RUR 5,000 depending on the quality of the borrower.

Credit cards. The Bank introduced credit card loans in 2004. Similar to scoring loans, these loans are unsecured. The loan amounts range from RUR 20,000 to RUR 350,000 depending on the type of credit card. The credit limit of a credit card may not exceed 300 per cent. of the average monthly disposable income.

Interest rates to retail customers are higher than for corporate borrowers. For example, annual interest on "scoring loans" may be up to 21 per cent. However, given the short track record for consumer credit in the Russian Federation, the Bank believes that it is difficult to estimate the likely loss rate on these loans. In its short history at the Bank, loss rates across the retail lending portfolio have been minimal, but these are likely to rise as the portfolio ages. When implementing its consumer lending program, the Bank assesses the solvency and paying capacity of each applicant. See also "Asset, Liability and Risk Management".

Banking cards. The Bank issues plastic debit and credit cards to retail customers. The Bank is a member of VISA International, MasterCard International, the Russian payment system Union Card and a sub-licensee of Diner's Club International. The Bank has its own processing center certified by VISA International and Europay International. The Bank expects its business in this segment to continue to grow, albeit at a slower rate than in previous years. The number of plastic cards issued by the Bank has increased from 3,668 thousand as at December 31, 2004 to 5,263 thousand as at December 31, 2005 and 6,952 thousand as at December 31, 2006. The Bank issues and services VISA, MasterCard, Union Card, Diners Club and American Express cards. The Bank also issues virtual cards known as VISA Virtuon designed for those customers of the Bank who purchase goods and services via the Internet. Additionally, the Bank started to issue Visa Infinite, the most prestigious card of the International Payment System, Visa International, with a minimum credit limit of U.S.$ 20,000. Through the Bank's automatic teller machines ("ATMs"), it is possible to make utilities payments and certain other payments, including payments for mobile communications services. In addition, the Bank offers to its customers direct debit services related to communal and other payments. During 2003, a large number of payroll direct deposit/debit card projects were launched. The Bank has a network of commercial and servicing entities that have entered into card acquiring services agreements with the Bank. As at December 31, 2006, the Bank had 1,830 card acquiring services agreements.

The Bank also issues Muscovite Social Cards in partnership with VISA International, which is a Visa Electron integrated card that is a combination of a bank debit card, a form of identification card, an insurance identification card and Moscow public transportation travel card. The number of Muscovite Social Cards issued by the Bank has increased by 19.3 per cent. to approximately 4,514,000 as at December 31, 2006 from approximately 3,784,000 as at December 31, 2005, compared to a 41.6 per cent. increase from approximately 2,672,000 as at December 31, 2004.

ATMs and Internet banking. The Bank seeks to provide its retail banking clients with easy access to their accounts. Retail customers can conduct their banking through the Bank's branches and at ATMs. The Bank is expanding its ATM network and, as at December 31, 2006, it had 1,412 ATMs in operation (including 602 ATMs in Moscow and 810 ATMs in the regions), compared to 858 ATMs in operation (including 454 ATMs in Moscow and 404 ATMs in the regions) as at December 31, 2005 and 672 ATMs in operation (including 374 ATMs in Moscow and 298 ATMs in the regions) as at December 31, 2004. The Bank is also expanding its Internet banking services and currently offers its customers the ability to make online bill payments, access their account information and conduct certain banking operations online. Internet banking usage by retail customers is currently low. Retail customers are also serviced through the Bank's call center. The Bank's customers can obtain information on their current accounts, interest rates applicable to Rouble and foreign currency denominated retail deposits, the Bank's foreign currency sale and purchase rates and exchange rates established by the CBR or the MICEX with respect to various currencies and can conduct certain banking operations by telephone.

Other retail services. The Bank buys, sells and exchanges all major foreign currencies for retail customers. It also exchanges and purchases foreign payment instruments, sells American Express and Thomas Cook travelers checks and cashes Visa, American Express, Thomas Cook, Citicorp and Eurocheque travelers' checks. Retail customers may buy or sell coins made of precious metals and precious metals in physical or book-entry form through the Bank. Retail customers may rent safe-deposit boxes to store valuables. The Bank's custody services to retail customers include providing securities accounts, known as "depo" accounts, securities custody operations, recording collateral operations with securities and coupon payments. The Bank also offers foreign currency (U.S. Dollar) and Rouble transfers over the Western Union system at 77 service outlets at certain of the Moscow offices of the Bank as well as at its regional branches.

Since 1997, the Bank, in cooperation with the Moscow Central Post Office, has provided access to banking services on the premises of local post offices. As at December 31, 2006, the Bank provided such services through 470 local post offices in Moscow. The mail and banking technologies offer access to such services of the Bank as deposit transactions in Russian Roubles, payment of pensions and allowances, deposit account overdrafts, cash remittances in Russian Roubles, acceptance of communal service payments and other payments, as well as cash payments from bank cards. The Bank also plans to expand the marketing of its products to retail customers through points of sale in retail shops.

Asset Management

Since 2003, the Bank has been developing its asset management business in three key areas: private asset management for private banking clients, mutual fund management and pension fund management. When the Bank began providing asset management services in early 2003, the asset management business in the Russian Federation was underdeveloped. As at December 31, 2006, the Bank had a total asset management portfolio of approximately RUR 10.8 billion, compared to approximately RUR 3.9 billion and RUR 2.2 billion as at December 31, 2005 and 2004, respectively.

Strategic asset management decisions are taken by the Bank's Investment Committee, which consists of representatives from the Treasury Department, the Asset Management Department and the Internal Audit Department. The Bank's major competitors in the personal banking market are Alfa Bank, MDM Bank, Rosbank, Troika Dialog, Uralsib, UFG and Capital Group.

Private Asset Management. The Bank offers its products and services to high net worth retail customers on a "Private Client" basis. The Bank currently offers individual "Private Client" asset management services for wealthy clients depositing at least USD 100,000 in assets with the Bank.

While private banking is an emerging banking segment in the Russian Federation, the Bank believes this business area has good growth potential and expects to continue to diversify and increase the amount of assets under the Bank's management. As at December 31, 2006, the Bank's total amount of private assets held in trust rose to approximately RUR 3.2 billion of assets under management from approximately RUR 2.2 billion as at December 31, 2005 and RUR 1.4 billion as at December 31, 2004. The Bank usually invests the funds of its "Private Client" customers in the securities market or in mutual funds managed by the Bank. The Bank offers private asset management services on the basis of a professional securities market participant's license for portfolio management operations issued by the FSFM.

Mutual Fund Management. The Bank expects investments in its mutual funds to continue to grow as it expands its regional sales network and utilizes other marketing channels. The Bank's asset management products consist of several unit investment funds ("UIFs"). UIFs are a convenient investment vehicle for customers with minimal funds available for financial market investments. The asset management company of the Bank offers its clients an opportunity to invest in interval UIFs and open-end UIFs. As at December 31, 2006, the Bank's retail network for the sales of UIF units included 202 outlets in 56 Russian regions and mutual funds managed by ZAO "Management Company of the Bank of Moscow" (the "Management Company"), a 100 per cent. owned subsidiary of the Bank, were equal to RUR 7.6 billion compared to 125 outlets in 38 Russian regions and RUR 1.6 billion, respectively, as at December 31, 2005, and 78 outlets in 37 Russian regions and RUR 669 million, respectively, as at December 31, 2004.

The open-end mixed UIF Rozhdestvenka is designed to meet the needs of a wide range of investors and offers the most affordable participation terms of the Bank's UIFs. There is no minimum initial contribution requirement for unit purchases and units can be bought and redeemed on any business day.

The Kuznetsky Most UIF is designed to meet the requirements of a broad group of long-term investors. There is no minimum initial contribution requirement for unit purchases and units can be bought and redeemed on any business day.

Birzhevaya Ploschad – MICEX Index is the first open index UIF in the Russian Federation. On 30 June 2006, the open index UIF Birzhevaya Ploschad – MICEX Index Fund became the leading unit index investment fund in the Russian Federation. The assets of the UIF are invested based on the MICEX index: the stock market index published by one of the major securities exchanges of the Russian Federation, ZAO "Stock Exchange MICEX", which covers approximately 90 per cent. of total market capitalization and the leading indicator of the price dynamics of Russian shares. The MICEX Index is calculated on the basis of 19 securities, including shares in 16 leading Russian issuers, including OAO "RAO UES of Russia", MTS, Norilsk Nickel, LUKOil, Gazprom and Sberbank. There is no minimum initial contribution requirement for unit purchases.

The assets of the open-end stock UIF "Krasnaya Ploshad (Red Square) – Shares of State-Controlled Issuers" are primarily invested in shares of listed companies that are controlled by the state and have strategic importance for the Russian government, including such companies as Gazprom, OAO "Transneft", OAO RAO UES of Russia and its subsidiaries, subsidiaries of OAO "Svyazinvest", Sberbank and OAO "Aeroflot". The UIF is established to meet the requirements of investors that believe in the stability of state-controlled companies. There is no minimum initial contribution requirement for unit purchases and units can be bought and redeemed on any business day.

The assets of the open-end stock UIF "Maneznaya Ploshad (Manezh Square) – Russian Shares" are primarily invested in shares of a wide range of Russian companies. This UIF is considered to have a potentially higher degree of profitability and risk as its investment rules contain fewer limitations on its operations. Generally, no less than half of the UIF's funds are required to be invested in shares. In the event that market conditions deteriorate, the UIF may transfer its funds to a deposit account. There is no minimum initial contribution requirement for unit purchases and units can be bought and redeemed on any business day.

The assets of the open-end bond UIF "Volkhonka – Russian Bonds" are primarily invested in bonds of Russian companies. This UIF is considered to have a potentially low degree of profitability and risk as its investment rules require the investment of at least half of the UIF's funds to fixed income bonds of Russian companies. There is no minimum initial contribution requirement for unit purchases and units can be bought and redeemed on any business day.

On June 1, 2006, open-end stock UIF "Ostankino – Russian telecommunications" was registered by the FSFM. The assets of UIF "Ostankino – Russian telecommunications" are primarily invested in shares of a wide range of Russian telecommunications companies. Generally, no less than half of the UIF's funds are required to be invested in shares. In the event that market conditions deteriorate, the UIF may transfer its funds to a deposit account. The minimum initial contribution for unit purchasers is RUR 1,000 and units can be bought and sold on any business day.

On June 1, 2006, open-end stock UIF "Zamoskvorechye – Russian energy" was registered by the FSFM. The assets of UIF "Zamoskvorechye – Russian energy" are primarily invested in shares of a wide range of Russian energy companies. Generally, no less than half of the UIF's funds are required to be invested in shares. In the event that market conditions deteriorate, the UIF may transfer its funds to a deposit account. The minimum initial contribution for unit purchasers is RUR 1,000 and units can be bought and sold on any business day.

On June 1, 2006, open-end stock UIF "Triumfalnaya ploshad (Triumph Square) – Russian oil" was registered by the FSFM. The assets of UIF "Triumfalnaya ploshad (Triumph Square) – Russian oil" are primarily invested in shares of a wide range of Russian oil companies. Generally, no less than half of the UIF's funds are required to be invested in shares. In the event that market conditions deteriorate, the UIF may transfer its funds to a deposit account. The minimum initial contribution for unit purchasers is RUR 1,000 and units can be bought and sold on any business day.

On October 3 2006, open-end stock UIF "Zvezdnyi bulvar (Star Boulevard) – Stars of Russian stock exchange" was registered by the FSFM. The assets of UIF "Zvezdnyi Bulvar (Star Boulevard) – Stars of Russian stock exchange" are invested in shares of the largest Russian companies popular among international investors and forming the MSCI Russia index. The minimum initial contribution for unit purchasers is RUR 1,000 and units can be bought and sold on any business day.

On October 3, 2006, open-end stock UIF "Trubnaya ploshad (Pipe Square) – Russian metallurgy" was registered by the FSFM. The assets of UIF "Trubnaya ploshad (Pipe Square) – Russian metallurgy" are invested in shares of a wide range of Russian iron and steel, nonferrous and ore mining companies and pipe plants. The minimum initial contribution for unit purchasers is RUR 1,000 and units can be bought and sold on any business day.

Treasury and Proprietary Securities Activities

Securities trading and other services. The Bank offers its corporate clients brokerage services for transactions on all of the major Russian stock exchanges. Corporate clients may also invest in the Bank's proprietary bills of exchange and certificates of deposit. In addition to the investment banking services described above, the Bank also engages in market-making, payment agency services and investment advisory and brokerage services in government, municipal and various corporate securities. The Bank is an active market-maker in the secondary bond market.

Operations with precious metals and coins. The Bank buys and sells coins made of precious metals and precious metals in physical and book-entry forms. The Bank actively trades gold and other precious metals. The Bank purchases gold from a variety of companies and sells it on the Russian and foreign markets.

Custody services. The Bank provides a wide range of custody services, including securities custody and accounting, securities transfers in "depo" accounts maintained by a depository, receipt and transfer of the yield on securities and receipt from an issuer or registrar of information relating to securities that are held in a "depo" account, and prompt delivery thereof to a depositor. The Bank services federal and municipal securities, corporate equity and debt securities and other commercial paper, such as bills of exchange. As at December 31, 2006, the Bank maintained 1261 customer "depo" accounts for resident clients, 55 accounts for non-resident customers and 9 "LORO" accounts for other depositories and provided registrar services for over 1200 securities of over 1000 issuers.

Since March 1998, one of the priorities of the Bank's custody services has been expanding the customer base of municipal entities to which it provides custody services. The Bank developed an accounting system for the securities owned by the City of Moscow and helped to develop the rules of cooperation between security holders, on one hand, and issuers and registrars, on the other hand. The Bank acts as an authorized custodian for the City of Moscow in the municipal bond market.

Proprietary Securities Activities. The Bank engages in securities activities for its own account. It acts as a market-maker and engages in trading operations on all major Russian stock exchanges and participates in government securities auctions conducted by the CBR and in sale and repurchase ("**repo**") transactions with large Russian banks and foreign banks. The Bank conducts trading and investment activities in the following Russian government securities: federal and regional bonds, federal currency bonds ("**OVCVZs**") and Russian Federation eurobonds.

As at December 31, 2006 Russian government securities accounted for approximately 44.0 per cent. of the aggregate amount of the Bank's securities portfolio (compared to 54.2 per cent. as at December 31, 2005), Rouble-denominated Russian government securities accounted for 35.2 per cent. of the aggregate amount of the Bank's securities portfolio (compared to 32.5 per cent. as at December 31, 2005) and U.S. Dollar-denominated Russian government securities accounted for 8.8 per cent. of the aggregate amount of the Bank's securities portfolio (compared to 21.8 per cent. as at December 31, 2005).

The Bank conducts proprietary trading activities in corporate debt and equity securities. Corporate Rouble debt and equity securities accounted for 36.4 per cent. and 12.8 per cent. respectively, of the aggregate amount of the Bank's securities portfolio as at December 31, 2006 and 16.3 per cent. and 7.1 per cent., respectively, as at December 31, 2005. Foreign currency corporate bonds constituted approximately 2.4 per cent. of the Bank's securities portfolio as at December 31, 2006 and December 31, 2005. The value of the Bank's securities portfolio increased from RUR 27.5 billion as at December 31, 2004 to RUR 35.9 billion as at December 31, 2005 (30.5 per cent.) and to RUR 37.6 billion as at December 31, 2006 (4.6 per cent.).

Foreign exchange and Money Markets Activities. The Bank is one of the leading operators in the Russian foreign exchange and money markets and focuses on spot foreign exchange and short-term deposit operations on the interbank market. During 2006, the Bank received total funds of approximately USD16.5 billion in borrowed funds (compared to approximately USD12 billion, USD11 billion during 2005 and 2004, respectively) and it placed deposits of approximately USD105.3 billion (compared to approximately USD200 billion and USD45 billion during 2005 and 2004, respectively). The volume of the Bank's foreign exchange transactions during 2006 was approximately USD175 billion (compared to approximately USD145 billion and USD142 billion during 2005 and 2004, respectively). The Bank's main counterparties in the Russian foreign exchange and money markets are Sberbank, VTB, Gazprombank and other domestic top-tier banks; main counterparties among foreign banks are ABN AMRO Bank N.V., BNP Paribas, CSFB, Deutsche Bank AG, HSBC, JPMorgan Chase Bank, ING Group and other large international banks.

The Bank's treasury and proprietary securities activities are heavily influenced by developments in the Russian stock market and the sovereign credit rating of the Russian Federation. The Bank expects these to develop positively in the near future.

International and Correspondent Banking

The Bank has relationships with other financial institutions both within the Russian Federation and abroad. The Bank sets up correspondent banking relationships by exchanging codes for the transfer of information (e.g., SAK and telex codes) opening "LORO" and "Nostra" accounts and entering into various interbank agreements. The Bank maintains correspondent relationships with approximately 750 financial institutions in 82 countries around the world.

In 2006, the Bank's main counterparties in the interbank market were JPMorgan Chase Bank, CSFB, BNP Paribas Deutsche Bank AG, Gazprombank, ING Group, Sberbank, Vnesheconombank, VTB, WestLB Group etc. The Bank is also expanding its operations outside of the Moscow region, as part of its strategy to become one of the key counterparties in different business areas including syndicated financing for leading banks in Yaroslavl, Rostov-on-Don, Krasnodar, Nizhniy Novgorod, Samara, Togliatti, Ekaterinburg, Chelyabinsk, Omsk and other Russian regional financial centers.

The Bank believes its case-by-case approach to structuring correspondent relationships as well as its flexible fee policy were key elements in enabling it to attain 95, 85 and 70 new correspondent banks in 2006, 2005 and 2004, respectively. The Bank believes that the availability of credit facilities from foreign banks enables it to improve the financial terms of foreign trade transactions for its customers and offer them more efficient international payment instruments.

Special emphasis is given to broadening the cooperation with regional banks in the Russian Federation. The Bank's infrastructure enables other regional banks, *inter alia*, to carry out interregional payments in an efficient manner through the Bank's branch network, credit funds to their accounts and invest them in a variety of instruments used in the Moscow interbank market, and conduct conversion transactions within the limits of their account balances.

Branch Network

The Bank's priority in developing its branch network is to make its banking services available throughout the Russian Federation and optimize its branch network on the basis of economic and social factors. During the period from 2003 through the end of 2006, the Bank focused on increasing its presence in areas of current or potential demand for banking products and locations with greater competition—primarily large cities and regional centers. It also concentrated on increasing the number of branches and sub-branches offering a wide range of banking services and servicing a diversified customer base.

The Bank has one of the largest and most geographically diverse branch networks in the Russian Federation from Kaliningrad in the West to Vladivostok in the East. As at December 31, 2006, the Bank operated 49 full service offices and 52 sub-offices in Moscow and the Moscow region and had established 470 desks in Moscow post offices, which distribute retail products to various groups of retail customers. As at December 31, 2006, the Bank also operated 51 branches outside Moscow and the Moscow region offering a wide range of banking services. These 51 branches also supervised a further 157 sub-offices that provide a more limited range of services. The Bank plans to further expand its branch network as a part of its retail business expansion strategy. The Bank intends to follow this plan of expanding its distribution network through organic growth and does not currently plan to invest funds in the acquisition of large branch networks or separate branches owned by other banks.

The Bank's "branches" are not separate legal entities; rather they are the Bank's subdivisions that conduct their business on behalf of the Bank based on a power-of-attorney. A branch is an accounting entity maintaining a separate balance sheet, which is consolidated into the Bank's balance sheet. Any profit earned or loss incurred by the branch is consolidated into the Bank's profit and loss account. The activities and operations conducted by the branch are similar to those performed by the rest of the Bank. While the President of the Bank exercises general management over all branches, the day-to-day management of branch activities is conducted by a branch director who acts on the basis of a power-of-attorney issued by the Bank. The business activities of the branches are inspected by the Bank's Audit Commission, the Bank's external auditor and the internal control staff of the Bank.

Lending Policies and Procedures

One of the Bank's fundamental operating policies is to have established parameters that aim to support the expansion of the Bank's operations while preserving the quality of its loan portfolio. In structuring and implementing its lending policy, the Bank is guided by the following rules:

- *Diversification of lending across industry and economic sectors*. Key areas of focus are loans to municipal entities of the City of Moscow and customers in key sectors such as manufacturing, construction, financial services, trade, defense and engineering industry, fuel and energy, metals and mining, chemical and petrochemicals, pharmaceuticals and pulp and paper;

- *Regional diversification*. The Bank aims to expand business operations in the Russian regions where the branches of the Bank are based, as well as opening new branches in the Russian regions where the Bank does not have a presence but intends to develop its client base;

Creditworthiness of customers. The Bank tends to limit its loan portfolio to high profile, reliable customers and focuses its analysis primarily on the creditworthiness of potential borrowers; and

Quality of collateral to secure the loan. The Bank seeks to protect its position through securing loans with collateral that has been carefully assessed for its value and enforceability.

CBR guidelines. The CBR sets strict guidelines for credit approval which are designed to ensure the good financial standing of Russian banks and due protection of their creditors. In particular, the Bank is required to maintain certain mandatory economic ratios represented by a set of limitations relating to the maximum amount of exposure in the credit portfolio, as well as a minimum capital adequacy and liquidity of the Bank. One of these ratios limits a bank's exposure to a single borrower or a group of related borrowers to 25 per cent. of the capital of the bank (*i.e.,* the bank's own resources). The Bank believes that its procedures for the approval and monitoring of loans and collateral currently comply with the CBR guidelines and are set out in a clearly defined credit policy approved by the Management Board of the Bank.

As with all other Russian banks, the Bank reports to the CBR on compliance with the CBR's mandatory economic ratios on a regular basis and is monitored by the CBR. Although Russian legislation does not empower the CBR to waive breaches or to agree to lower mandatory economic ratios in relation to a single bank, the CBR may approve a set of measures that a bank plans to use to comply with the required limit on single-borrower exposure.

If the mandatory economic ratios are not met, the CBR may impose sanctions on a bank for such non-compliance. Such sanctions could include a fine, placing the bank into temporary administration by the CBR or the revocation of its banking license. Under Russian law, the CBR may appoint a temporary administrator for a term of up to six months if a bank has failed to comply with the CBR's orders to remedy breaches or if breaches by a bank have created an actual threat to the interests of its creditors (depositors). A bank's banking license may be revoked after repeated imposition of sanctions on that bank during a calendar year. To date, the Bank has not breached any of the CBR's mandatory economic ratios and no sanctions have been imposed on the Bank by the CBR for breach of such ratios. See also "Banking Industry and Banking Regulation in the Russian Federation".

Credit procedures. The Bank applies a number of internal guidelines in its credit procedures, including various regulations applicable to certain departments. Depending on the terms of the proposed credit facility, the credit policy provides for standard or flexible approaches to be used by the Bank when determining the level of interest rates, limits and tariffs applicable to particular clients. The risk management department ("RMD") carries out an independent expert evaluation of each large-scale or non-standard facility. Standard products that involve minimum risks and are issued in accordance with a procedure that is strictly regulated on all technological stages do not require the involvement of the RMD.

The authority to make independent lending decisions lies primarily with the credit committee of the Head Office (the "Credit Committee") and the small credit committee of the Head Office (the "Small Credit Committee"). Both committees comprise members from the Management Board, as well as representatives from various departments of the Bank, and each committee meets, generally, once a week. Any proposed loan exceeding RUR 80.0 million (RUR 160 million for loans with 100 per cent. high-quality collateral) is subject to approval by the Credit Committee. Typically, 12 people sit on the Small Credit Committee while the Credit Committee has at least 15 members. Apart from these committees, power to make independent lending decisions is granted to credit committees of regional branches and Moscow offices, as well as a number of authorized officers in the Bank's head office, including the President of the Bank. The procedures for setting, using and monitoring the application of the limits by the branches and offices are prescribed by internal regulations of the Bank and are monitored and controlled by the RMD. The Bank believes that its branches and offices currently comply with the requirements of the CBR. In addition to these regulations, the Bank has developed an internal system of limits applicable to credit transactions (*i.e.,* limits on independent lending to a client) which sets forth the maximum credit limit that can be extended to a client or group of related clients by a branch or an office without authorization from the head office. This limit is determined by a set of formal parameters reflecting the expertise of a particular branch or office and the track record of its lending business. The track record is assessed based on factors including the repayment record of the loan portfolio, the volume of the loan portfolio and the volume of overdue loans. The regulation also lists transactions that the branch is not allowed to execute independently (e.g., granting loans to a customer with an existing overdue liability). When a loan proposal exceeds the authority of a particular unit, it is referred to the head office of the Bank. The Bank has an internal credit scoring system with the aggregate amount of credit-scored loans as at December 31, 2006 equal to approximately 45 per cent. of the total loan portfolio. Loans that are not scored must be approved on a case-by-case basis. Each branch has a credit committee that comprises the manager of the branch and heads of the departments or divisions responsible for lending, securities, funding, accounting, legal and security matters.

Corporate loans. The Bank's lending policies for commercial and municipal entities focus on the improvement of the credit quality and income level of its loan portfolio and minimization and diversification of credit risks. The Bank has developed specific loan application management processes for reviewing an application, conducting initial negotiations with the potential borrower and monitoring the loan's performance and timely repayment. The credit transaction review process has a number of stages. Initially, the Bank reviews non-financial information on the potential borrower. These procedures include an analysis of the applicant's incorporation documents, management quality, reputation, organizational structure and credit history. This information is obtained from a number of sources including the Bank's Economic Security Division. The following stage is to assess the general business environment in the sector to which the applicant belongs. All such information collected on the borrower, including its financial status, is summarized by software developed by the Bank and is analyzed in accordance with the Bank's existing risk evaluation methods and an internal rating is assigned to such loan. The materials are then submitted to the credit committee of the branch or unit, which decides either to grant or to deny the loan. In the event a loan exceeds in any respect the authority granted to such branch or unit, the documents related to such loan are submitted to the Credit Committee.

In such event, the Bank's Head Office makes an assessment of the borrower while the RMD carries out an independent expert evaluation of the proposed loan and all related risks using internal methods and borrower exposure assessment technologies developed by the Bank, which take into account various information on the borrower and the proposed loan. Special attention is given to the borrower's affiliates and group risks. The Bank conducts an assessment of financial forecasts of the potential borrower's performance over the credit period to assess whether the loan is serviceable and recoverable. Based on the credit risk monitoring methodologies developed by the Bank, the credit officers decide which credit risk group the borrower falls into and set specific risk limits for the borrower. These risk assessment methodologies are based on the financial standing of the borrower, maturity of the credit product, collateral offered for the credit product, size and frequency of cash inflow in the borrower's bank account, history of the Bank's relationship with the borrower, external factors affecting the borrower (such as economic and political factors) and internal factors affecting the borrower (such as ownership structure, management, transparency and production capacity). The maximum amount of the loan is calculated based on the forecasted cash flow generated by the potential borrower. The forecasted cash flow is calculated based on the financial statements of the borrower for the four most recent quarterly accounting periods. The resulting value is adjusted by a number of specific factors. These factors take into account the probability of the forecasted value and depend on:

- the ratio of the net profit divided by the forecasted cash flow of the potential borrower;
- for borrowers other than trading companies, the liquidity ratio (liquid assets divided by current liabilities) of the potential borrower;
- for trading companies, turnover of goods; and
- the industry sector.

The final maximum amount of the loan is the difference between the values calculated on the basis of the forecasted cash flow and the sum of amounts that are repayable during the term of the loan under consideration. Loans to borrowers related to or affiliated with the Bank may not exceed the total limit of credit risk for related borrowers as a group.

Retail loans. All loans to retail customers are extended on a capital repayment basis for a set period of time. Loans to retail customers, other than credit cards, "scored loans" or "scoring card" loans, and consumer loans (which are all not secured), are approved only on a secured basis and for a specific purpose. The portfolio of retail loans, except mortgage loans, consists primarily of short-term loans (maturing within one year) and medium term loans (with maturities of between one year and three years). Retail loans also include mortgage loans extended for a period between three and twenty five years. Loans are extended both at the Bank's head office and at its local offices and regional branches. Defined rules regulate the analysis of the borrower's creditworthiness, the extension of credit and the management of the loan during its lifetime. The underwriting procedures depend on the particular type of retail loan product. As a general rule, the borrower's creditworthiness is established on the basis of an employer's certificate indicating the borrower's net income during the last six months and is calculated based on a formula, which takes into account the borrower's net average monthly income (less appropriate deductions). If the borrower's net income is less than USD 100 per month, the Bank will refuse to extend a loan. Once the borrower's creditworthiness has been established, the Bank calculates the maximum amount which it is prepared to lend. The interest on the loan is accrued on a daily basis and is paid on a monthly basis. Decisions to extend loans to retail customers are taken by authorized officers of the Bank based on powers-of-attorney, which set limits for each particular authorized officer. Observance of the limits established for each authorized officer is monitored by several units: the RMD, the Retail Banking Department and the Audit Department.

Collateral. A fundamental principle of the Bank's lending business is that the Bank's interests are protected by requiring the borrower to provide adequate collateral to secure the performance of its obligations. Other than the retail "scored loan", overdrafts, consumer loans and credit card products, which are unsecured loan products, the Bank only extends unsecured loans in exceptional circumstances by decision of the President or the Credit Committee. The Bank has a Collateral Management Division ("CMD") to value and monitor collateral. The CMD assesses both the value and enforceability of the collateral. The Bank's credit policy contains a description of preferred and unacceptable types of collateral and sets out criteria for determining the value of the proposed collateral.

The principal stages of the Bank's collateral management process are the following:

- preliminary examination and appraisal of property offered as collateral;
- execution of a collateral agreement, insuring the collateral and compiling the collateral file;

- monitoring collateral assets; and
- termination and possible liquidation/forfeiture of collateral.

The CBR does not regulate the type of collateral required, although the amount of provisioning under CBR guidelines will depend in part on the collateral received. The frequency of a collateral review will depend on the type of collateral taken. Collateral with a market quotation, such as securities, is monitored on a daily basis. All other collateral is generally reviewed either on a ten-day, monthly or quarterly basis. The Bank can usually foreclose on and then dispose of liquid collateral, such as shares, promissory notes and bonds, within a few days but it may require up to 180 days to foreclose on and then sell other types of collateral. The enforcement of certain collateral, such as state-owned property, may require a longer period of time.

Retail and corporate loans are extended primarily against the following types of collateral:

- mortgages and pledges of assets, including real estate, goods and inventory, stocks, bills, certificates, bonds, governmental and other securities trading at stable prices;
- unconditional and irrevocable payment guarantees issued by reputable foreign banks and reliable Russian banks;
- sureties and commitments issued by solvent commercial and governmental entities possessing funds or reliable sources of funds which are sufficient to meet loan repayment and interest payment obligations;
- pledges of the right to claim under investment contracts (e.g., pledges of rights to apartments in buildings under construction);
- individual guarantees;
- pledges of rights (claims) to monetary funds maintained on deposit with the Bank;
- insurance of business risk; and
- other forms of security.

An opinion on such collateral is usually prepared by the CMD. Where an independent appraisal of the market value of the collateral is required by law or agreed between the Bank and the pledgor, a third party appraiser will be engaged. As at December 31, 2006 the Bank had approximately RUR 469.1 billion of collateral security over a net loan portfolio of approximately RUR 256.04 billion, compared with RUR 286.7 billion and RUR 163.2 billion, respectively, as at December 31, 2005. This made the Bank's net loan portfolio approximately 1.83 times overcollateralized as at December 31, 2006 (compared to 1.8 times as at December 31, 2005). The break down of this collateral is: 39 per cent. represented by property, 40 per cent. by guarantees and 21 per cent. by securities (43 per cent., 39 per cent. and 18 per cent., respectively, as at December 31, 2005). Under Russian law, foreclosure generally requires a court order and a public sale of the collateral. A court may delay such public sale for a period of up to a year upon a pledgor's application. In addition, Russian law has no pledge perfection system for collateral other than mortgages, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. See "Risk Factors – Risks Related to the Bank's Business and Industry – It may be difficult for the Bank to enforce collateral or other security under Russian law".

Asset, Liability and Risk Management

The Bank's asset and liability management strategy aims to optimize its profitability over time subject to specific risk parameters and business needs, using an integrated approach to its capital, balance sheet (assets and liabilities), and liquidity and interest rate risk management. Asset and liability management consists of balance sheet funding, control and evaluation and management of liquidity, foreign currency and interest rate risks.

Given the possibility of crises in the Russian economy, the composition of the Bank's assets and liabilities is managed based on the results of scenario analysis and stress testing. Taking into account the Bank's strategic goals, the Planning and Economy Department develops recommendations for structuring the Bank's assets and liabilities so that it is profitable albeit subject to an acceptable risk level. The Bank has designed its risk management strategy with the aim of minimizing uncertainties that result in losses and enabling the Bank to function in a stable manner despite changing conditions on financial markets. The Bank seeks to have sufficient liquidity to match its assets and liabilities by maturity and currency, and to diversify its assets and liabilities by clients, regions, industry sectors and amounts. The Bank continues to improve its risk management, monitoring and control systems in light of the continuing development of the Russian banking system and financial markets.

Risk management functions are performed by the RMD. Managers of standalone business units (*i.e.,* branch directors and division managers) exercise day-to-day control of active transactions carried out by each respective unit on the basis of the general risk management policy adopted by the Bank. Such units deliver to the RMD, on a daily basis, information on their credit and market transactions and related risks. The obtained data undergo independent assessment and subsequently form the basis for the fundamental analysis of the portfolio. The analysis materials are summed up in regular reports on the risk level that are submitted to the Bank's President, Management Board and Credit Committee.

The Bank also has an internal control system, which is a set of procedures applied by the personnel of each unit at various levels in the course of transaction processing to identify potential technological errors. The Bank also has an external control system. This is a set of control techniques applied by the independent units at various levels as well as the procedures used by third parties. The independent procedures are conducted by the Audit Committee and the Bank's external auditors.

Credit, Market and Liquidity Risks

The Bank's results of operations are influenced by credit and market risks related to financial investments. To manage such risks and in an effort to neutralize events that can have a negative effect, the Bank has established a three-level risk control system:

- business units exercise preliminary and operating control of the established limits in the course of transactions;
- the back office monitors business units for compliance with the established limits;
- the following units carry out preliminary control and independent follow-up on risks to the extent of their competence on an ongoing basis: the RMD, the Internal Audit Department, the Planning and Economy Department, the Legal Department, the Financial Control Service, the Corporate Interests Protection Service and the Security Service.

In addition, the Bank's risk management system regulates the following procedures:

- procedures to select reliable borrowers and least-risk financial investment instruments by formalized credit and risk measurement methods and detailed analysis of each project;
- limitations on the Bank's investments into individual market segments in order to avoid excessive risk concentration;
- risk monitoring procedures with respect to certain projects and the whole portfolio that enable the Bank to take preventive measures in the event of any negative trends; and
- a set of measures to hedge individual risk types.

Credit risk

As a result of its credit operations, the Bank is exposed to credit risk, which is the risk that a counterparty will be unable to repay its obligations in full when due. The RMD has designed the Bank's "know your client" procedures and credit risk management system based on CBR requirements, the recommendations of the Basel Committee on Banking Supervision, international auditing standards and the experience of the leading Russian and international financial institutions.

The Bank has an internal rating system that places legal entities, individual private entrepreneurs, administrations of regions of the Russian Federation, domestic and foreign banks and foreign governments into risk categories. Risks related to individual borrowers are evaluated on the basis of a scoring method developed by the Bank with the support of Fair Isaac International Ltd, a foreign consulting company.

The Bank has a system of limitations on active transactions that restricts the risk of any specific transaction and the Bank's loan portfolio exposure in general. In addition, the Bank has a set of standard anti-money laundering procedures designed to ensure full compliance of credit procedures of the Bank with applicable Russian regulations. To manage specific transaction risks, the Bank uses:

- term limits depending on the risk level with respect to products, their types and other terms of loans;
- amount limits with respect to each specific counterparty or group of related counterparties;
- limits with respect to each loan product calculated in accordance with internal methods of loan risk evaluation; and
- specific bank transactions limits.

Decisions to assign a credit risk category and a risk limit to a particular borrower are made either by the Credit Committee, the Small Credit Committee or by the credit committees of the branches. See "– Lending Policies and Procedures – Credit Procedures".

In general, the Bank uses the following restrictions to manage its loan portfolio exposure:

- amount limits that restrict unit exposure;
- limits on the authority of the Bank's personnel with respect to loans; and
- risk limits that restrict the maximum permissible portfolio exposure of certain units.

Among the portfolio limits, one of the most important is the risk limit that determines the maximum loss for each business unit involved in active transactions. The amount of such risk is established by the RMD on the basis of the risk tolerance and is subject to quarterly review on the basis of the risk status of the existing loan portfolio. The RMD updates the existing limits on a regular basis in accordance with the current loan risk level as well as the macro and microeconomic situation. The RMD regularly reviews the risk level of existing products and compliance with the established limits by business units in order to identify factors that could increase risks with a view towards developing strategies to mitigate these risks. The RMD then reports all violations of existing limits it identified to relevant units of the Bank. Based on the results of the loan portfolio analysis, the RMD develops suggestions to help prevent such negative trends in the future. In addition to traditional groups of factors (such as the financial status, security and settlement account turnover), the loan risk level can be affected by the geographic and industry sector risks.

Credit risk limits for borrowers. As at December 31, 2006, the Bank had established credit risk limits for approximately 377,000 borrowers or groups of borrowers (including individuals). As at December 31, 2006, the Bank had set overall lending limits for more than 5,840 companies, 44 domestic banks, 80 foreign banks, 18 Russian subsidiaries of foreign banks and 21 Russian sub-federal entities. As at December 31, 2006, the Bank's offices and branches had lending limits for approximately 4,820 companies and 18 municipalities.

The Bank has also imposed credit risk limits on domestic banks with respect to certain banking operations (such as precious metals and foreign exchange operations) and limits or sublimits on particular banking operations and credit risk limits for loans to employees guaranteed by companies.

The Bank monitors its credit exposure limits on a regular basis, and these limits are reviewed at least biannually. The Bank also manages its credit risk by obtaining collateral as well as corporate and personal guarantees. See "– Lending Policies and Procedures – Collateral".

Geographic risk. The Bank is exposed to geographic risk due to excessive concentration of financial investments in certain regions where the Bank's borrowers operate. Regional exposure reflects the potential for the full or partial default of businesses operating in various regions on their obligations to the Bank in the event of unfavorable changes in the current economic status of the particular region that may have a critical impact on their operations. Geographical limits are mainly used to restrict loans to economically depressed regions and regions suffering from political instability such as the Chechen Republic. Regional limits are assessed in accordance with the principles of regional credit risk assessment adopted by the Bank. On the basis of these principles, the Bank determines two values: the regional credit risk ratio and indicative regional investment limits. Based on these values, the Bank invests primarily in regions where the risk level is indicated to be acceptable or higher but close to moderate. When lending to entities in regions outside Moscow, the Bank lends only to borrowers that can provide adequate collateral.

The Bank has evaluated the risk of investments into each of 86 regions of the Russian Federation. On the basis of this evaluation the regions have been classified into six groups depending on the level of risk, ranging from minimum to impermissible. In addition, the Bank has established indicative loan investment risk limits for 85 of the 86 Russian regions.

Industry sector risk. The Bank is exposed to industry sector risk due to excessive concentration of financial investments in certain industry sectors in which the Bank's borrowers operate. Sector-related exposure reflects the potentially full or partial default of businesses operating in various sectors on their obligations to the Bank in the event of unfavorable changes in the current status of such sector that may have a critical impact on their operations. The Bank carefully assesses industry sector risk and invests primarily in those industries where such risk is acceptable to the Bank. Industry sector risk is evaluated in accordance with the Bank's internal regulations, which assess risk based on quantitative factors as well as a classification of the sector in accordance with one of six risk groups ranging from minimum to high. The quantitative evaluation of the sector risk includes the determination of the maximum permissible loan investments in the relevant sector.

Operational Risks

The Bank understands operational risks as the risk of loss that can be caused by inadequate or erroneous internal business processes, systems, personnel or by external events. The Bank's internal regulations are one of the principal instruments used to manage operational risks. A clear and unambiguous description of each transaction and the decision-making process is one of the crucial factors that reduce the level of operational risk and establish the basis for the timely identification and the efficient control of risk. Each of the RMD and the Audit Department exercises operational risk control separately. On the basis of information obtained from functional units, as a result of independent audits and expert evaluations or on the basis of data developed by the Bank's automated systems, the RMD and the Audit Department prepare an independent assessment of the Bank's operational risks and submit, on a regular basis, their reports to the Bank's management. The Legal Department, the Financial Control Service, the Corporate Interests Protection Service and the Security Service are also involved in operational risk control.

The Bank also manages its operational risk through obtaining outside insurance. The Bank's insurance policies include losses to the property of the Bank, third party liability losses and life insurance of security personnel. The Bank paid approximately RUR 73.8 million, RUR 26.6 million and RUR 44.0 million for the years ended December 31, 2006, 2005 and 2004, respectively, in insurance premiums. In June 2006, The Bank obtained standard BBB insurance. The Bank does not currently carry insurance coverage at levels comparable to those customary in other countries for a bank of its size and nature and, under some circumstances, its insurance coverage may prove insufficient. The same is true of many Russian banks and other companies, as the Russian insurance sector is not fully developed and insurance is not widely relied upon to manage operational risk. See "Risk Factors – Risks Relating to the Bank's Business and Industry – The Bank's business entails operational risks".

Market Risks

Market risk means a loss that can be suffered as a result of the devaluation of the Bank's positions (portfolio) in the event of an unfavorable development in market parameters and/or financial instruments (such as prices, interest or exchange rates). For the purposes of risk management, the Bank distinguishes between currency, interest and securities market risks.

The RMD develops and monitors the Bank's risk management policies for market risks (interest rate risk, currency risk and securities market risk) and regularly reviews compliance with such policies. The unit managers manage these risks based on a common set of rules, limits and restrictions set by the Financial Committee and the Credit Committee. Market risk management is governed by a special regulation of the Bank adopted by the President of the Bank on May 15, 2002.

The Treasury Department coordinates foreign currency, interest and securities market risk management through consolidating risks in all market sectors. In an attempt to mitigate potential losses caused by significant market shifts, the Financial Committee sets positions and stop-loss limits for the Treasury Department. These limits are calculated using probability projection systems that employ scenario analysis and stress testing.

The RMD reviews trading and investment limits for government and corporate securities, stop-loss limits and open position limits in foreign currencies and precious metals at least annually. On the basis of recommendations from the Financial Department, the Financial Committee sets limits on currency operations in the domestic and foreign markets and securities trading and precious metals. The Treasury Department and the Settlement Department monitor limit compliance daily, identifying violations and the reasons for them. The Bank's Executive Vice President and senior managers are immediately notified of limit violations and upon such notification take measures aimed at mitigating the violations, which may include the closing-out of positions or temporarily halting transactions in particular financial instruments. The volume of trading in regional markets is not material. Control over operations in the securities market is carried out on a daily basis through automated systems (Reuter Condor System) that register, conduct and record such operations.

Interest rate risk. The Bank is exposed to interest rate risk, principally as a result of lending to clients and other banks at fixed interest rates in amounts and for periods that differ from those of term deposits and other borrowed funds at fixed interest rates. Due to changes in interest rates, the Bank's liabilities may have disproportionately high interest rates compared to those of its assets and vice versa. Interest margins on assets and liabilities having different maturities may increase as a result of changes in market interest rates. In practice, interest rates are often set on a short-term basis and contractually fixed interest rates on both assets and liabilities (other than retail customer deposits) are often reset based on current market conditions and mutual agreement.

Interest rate risk depends primarily on changes to the refinancing rate by the CBR. The procedures to measure interest rate risk adopted by the Bank include two approaches to the evaluation of the interest rate risk: the gap model and the interest rate sensitivity model. The Bank evaluates its interest rate risk on the basis of analysis of sensitivity of financial results to changes in key financial market indicators, stress testing and scenario analysis, which take into account possible changes in the structure of its assets and liabilities. The results of these analyses are used in the preparation of long and short-term business plans and for establishing interest rates and limits for every type of financial instrument. The Bank also controls its interest rate risk by managing the structure of its assets and liabilities. For purposes of assessing interest rate risk, assets and liabilities are grouped by maturity, currency and interest rate type.

The Bank calculates the difference or gap between assets and liabilities and conducts a sensitivity analysis to estimate unfavorable changes in interest rates that may happen over a one-year period.

The Bank's model calculation is based on an assumption that all interest rate ranges applicable to assets and liabilities decrease simultaneously by 1 per cent. on the date of calculation. During 2003, the CBR decreased its refinancing rate several times. During 2004, the CBR continued to decrease its refinancing rate: on January 14, 2004, the rate was reduced from 16 per cent. to 14 per cent. followed by a further decrease to 13 per cent. on June 15, 2004, to 12 per cent. on December 26, 2005, to 11.5 per cent. on June 26, 2006 and to 11 per cent. on October 23, 2006, to 10.5 per cent. in January 2007, no further changes have been made to the refinancing rate to date; hence, the change was downward. This model is also based on the assumption that following the repayment of a claim (obligation), a new claim (obligation) with an equal nominal amount and an equal maturity arises. Additional earnings/expenses are calculated with respect to the whole portfolio of claims and obligations.

As at December 31, 2006, the aggregate interest sensitivity of Rouble-denominated assets and liabilities was positive and amounted to RUR 279.5 million (*i.e.,* in the event all interest rates on Rouble-denominated deposits decrease by 1 per cent., the Bank's growth of income in the next year would total RUR 279.5 million) compared to RUR 208.6 million and RUR148.2 million as at December 31, 2005 and 2004, respectively. As at December 31, 2006, aggregate interest sensitivity of dollar-denominated assets and liabilities amounted to positive USD2.8 million compared to negative USD1.1 million and positive USD2.2 million as at December 31, 2005 and 2004, respectively. As at December 31, 2006, aggregate interest sensitivity of Euro-denominated assets and liabilities amounted to positive EUR 0.2 million compared to negative EUR 0.2 and negative EUR 0.1 million as at December 31, 2005 and 2004, respectively.

The Bank does not have significant exposure to floating interest rate risk as the Bank does not typically extend loans with floating interest rates. Currently, due to the absence of clear regulatory and tax treatment of hedging instruments, the Bank sees very limited use of interest rate hedging instruments such as interest rate swaps and forward rate agreements ("FRAs") in the Russian Federation. Therefore, the Bank has a very limited set of interest rate management tools at its disposal, including:

- attempting to avoid significant gaps between assets and liabilities through setting medium term criteria with respect to maturities and types of funds that are taken on deposit;
- managing its treasury and investment portfolios; and
- attempting to mitigate the risks of an unfavorable change in interest rates primarily through setting limits on the potential changes of interest negotiated in contracts.

As at December 31, 2006, 2005 and 2004, the average effective interest rates on the main financial instruments in the major currencies were as follows:

	2006	2005	2004	2006	2005	2004	2006	2005	2004
Assets		***USD***			***Euro***			***RUR***	
Due from other banks	8.6	4.7%	3.1%	4.7	2.4%	2.1%	6.5	6.5%	3.5%
Loans to customers	9.4	10.1%	11.1%	9.0	9.4%	10.5%	12.5	11.6%	11.8%
Financial instruments at fair value through profit and loss	6.0	5.4%	5.8%	—	—	2.7%	8.4	8.0%	7.9%
Financial instruments available for sale	8.0	6.0%	—	—	—	—	—	—	—
Liabilities									
Due to other banks	6.4	5.5%	4.1%	4.1	5.2%	5.7%	4.5	4.0%	—
Customer accounts	6.1	5.4%	6.2%	5.8	4.8%	5.4%	5.3	4.5%	5.0%
Debt securities issued	7.6	7.6%	7.8%	4.6	5.6%	4.9%	6.4	6.4%	7.1%

Currency risk. Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank is exposed to currency risk from holding open positions in Russian Roubles and other currencies, primarily U.S. Dollars and Euros. The Bank manages its currency risk principally by setting open foreign currency position limits, stop-loss limits, country and borrower limits for its departments, matching assets and liabilities in foreign currencies through TOM and SWAP transactions with the Bank's counterparties, providing for an opportunity to sell/buy funds denominated in foreign currencies, and by maintaining centralized control over exchange rates in currency operations and over the Bank's correspondent accounts in foreign currencies.

The Bank's exposure to currency risk is measured on the basis of its open currency position, the limit of which is set by the CBR under RAR and may not exceed 20 per cent. of the Bank's aggregate capital in all currencies or 10 per cent. of capital denominated in certain currencies, including the balancing Rouble-denominated position. As at December 31, 2006, the Bank's position in U.S. Dollars, gross, was 0.25 per cent. of the Bank's equity and the Bank's position in Euros, gross, was 0.08 per cent. of the Bank's equity. The Bank's open currency position is monitored by the CBR on a daily basis and the Bank believes it currently meets the requirements of the CBR with respect to control of its open currency position. The Bank is exposed to potentially significant risk from sudden fluctuations in the exchange rates of currencies in which the Bank has significant open currency positions. The Bank's major open currency positions are concentrated in U.S. Dollars and Euros. However, the Bank's open currency positions in Euros are substantially lower than its U.S. Dollar positions.

The structure of the Bank's assets and liabilities denominated in various currencies and translated into Russian Roubles as at December 31, 2006 was as follows:

	RUR	**USD**	**Euros**	**Other currencies**	**Total**
			RUR millions		
Cash and cash equivalents	39,433.0	2,322.7	902.5	994.4	43,652.6
Mandatory cash balances with central banks	6,065.0	—	—	234.9	6,299.9
Due from other banks	16,321.0	10,506.9	2,035.1	405.5	29,268.4
Financial assets at fair value through profit and loss and available for sale	31,761.0	4,346.1	553.5	923.7	37,584.3
Loans to customers	169,731.2	75,583.3	9,459.9	1,267.7	256,042.1
Investments in associated companies and non-consolidated subsidiaries	740.8	—	—	—	740.8
Goodwill	583.4	—	—	—	583.4
Premises and equipment and intangible assets	5,870.3	—	—	709.0	6,579.4
Other assets	1,136.2	37.1	90.2	207.0	1,470.5
Tax asset	12.7	—	—	24.8	37.5
Total assets	**271,654.5**	**92,795.9**	**13,041.3**	**4,767.1**	**382,258.8**
Due to other banks	1,015.3	35,434.6	1,201.8	363.5	38,015.3
Customer accounts	227,486.2	21,394.9	6,526.2	4,093.9	259,501.1
Debt securities issued	12,333.0	38,099.3	68.1	144.9	50,645.4
Other liabilities	239.8	851.3	65.1	142.5	1,298.7
Tax liabilities	827.4	—	—	1.6	829.0
Total liabilities	**241,901.7**	**95,780.1**	**7,861.2**	**4,746.5**	**350,289.4**
Net balance sheet position as at December 31, 2006	**29,752.8**	**-2,984.2**	**5,180.1**	**20.7**	**31,969.4**

The structure of the Bank's assets and liabilities denominated in various currencies and translated into Russian Roubles as at December 31, 2005 was as follows:

	RUR	USD	Euros	Other currencies	Total
			RUR millions		
Cash and cash equivalents	15,947.1	2,428.1	555.8	986.3	19,917.3
Mandatory cash balances with central banks	4,089.1	—	—	84.4	4,173.5
Due from other banks	6,493.0	5,478.3	1,395.1	499.7	13,866.1
Financial assets at fair value through profit and loss and available for sale	20,406.3	14,489.1	561.2	469.3	35,925.9
Loans to customers	114,792.8	43,375.0	4,343.9	736.5	163,248.2
Investments in associated companies and non-consolidated subsidiaries	200.4	—	—	—	200.4
Premises and equipment and intangible assets	6,445.2	—	—	662.3	7,107.5
Other assets	815.3	16.5	29.5	53.3	914.6
Tax asset	395.5	—	—	20.4	415.9
Total assets	**169,584.7**	**65,787.0**	**6,885.5**	**3,512.2**	**245,769.4**
Due to other banks	1,290.7	19,275.9	428.3	158.5	21,153.4
Customer accounts	135,231.9	26,453.7	4,052.2	2,787.0	168,524.8
Debt securities issued	3,023.9	25,868.1	184.3	—	29,076.3
Other liabilities	2,336.0	94.7	33.8	101.4	2,565.9
Tax liabilities	743.4	—	—	1.9	745.3
Total liabilities	**142,625.9**	**71,692.4**	**4,698.6**	**3,048.8**	**222,065.7**
Net balance sheet position as at December 31, 2005	**26,958.8**	**(5,905.4)**	**2,186.9**	**463.4**	**23,703.7**

The structure of the Bank's assets and liabilities denominated in various currencies and translated into Russian Roubles as at December 31, 2004 was as follows:

	RUR	USD	Euros	Other currencies	Total
			RUR millions		
Cash and cash equivalents	14,356.6	1,327.0	472.9	232.4	16,388.9
Mandatory cash balances with central banks	2,994.2	—	—	63.3	3,057.5
Due from other banks	4,176.5	6,110.1	1,361.2	48.4	11,696.2
Financial assets at fair value through profit and loss and available for sale	19,424.8	7,569.3	171.6	319.6	27,485.3
Loans to customers	70,021.1	19,564.4	1,010.5	437.5	91,033.5
Investments in associated companies and non-consolidated subsidiaries	859.9	—	—	71.1	931.0
Premises and equipment and intangible assets	7,389.7	—	—	155.7	7,545.4
Other assets	452.8	14.5	1.1	21.9	490.3
Tax assets	208.2	—	—	—	208.2
Total assets	**119,883.8**	**34,585.3**	**3,017.3**	**1,349.9**	**158,836.3**
Due to other banks	2,244.5	4,418.9	387.6	142.4	7,193.4
Customer accounts	92,444.6	20,867.8	2,703.6	577.4	116,593.4
Debt securities issued	5,398.5	8,355.8	304.9	50.3	14,109.5
Other liabilities	717.0	10.5	21.6	126.3	875.4
Tax liabilities	591.4	—	—	—	591.4
Total liabilities	**101,396.0**	**33,653.0**	**3,417.7**	**896.4**	**139,363.1**
Net balance sheet position as at December 31, 2004	**18,487.8**	**932.3**	**(400.4)**	**453.5**	**19,473.2**

The following table sets forth the Bank's net open foreign currency position as reported to the CBR as at December 31, 2006, 2005 and 2004[1]:

	2006	2005	2004
Net open foreign currency position (millions of USD)	+32.4	+0.56	5.6
As a % of foreign currency liabilities	+0.78	+0.02	0.5
As a % of shareholders' equity	+2.67	+0.07	1.0
As a % of total assets	+0.22	+0.01	0.1

Note:
(1) "+" = long open currency position; "-" = short open currency position

Securities market risk. Securities market risk is the risk of changes in the value of debt obligations as a result of interest rate or price movements. The Bank's main source of securities market risk exposure is its OFZ trading portfolio. The maturity profile of its government securities portfolio and its sensitivity to market rates has increased due to the extension of the term of certain domestic borrowings by the Russian Ministry of Finance. However, the Bank has set portfolio limits on various types and terms of government securities, which it believes enable it to maintain its securities market risk at acceptable levels.

Liquidity Risk

Liquidity risk is the risk resulting from a difference in the maturities of assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The Bank is subject to liquidity requirements set by the CBR. The liquidity management policy of the Bank is reviewed and approved by the Financial Committee of the Bank at least annually. See "Banking Industry and Banking Regulation in Russia-Liquidity and Reserve Requirements". To manage its liquidity risk the Bank uses various methods of scenario analysis and simulative, optimizing and predictive modeling.

The CBR exercises strict control over liquidity risk by establishing instant (N2) and current (N3) liquidity statutory ratio. The risk related to sources of funding is controlled by the CBR in accordance with the capital adequacy (N1) standard and long-term (N4) liquidity standard. For each monthly statement dates the Bank was in compliance with all four standards according the CBR rules.

The risk of an asset/liability mismatch arises due to the existence in the Bank's resource base of significant budget funds owned by the City of Moscow and other demand liabilities, including retail term deposits that can be withdrawn immediately and is also due to rapid growth of the portion of the Bank's loan portfolio with an average maturity of approximately one year. The Bank is focusing on diversifying its resource base and, in particular, increasing the amount of retail customer deposits and issuing its own debt obligations, including through external borrowings, such as issuance of debt securities in the domestic and international capital markets.

The Bank divides its proprietary securities portfolio into the following three securities portfolios with the aim of achieving the appropriate liquidity/earnings ratio and ensuring the optimal management of assets and liabilities:

- *Trading portfolio* – decisions affecting the structure of this portfolio are taken by the traders within established limits; the securities in this portfolio are traded on a day-to-day basis;
- *Liquidity management portfolio* – decisions affecting the structure of this portfolio are taken by the Treasury Department of the Bank; this portfolio includes liquid governmental securities that are sold by the Bank to manage its liquidity risk; and
- *Investment portfolio* – decisions affecting the structure of this portfolio are taken by the Financial Committee of the Bank; the securities in this portfolio are usually held for a period exceeding six months.

To manage its current and mid-term liquidity, the Bank assesses liquidity on the basis of its payment calendar, which it generates regularly, as well as the effects on liquidity of major transactions, which the Bank intends to enter into. Statistical analysis of current and long-term liquidity is based on the computation of economic ratios as required by the CBR. These ratios are computed on a weekly basis. This analysis looks at the change in the ratios over the last three months as well as any underlying factors (such as asset and liability changes) leading to such change. If a liquidity shortfall occurs, liquidity needs may have to be met from various sources, including:

- disposition of a portion of its most liquid assets;
- entering into a "repo" transaction with the CBR;
- limiting the growth of assets in a specific line of business;
- adjusting its rates and fees; and/or
- securing more long-term and short-term funding from its major clients, other banks and counterparties.

The following tables show the Bank's assets and liabilities by residual maturity as at December 31, 2006. The table also contains information regarding the Bank's liquidity exposure and the maturity profile of its balance sheet.

	On demand and less than one month	**1 to 6 months**	**6 months to 1 year**	**Over 1 year**	**No maturity specified**	**Total**
			RUR millions			
Cash and cash equivalents	43,652.6	-	-	-	-	43,652.6
Mandatory cash balances with central banks	-	-	-	-	6,299.8	6,299.8
Due from other banks	24,146.1	948.4	4145.3	28.5		29,268.3
Financial assets at fair value through profit and loss and available for sale	37,167.5	24.6	69.8	13.9	308.5	37,584.3
Loans to customers	24,875.5	66,747.8	74,411.3	90,007.5	-	256,042.1
Investments in associated companies and non-consolidated subsidiaries	-	-	-	-	740.8	740.8
Premises and equipment and intangible assets	-	-	-	-	6579.4	6579.4
Goodwill	-	-	-	-	583.4	583.4
Other assets	1,351.2	16.4	0.3	102.7	-	1,470.6
Tax assets					37.5	37.5
Total assets	**131,192.9**	**67,737.2**	**78,626.7**	**90,152.6**	**14,549.4**	**382,258.8**
Due to other banks	2,215.1	8,154.7	244.5	27,401.0	-	38,015.3
Customer accounts	115,921.1	36,555.4	96,798.7	10,225.9	-	259,501.1
Debt securities issued	3,661.6	5,550.5	401.2	41,032.1	-	50,645.4
Other liabilities	930.4	151.9	8.3	208.0	-	1,298.6
Tax liabilities	-	-	-	-	829.0	829.0
Total liabilities	**122,728.2**	**50,412.5**	**97,452.7**	**78,867.0**	**829.0**	**350,289.4**
Net liquidity gap as at December 31, 2006	**8,464.7**	**17,324.7**	**-18,826.0**	**11,285.6**	**13,720.4**	**31,969.4**
Net liquidity gap as at December 31, 2005	**5,420.0**	**8,180.2**	**4,478.64**	**(11,676.9)**	**17,301.9**	**23,703.7**
Cumulative liquidity gap as at December 31, 2006	**8,464.7**	**25,789.4**	**6,963.4**	**18,249.0**	**31,969.4**	—
Cumulative liquidity gap as at December 31, 2005	**5,420.0**	**13,600.3**	**18,078.8**	**64,101.9**	**23,703.7**	—

The following tables show the Bank's assets and liabilities by residual maturity as at December 31, 2005. The table also contains information regarding the Bank's liquidity exposure and the maturity profile of its balance sheet.

	On demand and less than one month	1 to 6 months	6 months to 1 year	Over 1 year	No maturity specified	Total
			RUR millions			
Cash and cash equivalents	19,917.3	—	—	—	—	19,917.3
Mandatory cash balances with central banks	—	—	—	—	4,173.5	4,173.5
Due from other banks	12,960.1	836.2	46.0	23.8	—	13,866.1
Financial assets at fair value through profit and loss and available for sale	29,776.1	—	—	—	6,149.8	35,925.9
Loans to customers	16,979.1	48,611.5	51,346.9	46,310.6	—	163,248
Investments in associated companies and non-consolidated subsidiaries	—	—	—	—	200.4	200.4
Premises and equipment and intangible assets	—	—	—	—	7,107.6	7,107.6
Other assets	914.7	—	—	—	—	914.7
Tax assets	—	—	—	—	415.9	415.9
Total assets	**80,547.3**	**49,447.7**	**51,392.9**	**46,334.4**	**18,047.2**	**245,769.4**
Due to other banks	6,694.5	784.2	7,843.8	5,830.9	—	21,153.4
Customer accounts	64,501.2	38,688.2	38,203.9	27,131.5	—	168,524.8
Debt securities issued	1,394.0	1,766.7	866.7	25,048.9	—	29,076.3
Other liabilities	2,537.5	28.4	—	—	—	2,565.9
Tax liabilities	—	—	—	—	745.3	745.3
Total liabilities	**75,127.2**	**41,267.5**	**46,914.4**	**58,011.3**	**745.3**	**222,065.7**
Net liquidity gap as at December 31, 2005	**5,420.0**	**8,180.2**	**4,478.6**	**(11,676.9)**	**17,301.9**	**23,703.7**
Net liquidity gap as at December 31, 2004	**(2,631.2)**	**(26,331.1)**	**34,415.2**	**2,052.8**	**11,967.6**	**19,473.2**
Cumulative liquidity gap as at December 31, 2005	**5,420.0**	**13,600.3**	**18,078.8**	**6,401.9**	**23,703.7**	—
Cumulative liquidity gap as at December 31, 2004	**(2,631.2)**	**(28,962.3)**	**5,452.9**	**7,505.6**	**19,473.2**	—

The following tables show the Bank's assets and liabilities by residual maturity as at December 31, 2004. The table also contains information regarding the Bank's liquidity exposure and the maturity profile of its balance sheet.

	On demand and less than one month	1 to 6 months	6 months to 1 year	Over 1 year	No maturity specified	Total
			RUR millions			
Cash and cash equivalents	16,388.9	—	—	—	—	16,388.9
Mandatory cash balances with central banks	—	—	—	—	3,057.5	3,057.5
Due from other banks	10,528.4	471.1	696.7	—	—	11,696.2
Financial assets at fair value through profit and loss and available for sale	26,460.1	—	—	—	1,025.2	27,485.3
Loans to customers	8,375.0	27,607.7	40,528.7	14,522.1	—	91,033.5
Investments in associated companies and non-consolidated subsidiaries	—	—	—	—	931.0	931.0
Premises and equipment and intangible assets	—	—	—	—	7,545.4	7,545.4
Other assets	697.6	0.2	—	0.7		698.5
Tax assets	—	—	—	—	—	—
Total assets	**62,450**	**28,079.0**	**41,225.4**	**14,522.8**	**12,559.1**	**158,836.3**
Due to other banks	3,517.5	690.4	148.8	2,836.7	—	7,193.4
Customer accounts	58,364.4	50,571.0	5,555.4	2,102.6	—	116,593.4
Debt securities issued	2,330.6	3,145.9	1,105.8	7,527.2	—	14,109.5
Other liabilities	868.9	2.8	0.2	3.5	—	875.4
Tax liabilities	—	—	—	—	591.4	591.4
Total liabilities	**65,081.3**	**54,410.1**	**6,810.2**	**12,470.0**	**591.4**	**139,363.1**
Net liquidity gap as at December 31, 2004	**(2,631.2)**	**(26,331.1)**	**34,415.2**	**2,052.8**	**11,967.6**	**19,473.2**
Net liquidity gap as at December 31, 2003	**(14,950.5)**	**(3,435.7)**	**13,287.8**	**16,232.1**	**1,750.9**	**12,884.7**
Cumulative liquidity gap as at December 31, 2004	**(2,631.2)**	**(28,962.4)**	**5,452.9**	**7,505.6**	**19,473.2**	—
Cumulative liquidity gap as at December 31, 2003	**(14,950.5)**	**(18,386.3)**	**(5,098.4)**	**(11,133.7)**	**12,884.7**	—

Selected Statistical and Other Information

The following selected statistical and other financial information is extracted, where applicable, from the Bank's IFRS Financial Statements for the years ended December 31, 2006, 2005 and 2004.

Average Balance Sheet and Interest Rate Data

The following table sets forth the consolidated average balances of assets and liabilities of the Bank for the periods Indicated and, for interest earning assets and interest bearing liabilities, sets forth the amount of interest income or expense and the average rate of such interest for such assets and liabilities. For the purposes of this table, the consolidated average balances of assets and liabilities represent the average of the opening and closing balances for each period. The results of this analysis would likely be different if alternative averaging balance methods were used.

	For the year ended December 31,								
	2006			2005			2004		
	Average Balance	Income/ Expense	Average Interest Rate	Average Balance	Income/ Expense	Average Interest Rate	Average Balance	Income/ Expense	Average Interest Rate
				RUR millions					
Assets									
Interest earning assets									
Due from banks([1][2]	21,551	2,098	10%	12,808	1,038	8%	7,408	462	6%
Loans to customers[1][2]	211,580	22,495	11%	128,577	14,137	11%	78,957	8,845	11%
Securities[3]	32,482	3,022	9%	28,952	2,689	9%	23,149	2,115	9%
Total interest-earning assets	265,614	27,615	10%	170,337	17,864	10%	109,513	11,422	10%
Non-interest earning assets									
Cash and cash equivalents	31,785	—	—	18,157	—	—	13,661	—	—
Mandatory cash balances with central banks	5,237	—	—	3,615	—	—	6,271	—	—
Provisions for loan and other Impairment	(2,708)	—	—	(1,764)	—	—	(1,463)	—	—
Investments in equity securities, associated companies and non-consolidated subsidiaries	4,516	—	—	3,188	—	—	2,936	—	—
Premises and equipment	6,843	—	—	7,326	—	—	7,454	—	—
Accrued Interest income and other assets	2,500	—	—	1,131	—	—	645	—	—
Tax assets	227			312	—	—	313	—	—
Total average assets	314,014	27,615	9%	200,303	17,864	9%	139,331	11,422	8%
Liabilities and Shareholders' Equity									
Due to other banks[4]	29,370	1,561	5%	14,097	611	4%	9,949	354	4%
Customer accounts	213,201	9,403	4%	142,055	6,233	4%	101,340	4,855	5%
Debt securities issued	39,406	2,569	7%	21,199	1,561	7%	10,654	566	5%
Total interest bearing liabilities	281,977	13,534	5%	177,351	8,405	5%	121,943	5,775	5%
Accrued interest expense and other liabilities	3,413	—	—	2,695	—	—	725	—	—
Tax liabilities	787	—	—	668	—	—	484	—	—
Minority interest	323	—	—	148	—	—	92	—	—
Shareholders' equity	27,514	—	—	21,440	—	—	16,087	—	—
Total average liabilities and shareholders' equity	314,014	13,534	4%	202,303	8,405	4%	139,331	5,775	4%
Net interest spread[5]	—	—	6%	—	—	6%	—	—	6%
Net interest income	—	14,081	—	—	9,459	—	—	5,647	—
Net Interest margin[6]	—	—	5%	—	—	6%	—	—	5%

Notes:

(1) Prior to deducting allowance for impairment and present value discounts.

(2) Includes loans and placements on which contractual interest was not accrued.

(3) Excludes equity securities and equity investments in non-subsidiary banks and companies, as these securities and investments are not interest-earning.

(4) Includes CBR deposits.

(5) The difference between the average annual interest rate on interest-earning assets and the average annual interest rate on interest bearing liabilities. Average rate on interest-earning assets was calculated as total interest income divided by interest-earning assets representing the average of the opening and closing balances for the respective year. Average rate on interest-bearing liabilities was calculated as total interest expense divided by interest-bearing liabilities representing the average of the opening and closing balances for the respective period.

(6) Net interest income before provision for loan impairment expressed as a percentage of average interest-earning assets representing the average of the opening, mid-year and closing balances for the respective period.

Net Changes in Interest Income and Expense Volume and Rate Analysis

The following table provides a comparative analysis of net changes in interest earned and interest paid by reference to changes in average volume and rates for the periods indicated. Net changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as the change in volume multiplied by the previous rate, whilst rate change is the change in rate multiplied by the previous volume. The rate/volume change (change in rate multiplied by change in volume) is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total. Average balances represent the average of the opening and closing balances for the respective period.

	For the year ended December 31,					
	2006/2005 Increase (decrease) due to changes in			2005/2004 Increase (decrease) due to changes in		
	Volume	Rate	Net change	Volume	Rate	Net change
			RUR millions			
Interest Income						
Due from other banks	819	240	1,059	408	168	577
Loans to customers	8,808	(450)	8,358	5,452.5	(161)	5,292
Financial assets at fair value through profit and loss	328	5	334	538	35	574
Total interest Income	**9,956**	**(205)**	**9,751**	**6,399**	**43**	**6,442**
Interest Expense						
Due to other banks	786	164	950	169	88	257
Customer accounts	3,138	32	3,170	1,744	(366)	1,378
Debt securities issued	1,163	(155)	1,008	716	279	995
Total interest expense	**5,087**	**42**	**5,129**	**2,628**	**2**	**2,630**
Net change in net interest income	**4,869**	**(247)**	**4,622**	**3,771**	**41**	**3,812**

Investment Portfolio

The following table sets out information relating to the concentration of the Bank's gross securities portfolio by investment category as at December 31, 2006, 2005 and 2004:

	As at December 31,					
	2006		2005		2004	
	RUR million	% of shareholders' equity	RUR million	% of shareholders' equity	RUR million	% of shareholders' equity
Financial assets at fair value through profit and loss						
Federal currency bonds (OVGVZ)	2,275.7	7	3,129.9	13	5,070.4	26
Russian corporate Eurobonds	785.0	2	842.8	4	1,590.4	8
Eurobonds of the Russian Federation	1,024.2	3	4,750.6	20	1,023.4	5
Corporate promissory notes	505.4	2	939.6	4	572.9	3
Bonds of the Russian Federation (OFZ)	11,258.1	36	7,473.9	32	8,587.3	44
Bonds of regions and local authorities	1,966.5	6	4,182.3	18	6,864.5	35
Bonds of foreign governments	1,209.4	4	998.7	4	301.3	2
Russian corporate bonds	13,315.5	42	4,903.1	21	1,290.0	7
Equity securities	4,808.7	15	2,553.2	11	1,159.9	6
Derivatives	12.6	0	2.0	—	—	—
Total financial assets through profit and loss	**37,161.1**	**118**	**29,776.1**	**127**	**26,460.1**	**136**
Financial assets available for sale						
Federal currency bonds (OVGVZ)	—	—	—	—	—	—
Russian corporate bonds	—	—	—	—	—	—
Foreign corporate bonds	100.8	0	5,755.5	24	—	—
Russian corporate Eurobonds	13.9	0	—	—	—	—
Eurobonds of the Russian Federation	—	—	—	—	—	—
Bonds of foreign governments	—	—	—	—	—	—
Other	—	—	—	—	—	—
Equity securities	318.9	1	408.8	2	1,120.6	6
Total financial assets available for sale	**433.6**	**1**	**6,164.3**	**26**	**1,120.6**	**6**
Investments in associated companies	722.9	2	179.9	1	898.8	5
Investments in non-consolidated subsidiaries	17.9	0	20.4	—	32.1	—
Total investments	**740.8**	**2**	**200.3**	**1**	**930.9**	**5**
Total securities	**38,335.5**	**122**	**36,140.7**	**154**	**28,511.6**	**147**

The following table sets out information relating to the Bank's net securities portfolio as at December 31, 2006, 2005 and 2004:

	As at December 31,					
	2006		2005		2004	
	RUR million	%	RUR million	%	RUR million	%
Bonds of the Russian Federation (OFZ)	11,258.10	30.0	7,473.9	20.9	8,587.3	31.2
Eurobonds of the Russian Federation	1,024.20	2.7	4,750.6	13.2	1,023.5	3.7
Russian corporate Eurobonds................	785	2.1	842.8	2.3	1,590.4	5.8
Bonds of the regions and local authorities..	1,966.50	5.2	4,182.3	11.6	6,864.5	25.0
Foreign currency bonds (OVGVZ)........	2,275.70	6.1	3,129.9	8.7	5,070.4	18.4
Bonds of foreign governments..............	1,209.40	3.2	998.7	2.8	301.3	1.1
Corporate bonds	13,315.5	35.4	4,903.1	13.6	1,290.0	4.7
Corporate promissory notes	505.4	1.3	939.6	2.6	572.9	2.1
Equity securities	4,808.70	12.8	2,553.2	7.1	1,159.9	4.2
Derivatives..	12.57	0.0	2.0	0.1	—	—
Financial assets at fair value through profit and loss	37,161.02	98.9	29,776.1	82.9	26,460.1	96.3
Financial assets available for sale	423.10	1.1	6,149.8	17.1	1,025.2	3.7
Total securities......................................	**37,584.12**	**100.0**	**35,925.9**	**100.0**	**27,485.3**	**100.0**

Loan Portfolio

Loan classification and allowances. For IFRS financial reporting purposes, the Bank estimates of loan impairment allowances involve the following steps:

- Identifying loans that are individually significant, i.e., those loans, which if fully impaired would have a material impact on the Bank's expected average level of operating profit.
- Determining whether an individually significant loan shows objective evidence of impairment. Special emphasis is placed on the timing of the contractual cash flows from interest payments and principal repayments. If the Bank expects to collect all interest and principal due in full, but it is probable that those cash flows will be received later than the date agreed in the original contract, an impairment exercise is performed. Other impairment indicators include but are not limited to: any significant financial difficulty of the borrower, an actual breach of loan contract, a high probability of bankruptcy or other financial reorganization of the borrower or a historical pattern of collections of loans indicating that the entire principal and interest amount of a loan portfolio will not be collected.
- Reviewing for impairment of individually significant loans that show objective evidence of impairment. An impairment review requires an estimate of the expected timing and amount of cash flows from interest and principal repayments and other cash flows, including amounts recoverable from guarantees and collateral, and discounting them at the loan's original effective interest rate. The loan is impaired if its carrying amount exceeds the estimated recoverable amount as defined above. A separate impairment loss on an impaired individually significant loan is recorded.
- All remaining loans that have not been identified as individually significant are assessed on a portfolio basis if, and only if, there are signs that impairment is present in those portfolios. For the purpose of such a review, the portfolio of loans is grouped in pools, based on similar credit risk characteristics. Additionally, separate pools of loans could be identified that, for example, by virtue of belonging to a particular industry, had a greater probability of being impaired than other categories of loans.

The following table sets out details of changes in the allowance for loans to customers that are not banks:

	As at December 31,		
	2006	2005	2004
		RUR millions	
Allowance for loan impairment (beginning of the year)	**2,014.5**	**1,294.9**	**1,407.6**
Charge (recovery) of allowance for loan impairment	1,351.9	701.0	463.3
Decrease of allowance on sale of a subsidiary	—	—	(176.4)
Increase of allowance on acquisition of a subsidiary	—	18.8	59.5
Loans to customers written off during the period as uncollectible	(30.3)	(0.2)	(459.0)
Currency exchange difference	0.3	—	—
Allowance for loan impairment (end of the period)	**3,336.4**	**2,014.5**	**1,294.9**

The following table sets out details of changes in the allowance for loans to banks:

	As at December 31,		
	2006	2005	2004
		RUR millions	
Allowance for loan impairment (beginning of the year)	15.2	70.9	20.2
Provision for/(recovery of) allowance for loan impairment	(5.9)	(55.7)	50.7
Allowance for loan impairment (end of the period)	9.3	15.2	70.9

Certain loan ratios. The following table sets out certain ratios in respect of the Bank's loan portfolio:

	As at December 31,		
	2006	2005	2004
Loans to clients(1) as % of total assets	67.0%	66.4%	57.3%
Loans to clients(1) as % of client accounts	98.7%	96.9%	78.1%
Loans to clients(1) as % of total equity	800.9%	688.7%	467.5%

Note:
(1) Net of allowance for loan impairment.

Loan portfolio by product. The Bank has a portfolio of loans and other credit risk bearing products that is widely diversified by the structure of products. The Bank's loan products include:

- loans and credit facilities;
- eurobonds;
- bonds issued by Russian companies and governmental authorities;
- off-balance sheet transactions (guarantees, letters of credit and sureties);
- inter-bank loans;
- discounted bills;
- overdrafts; and
- acceptance credits.

There were no material changes in the composition of major groups of products or in the share of each group of products (on a year-on-year basis) during each of the three years ended December 31, 2006. Loans and credit facilities accounted for the largest share of the Bank's loan products during these periods followed by transactions with bonds issued by Russian companies and governmental authorities and then by off-balance sheet transactions and inter-bank loans.

Client concentration. The Bank lends predominantly to non-state related businesses with only a small proportion of the loan portfolio relating to loans to retail clients. Lending to federally-owned entities represented approximately 2.5 per cent. of the total gross loan portfolio as at December 31, 2006 compared to approximately 4.1 per cent. as at December 31, 2005 and 3.5 per cent. as at December 31, 2004. As at December 31, 2006, the 10 largest corporate borrowers accounted for approximately 18.2 per cent. of the total loan portfolio of the Bank and the 20 largest borrowers accounted for approximately 24.9 per cent. gross total loan portfolio of the Bank (compared to 17.1 per cent. and 27.7 per cent., respectively, as at December 31, 2005 and 23.0 per cent. and 38.5 per cent., respectively, as at December 31, 2004). This significant decline in concentration is due primarily to increased diversification of the Bank's loan portfolio and partial repayment of the loans by large clients of the Bank during 2004, 2005 and 2006. Related party lending, as defined in the IFRS Financial Statements, which includes lending to the City of Moscow and its municipal entities, accounted for approximately 2.4 per cent. of the Bank's gross loan portfolio as at December 31, 2006, all of which consisted of loans to municipal entities of the City of Moscow which totaled RUR 5,970 billion as at this date. Related party lending accounted for approximately 2.5 per cent. and 3.9 per cent. of the Bank's gross loan portfolio as at December 31, 2005 and 2004, respectively, all of which consisted of loans to municipal entities of the City of Moscow, which totaled RUR 4.2 billion and RUR 3.6 billion, respectively. Certain of the Bank's other corporate borrowers are related to or are under the influence of the City of Moscow but are not deemed to be related parties under IFRS. See "Risk Factors-Risks Related to the Bank's Business and Industry – The City of Moscow may significantly influence the Bank" and "Risk Factors – Risks Related to the Bank's Business and Industry – The Bank may lose some or all of the City of Moscow's business".

The following table sets out the structure of the Bank's gross loan portfolio by type of borrower as at December 31, 2006, 2005 and 2004:

	As of December 31,					
	2006		2005		2004	
	RUR million	**%**	**RUR million**	**%**	**RUR million**	**%**
Loans to the regions of the Russian Federation	5,400.8	2.1	3,779.1	2.3	1,888.1	2.0
Loans to enterprises in federal ownership	6,544.8	2.5	6,833.0	4.1	3,210.6	3.5
Credits to enterprises in regional (municipal) ownership(1)	2,158.7	0.8	4,425.1	2.6	3,885.6	4.2
Loans to non-state entitles and organizations	208,697.2	80.5	135,152.7	81.8	78,582.7	85.1
Loans to individuals	36,577.0	14.1	15,072.8	9.2	4,761.4	5.2
Total loans to customers, gross	**259,378.5**	**100.0**	**165,262.7**	**100.0**	**92,328.4**	**100.0**

Note:

(1) Includes loans to City of Moscow government agencies, municipal enterprises and organizations of RUR1,967.0 million, RUR4,211.4 million and RUR3,580.6 million as at December 31, 2006, 2005 and 2004, respectively.

Industry concentration. The Bank believes that it has a relatively well-diversified loan portfolio. The major industry sectors to which the Bank lends are manufacturing, construction, financial and other services and trade. Concentration in the financial and other services sector has fallen from 24.4 per cent. in 2003 to approximately 15.6 per cent. in 2004, has risen to 19.6 per cent. in 2005 and has fallen to 18.0 per cent. in 2006. Together the top three sectors (manufacturing, construction and financial and other services) represented approximately 51.1 per cent. of the Bank's total loan portfolio, as at December 31, 2006. See also "Risk Factors – Risks Related to the Bank's Business and Industry – The Bank may be unable to reduce industry and borrower concentrations in its loan portfolio". The following tables set forth the Bank's gross loans and reserves by economic sector:

	As at December 31,								
	2006			2005			2004		
	Gross loans	%	Reserves	Gross loans	%	Reserves	Gross loans	%	Reserves
Manufacturing	42,835.1	16.5	454.6	30,762.0	18.6	362.5	22,254.6	24.1	325.4
Construction	43,081.2	16.6	201.3	30,515.3	18.5	204.5	21,532.3	23.3	227.6
Financial and other services	46,809.9	18.0	560.8	32,452.8	19.6	248.1	14,411.8	15.6	143.0
Trade	34,607.4	13.3	312.2	22,558.9	13.7	196.4	9,361.4	10.1	144.6
Fuel and energy	19,770.0	7.6	183.3	10,475.6	6.3	142.7	8,928.7	9.7	89.4
Retail customers	36,578.7	14.1	1413.1	15,072.8	9.1	619.3	4,761.4	5.2	152.4
State Agencies	5,400.8	2.1	0.0	3,779.1	2.3	2.6	3,858.7	4.2	38.6
Food industry	3,858.1	1.5	34.4	2,154.8	1.3	31.5	1,604.6	1.7	25.4
Science	4,474.7	1.7	35.6	4,189.2	2.5	17.7	1,498.1	1.6	58.2
Agriculture and fishing	427.3	0.2	33.0	461.8	0.4	2.2	1,376.0	1.5	20.0
Metallurgy	7,683.0	3.0	13.5	3,356.6	2.0	-	656.1	0.7	6.6
Transport and Communications	8,276.8	3.2	52.8	5,479.1	3.3	89.5	321.6	0.3	3.3
Others	5,575.3	2.2	41.9	4,004.8	2.4	97.5	1,763.1	2.0	60.4
Total	**259,378.5**	100.0	**3 336.4**	**165,262.7**	**100.0**	**2,014.5**	**92,328.4**	**100.0**	**1,294.9**

Credit quality classification. The following tables depict the Bank's gross loan portfolio by credit quality classification:

	As at December 31,					
	2006		2005		2004	
	RUR million	%	RUR million	%	RUR million	%
Performing loans	257,816.0	99.4	164,724.9	99.7	92,022.5	99.7
Overdue loans	1,562.5	0.6	537.8	0.3	305.9	0.3
Total loans, gross	**259,378.5**	**100.0**	**165,262.7**	**100.0**	**92,328.4**	**100.0**

Geographic area. The following table show the Bank's net loan portfolio by geographic area:

	As at December 31,					
	2006		2005		2004	
	RUR million	%	RUR million	%	RUR million	%
Russia	225,734.2	88.2	144,389.8	88.5	85,909.8	94.4
OECD countries	243.6	0.1	3,317.3	2.0	54.3	-
Non-OECD countries	30,064.3	11.7	15,541.1	9.5	5,069.4	5.6
Total loans to customers net[(1)], gross	**256,042.1**	**100.0**	**163,248.2**	**100.0**	**91,033.5**	**100.0**

Note:
(1) Net of allowances for loan impairment.

The Bank's loan investments are concentrated in the Moscow region, which represented approximately 49 per cent. of the Bank's total loan portfolio as at December 31, 2006, 57 per cent. of the Bank's total loan portfolio as at December 31, 2005 and 58 per cent. of the loan portfolio as at December 31, 2004. This concentration is due in part to the fact that the City of Moscow is the majority shareholder in the Bank as well as the fact that Moscow and the Moscow region are the most attractive areas in the Russian Federation in terms of investments with the lowest level of risk measured in accordance with the principles for regional credit risk assessment adopted by the Bank.

As at December 31, 2006, the Bank had extended loans to customers operating in 56 of the 86 regions of the Russian Federation (compared to 43 as at December 31, 2005 and 39 as at December 31, 2004). Generally, loans are concentrated in most of these regions because of the concentration of businesses in these regions. In addition to Moscow, the Bank also extended significant loans in the following regions as at December 31, 2006:

Regions	Percentage	Regions	Percentage
Novosibirsk region	8.8%	Perm region	3.6%
Vologda region	6.6%	Kemerovo region	3.0%
Khabarovsk region	5.6%	Rostov region	2.9%
Sverdlovsk region	4.8%		
Krasnodar region	4.3%		
St. Petersburg region	4.0%		
Yaroslavl region	3.9%		
Krasnoyarsk region	3.9%		

Maturity. The following table sets out the Bank's net loan portfolio by maturity:

	As at December 31,					
	2006		2005		2004	
	RUR million	%	RUR million	%	RUR million	%
On demand and less than one month	24,875.5	9.7	16,979.2	10.4	8,375.0	9.2
One to six months	66,747.8	26.1	48,611.5	29.8	27,607.7	30.3
Six to 12 months	74,411.3	29.1	51,346.9	31.5	40,528.7	44.5
More than one year	90,007.6	35.2	46,310.6	28.3	14,522.1	16.0
Overdue/no stated maturity	–	–	–	–	–	–
Total loans to customers net (1), gross	**256,042.1**	**100.0**	**163,248.2**	**100.0**	**91,033.5**	**100.0**

Note:
(1) Net of allowances for loan impairment

Loan amounts. The following table sets out the Bank's net loan portfolio by the value of loans:

	As at December 31,					
	2006		2005		2004	
	RUR million(1)	%	RUR million(1)	%	RUR million(1)	%
Less than U.S.$1 million	70,603.6	27.6	29,078.4	17.8	13,564.0	14.9
Greater than U.S.$1 million but not greater than U.S.$10 million	3,905.7	5.4	34,330.6	21.0	24,670.1	27.1
Greater than U.S.$10 million	171,532.8	67.0	99,839.2	61.2	52,799.4	58.0
Total, net (2)	256,042.1	100.0	163,248.2	100.0	91,033.5	100.0

Notes:
(1) Translated at the official CBR rate of RUR 26.3311 = USD 1.00 as at December 31, 2006, RUR 28.7825 = USD1.00 as at December 31, 2005, RUR 27.7487 = USD 1.00 as at December 31, 2004 for information purposes only.
(2) Net of allowances for loan impairment.

Currency. The following table shows the Bank's net loan portfolio by currency as at December 31, 2006, 2005 and 2004. The Bank's foreign currency denominated loans are primarily in U.S. Dollars and Euros. As a result, the Bank groups together all loans in currencies other than these two currencies.

	As at December 31,					
	2006		2005		2004	
	RUR million	%	RUR million	%	RUR million	%
Russian Roubles	169,731.2	66.3	114,792.8	70.2	70,021.1	76.9
U.S. Dollars	75,583.3	29.5	43,375.1	26.6	19,564.4	21.5
Euros	9,459.9	3.7	4,343.8	2.7	1,010.5	1.1
Other currencies	1,267.7	0.5	736.5	0.5	437.5	0.5
Total loans to customers, net(1)	256,042.1	100.0	163,248.2	100.0	91,033.5	100.0

Note.
(1) Net of allowances for loan impairment.

Approximately 66.3 per cent. of the Bank's loan portfolio was denominated in Russian Roubles in the year ended December 31, 2006, compared to approximately 70.3 per cent. for the year ended December 31, 2005. This concentration is primarily the result of the composition of the Bank's customer base, which mostly comprises legal and commercial entities targeting the domestic market. In most cases, such customers obtain proceeds and make payments in Russian Roubles and require Rouble-denominated loans. Customers requiring foreign currency-denominated banking products and services are often active in the export or international trade markets.

Provisioning Policy

The Bank adopted its procedure and methods for creating and calculating provisions in accordance with IAS 1, IAS 37 and IAS 39. Provisions can be created either for each loan or for a group of similar loans.

An estimated provision for loan losses with respect to a single loan product is determined by taking the loan product amount (*i.e.,* the principal amount of the loan reflected in the Bank's accounts of loan-related borrowings and borrowings equated thereto) and multiplying it by the provisioning ratio (determined as a percentage in accordance with an opinion of the division of the Bank that is responsible for such loan products within the range provided for in the table below) and dividing the product by 100 per cent.

The division that is responsible for the loan product creates a provision based on its estimation of (i) that product's credit risk in accordance with the Bank's internal methods; (ii) the transaction structure; and (iii) the quality of loan product servicing and other information that can affect the repayment of such loan. In certain circumstances, the Financial Director of the Bank may, based on a recommendation of the division responsible for the product, establish a provisioning ratio that is outside the range provided in the table above. In accordance with IFRS, provisions are computed in the process of preparing the Bank's financial statements under IFRS as at the reporting date. If the quality of loan servicing or the borrower's financial condition changes materially as at the date of preparation of financial statements under IFRS, or if such a loan is repaid after the reporting date, such information may be taken into consideration in the process of provisioning.

Dividend Policy

Following the Russian economic crisis in August 1998, the Bank has experienced considerable growth due to its significant investments in the development of its business, especially in its retail business and its branch network. In 2003, the Bank paid dividends for 2002 for the first time following the economic crisis. Russian law does not require the Bank to pay dividends, unless such dividends are approved by the Bank's shareholders. In 2006, the Bank paid in full dividends for 2005 in the amount of RUR 162.0 million (or approximately 4.0 per cent. of the Bank's statutory profit after taxation in 2005). In 2005, the Bank declared dividends for 2004 in the amount of RUR 92.7 million (or approximately 3.0 per cent. of the Bank's statutory profit after taxation in 2004), which the Bank has already paid in full (RUR 93.1 million of dividends paid in 2005, including dividends for 2004 and for 2003 which were due at the beginning of the year). In 2004, the Bank paid dividends for 2003 in the amount of RUR 118.9 million (or approximately 4.4 per cent. of the Bank's statutory profit after taxation in 2003). Although the Bank currently plans to capitalize a majority of its profits, the Bank intends to adhere to its current dividend policy (to pay no more than 7.0 per cent. of the Bank's statutory profit after taxation as dividends for each financial year) in the short term. See "Risk Factors Risks Related to the Bank's Business and Industry–The City of Moscow may significantly influence the Bank".

Taxation

The Bank is subject to seven types of taxes either as a taxpayer or a tax agent on behalf of its clients. The Bank believes it currently performs its tax obligations in compliance with applicable legislation. In 2004, the tax authorities conducted a thorough tax audit of the Bank's activities for the period from 2001 through 2003. As a result of the audit, the Bank paid a penalty of RUR 53,000 (approximately USD 1,900). Starting January 2007, the Bank is undergoing the tax audit of the Bank's operations for the period from 2004 through 2005. There are currently no material disputes or controversies with the tax authorities that may have material adverse effect on the Bank's business. The Bank does not currently believe that any such amendments to the tax system will significantly affect its financial condition, results of operations or prospects.

Information Technology

The Bank's policies with respect to information technology are targeted at the development and application of advanced banking technologies in order to provide its customers with access to modern packages of banking services. Decisions on technology policy and the needs of the Bank are made by the Technology Committee. The Technology Committee is chaired by the Members of the Management Board appointed by the President and has 16 voting members representing the Bank's front– and back-offices and five non-voting members representing the IT department. The Bank is improving its unified information and technological environment that connects the head office, divisions, branches, subsidiaries and customers of the Bank. The computer system is upgraded and replaced regularly. The Bank installed its first IBM server in April 2003 and upgraded the IT system by installing a second IBM server in December 2004. The servers are linked to the Bank's branches and regional systems. This IT platform is also utilized to help facilitate the expansion of the Bank's Internet banking services. In 2005, the Bank introduced a system for the receipt and processing of payments for utility services on the basis of Oracle Real Application Clusters. This information system services the clearing center that distributes payments for housing and utility services in Moscow. The Bank also uses standard banking programs and solutions in its retail, treasury and banking cards operations. In 2003, the Bank spent approximately USD 12.0 million on development and maintenance of its IT systems and the Bank's capital expenditure on IT in 2004 was approximately USD 18.3 million. In 2005, total Bank's investments in IT were approximately USD 22.0 million. In 2006, the Bank spent USD 36 million on IT projects.

The Bank has also established a remote Reserve Business Center (the "RBC") to ensure the safe and continuous operation of the Bank's information systems. The RBC is connected with the Bank by three different fiber-optic cables owned by the Bank. The RBC contains all of the facilities needed to run the essential business functions of the Bank and replicates the basic information systems of the Bank, including e-mail services, printing services and file services. The RBC may be activated at any time, with a delay of less than one hour. Test switches between the Bank's Head Office and the RBC, as well as training of technical personnel, are regularly performed. In 2006 the Bank installed in RBC a few new IBM (p590, p570) servers and are preparing to install a HP XP12000 Storage system. The new RBC-Data Center is highly protected on the base of Lampertz-technology, which will enable an increase in the safety and security of Bank's IT-system. The Bank also has a Reserve Telecommunications Center (the "RTC"), which ensures permanent connection between the Bank's offices. The RTC is independently linked to all telecommunication operators with which the Bank works. In 2006 the Bank also implemented a new Reuters program, which is designed to assist the Bank in managing securities risks and monitor securities price fluctuations online.

Employees

As at December 31, 2006 the Bank had 7,852 employees compared to 6,247 employees as at December 31, 2005 and 4,879 employees as at December 31, 2004. As at December 31, 2006, 3,386 employees worked in Moscow and the Moscow region (compared to 2,935 as at December 31, 2005 and 2,472 as at December 31, 2004) and 4,466 employees worked in other regions of the Russian Federation (compared to 3,775 as at December 31, 2005 and 2,407 as at December 31, 2004). The total number of the Bank's employees increased by 25 per cent. in 2006, 28.0 per cent. in 2005 and 14.8 per cent. in 2004. Personnel "churn" rate was 21.7 per cent. in 2006, 20.6 per cent. in 2005 and 19.3 per cent. in 2004. The Bank's "churn" has increased in 2006 because of rapid development of retail banking. The Russian market for qualified financial institution personnel, especially for junior and middle management, is highly competitive. The Bank has established a system for selecting and employing highly qualified graduates from the leading Russian institutions of higher learning. The Bank is aggressively recruiting experienced managers and specialists from other financial institutions, with an emphasis on personal account managers experienced in working with companies, service managers, experts in marketing and banking technologies and tax and financial advisors. See "Risk Factors Risks Related to the Bank's Business and Industry – The Bank depends on its senior management and key personnel and it may have difficulty attracting and retaining qualified professionals".

The Bank's salary structure and social package are commensurate with that of other leading Russian banks. The Bank has also developed a system of performance-based financial rewards. The Bank's Group payroll and other staff costs were RUR 4.6 billion, RUR 3.4 billion and RUR 2.4 billion in the years ended December 31, 2006, 2005 and 2004, respectively, and accounted for approximately 49.4 per cent., 52.8 per cent. and 51.1 per cent. of total general and administrative expenses, respectively.

The Bank has never experienced any strikes, work stoppages, significant labor disputes or actions that have affected the operation of its business and the Bank considers its relationship with its employees to be good. The Bank's personnel have not established any trade unions or entered into any collective bargaining agreements.

Litigation

The Bank is, from time to time, subject to legal proceedings and other investigations in the ordinary course of business.

On March 22, 2006, the Bank initiated criminal proceedings against a former retail client of the Bank in connection with a fraudulent withdrawal of approximately U.S.$ 550,000 by such former client. By the decision dated December 14, 2006, the Leninsky District Court of Saint Petersburg dismissed the claim in relation to the recovery of the deposit, interest under the bank deposit agreement, interest on use of funds of others and compensation for moral damage. On March 21, 2007, the claimant's second appeal was dismissed and the decision of the Lenin District Court of Saint Petersburg was upheld.

In April 2003, ZAO "Koopvneshtorg" ("Koopvneshtorg"), a company that leases premises from the Bank, filed a lawsuit against the City of Moscow seeking to invalidate the transfer to the Bank of certain real estate assets contributed by the City of Moscow to the share capital of the Bank in 2002 as payment for the Bank's newly issued shares placed with the City of Moscow. The case was dismissed by the court of first instance and at each appellate level, including the Higher Arbitration Court, the highest appellate court in the Russian Federation. The Bank has filed a series of lawsuits against Koopvneshtorg in relation to a lease agreement seeking its invalidation on various grounds. On November 23, 2006, by decision of the Arbitration Court of Moscow, the lease agreement was invalidated. Koopvneshtorg appealed this decision, which appeal was denied on February 7, 2007. A review of the second appeal of Koopvneshtorg was carried out on March 29, 2007 and the Federal Arbitration Court of Moscow Region upheld the previously rendered decisions. The amounts relating to this claim are currently unquantifiable.

In June 2006, LLC TK Zolotiye Kupola ("Zolotiye Kupola") filed a claim requesting invalidation of the foreclosure by the Bank on the pledged property (securities) valued at approximately RUR 145 million. On December 11, 2006 the Moscow Arbitration Court dismissed the suit and it was not appealed. On April 10, 2007 Zolotye Kupola made a second appeal and the Federal Arbitration Court of Moscow Region upheld the previously rendered decision of the Moscow Arbitration Court.

In October 2005, the Bank (Saint Petersburg Branch) filed for foreclosure against LLC Standart and LLC Farkop in relation to a credit facility of RUR 40 million. On October 12, 2005, November 21, 2005 and December 1, 2005, the Bank entered into settlement agreements with LLC Standart pursuant to which the latter transferred to the Bank all equipment pledged to the Bank under three credit facility agreements as compensation for the debt. The above settlement agreements were approved by the court. Registration of the title to the above equipment is being completed in the name of the Bank.

The Bank (Yaroslavl Branch) filed a lawsuit to recover a debt of RUR 5.9 million from LLC Luchkino. On November 16, 2006 the debt was fully recovered from LLC Luchkino and the surety, Yarpolimermash-Tatneft. The surety appealed the decision on March 23, 2007 and the Second Arbitrazh Court of Appeal upheld the court's decision.

The Bank (Nizhny Novgorod Branch) filed a lawsuit to recover a debt of RUR 10 million. On June 8, 2006, the Arbitration Court ruled in favor of recovery of the debt and foreclosure on the pledged property. Enforcement proceedings have been initiated and the buyers for such immovable property are currently being sought.

Subsidiaries and Associates

The following table sets out information on the companies as at December 31, 2006, whose financial results are included in the consolidated financial statements of the Bank for the year ended December 31, 2006, including the Bank's level of ownership therein:

	Name	Location	Business activity	Percentage of ownership
1.	Foreign Bank Moscow-Minsk	Republic of Belarus	Banking services	100.00
2.	ZAO Imagine	Russia	Financial services	100.00
3.	ZAO Altruist	Russia	Financial services	100.00
4.	ZAO Press Magnate	Russia	Publishing	100.00
5.	ZAO DOSSOM	Russia	Catering	100.00
6.	ZAO Vechernyaya Moskva	Russia	Publishing	100.00
7.	ZAO Bank of Moscow Management Company	Russia	Financial Services	100.00
8.	AS Latvijas Biznesa Banka	Republic of Latvia	Banking services	99.87
9.	BM Bank LLC	Republic of Ukraine	Banking services	100.00
10.	AS Eesti Krediidipank	Republic of Estonia	Banking services	65.67
11.	AS Martinoza	Republic of Estonia	Real estate management	65.67
12.	AS Krediidipanga Liising	Republic of Estonia	Leasing	65.67
13.	OAO Mosvodokanalbank	Russia	Banking services	50.10
14.	ZAO Concern Vechernyaya Moskva	Russia	Publishing	57.00
15.	OAO International Management Company	Russia	Financial services	50.00
16.	Kuznetski Capital S.A.	Luxembourg	Financial services	100.00
17.	OOO Selkhozstroy	Russia	Manufacturing	99.00
18.	OOO PO Montazh	Russia	Manufacturing	99.00
19.	ZAO Stroyportinvest	Russia	Financial services	100.00
20.	ZAO Finance Assistant	Russia	Financial services	50.67

Companies in which the Bank and its subsidiaries holds a majority share but whose financial results do not have a significant influence on the consolidated financial statements of the Bank, are not consolidated in the IFRS Financial Statements. These companies are reflected in "Investments in associates and non-consolidated subsidiaries" and recorded at the value of their net assets. The following is a list of these companies as at December 31, 2006:

Name	Country of registration	Nature of business	Percentage of ownership
BM Holding LTD	Switzerland	Financial services	100.0
OOO "Yaroslavna"	Russia	Security	100.0
ZAO "Stolichnaya Neftyanaya Kompania"	Russia	Production	75.0
OOO "Editorial office of MK-Boulevard magazine"	Russia	Publishing	50.0

As at December 31, 2006, the associates of the Bank were the following Russian banks:

Name	Location	Business activity	Percentage of ownership
1. SCB "Russky Zemelny Bank"	Russia	Banking services	31.0
2. JSCB "Russian National Commercial Bank"	Russia	Banking services	20.0
3. OAO Moscow Insurance Company	Russia	Insurance	24.83
4. ZAO ABT	Russia	Information Technology	20.02
5. OOO EIRC	Russia	Information Technology	49.50
6. OOO VM-Service	Russia	Logistic	48.50

Property

The Bank owns real estate in Moscow (16 premises with an aggregate area of approximately 33.5 thousand square meters) and other regions in the Russian Federation (31 premises in 22 regions in the Russian Federation with an aggregate area of approximately 43.7 thousand square meters). The Bank owns approximately 2.5 hectares of land in the Tula region. The Bank also leases 76 premises in Moscow and Moscow region with an aggregate area of approximately 50.8 thousand square meters and 217 premises with an aggregate area of approximately 55.6 thousand square meters in other Russian regions.

Credit Ratings

On May 17, 2004, Fitch Ratings assigned to the Bank a long-term rating of "BB", a short-term rating of "B", an individual rating of "D" and a support rating of "3". The outlook for the long-term rating was assigned as "Stable". The rating assigned to the Bank by Fitch is one level below the sub-sovereign rating of the City of Moscow ("BB+") assigned by Fitch on October 23, 2003, and the sovereign rating of the Russian Federation ("BB+") assigned by Fitch on May 13, 2003. Additionally, Fitch has assigned the Bank a national long-term rating of "AA (rus)", one level below the rating assigned to the Russian Federation ("AAA") by Fitch on May 13, 2003.

On May 18, 2004, Moody's assigned to the Bank a first-time Ba2/NP foreign currency deposit rating and a "D-" financial strength rating.

On July 7, 2004, Moody's placed on review for possible downgrading the long-term foreign currency ratings of 18 Russian banks and the financial strength ratings of four Russian banks, due to instability in the Russian banking market. The Bank, along with such banks as OAO "Alfa Bank" ("Alfa Bank"), OAO "MDM Bank" ("MDM Bank") and ZAO "Bank Russkiy Standard" ("Russian Standard Bank"), was on review for both its long-term foreign currency rating and its financial strength rating.

On July 23, 2004, Moody's confirmed the long-term foreign currency ratings of all 18 banks that had been placed on review and the financial strength ratings of three of the four banks that had been placed on review. Both ratings of the Bank were confirmed by Moody's.

On November 24, 2004, Fitch upgraded the long-term rating of the Bank to "BB+" (Stable Outlook) from "BB" following the upgrade of the long-term foreign currency rating for the City of Moscow from "BB+" to "BBB-". The Bank's long-term rating is mostly driven by the potential for support from the City of Moscow, its majority shareholder. The Bank's other ratings were affirmed at Short-term "B", Individual "D", Support "3" and National Long-term "AA"(rus).

On December 8, 2004, Moody's upgraded from "Ba2" to "Baa2" the rating assigned to the U.S.$250.0 million 8 per cent. notes due 2009 of the Issuer, issued for the sole purpose of funding a loan to the Bank (the "2004 Notes"). Moody's also upgraded the Bank's foreign currency deposit rating from "Ba2" to "Ba1". The outlook for both ratings was positive and the Bank's "D" financial strength rating and its stable outlook remained unchanged.

On August 9, 2005, Fitch upgraded the Bank's long-term credit rating from "BB+" to "BBB-", short-term credit rating from "B" to "F3" and support rating from "3" to "2". The ratings outlook was reconfirmed as "stable".

On October 27, 2005, Moody's upgraded the long– and short-term foreign currency deposit ratings of the Bank to "Baa2" and "Prime-2", respectively. The ratings outlook was assessed as "stable".

On May 26, 2006 Moody's upgraded the long-term foreign currency rating of senior unsecured debt to A3. Outlook remained stable.

On August 1, 2006 Fitch upgraded the long-term rating of the Bank to "BBB" (Stable Outlook) from "BBB-" following the upgrade of the long-term foreign currency rating for the City of Moscow from "BBB" to "BBB+". The Bank's other ratings were affirmed at Short-term "F3", Individual "D", Support "2" and National Long-term "AA+"(rus).

The Notes have been rated "BBB-" by Fitch and are expected to be assigned upon issue a rating of "Baa1" by Moody's.

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

Off Balance Sheet Arrangements

The primary purpose of these instruments is to ensure that funds are available to a customer as required. For example, guarantees that represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties carry the same credit risk as loans. Import letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by cash deposits or collateral pledged to the Bank and therefore carry less risk than direct borrowing.

As at December 31, 2006, the Bank had no significant off-balance sheet arrangements other than undrawn credit lines, guarantees and import letters of credit. The Bank had total credit-related commitments for each of the three years ended December 31, 2006, 2005 and 2004 of RUR 34,418.4 million, RUR 36,364.6 million, RUR 11,374.6 million and respectively. As at December 31, 2006, 2005 and 2004, the total amount of guarantees issued by the Bank was RUR 14,007.4 million RUR 6,459.5 million, RUR 6,388.6 million respectively, and the total amount of undrawn credit lines was RUR 15,082.0 million, RUR 27,491.6 million, RUR 4,781.3 million and respectively. The Bank does not believe that its off-balance sheet obligations would have a material impact on its financial condition if the Bank were required to fulfill such obligations in full. The Bank records its off-balance sheet guarantees and undrawn lines of credit that represent contingent obligations on its balance sheet at the time of performance in accordance with the applicable accounting standards. See Note 28 to the IFRS Financial Statements for 2006 set out elsewhere in this prospectus for a more detailed discussion of the Bank's contingent liabilities.

The contractual amount of these commitments represents the value at risk should the contract be fully drawn upon, the client defaults, and the value of any existing collateral becomes worthless. The Bank's management regularly assesses the risk of losses in connection with these Instruments and for each of the three years ended December 31, 2006, 2005 and 2004 has determined that it was not necessary to establish provisions for any such losses.

Guarantee amounts

The following table sets out the Bank's guarantees by amounts as at December 31, 2006, 2005 and 2004:

	As at December 31					
	2006		2005		2004	
	(RUR million[(1)])	*(%)*	*(RUR million[(1)])*	*(%)*	*(RUR million[(1)])*	*(%)*
Less than USD1 million	3,852.8	27.5	1,064.1	16.5	2,283.5	35.7
Greater than USD1 million but less than USD10million	4,381.7	31.3	4,269.0	66.1	2,775.3	43.5
Greater than USD10million	5,772.9	41.2	1,126.4	17.4	1,329.8	20.8
Total guarantees	14,007.4	100.0	6,459.5	100.0	6,388.6	100.0

Note:
(1) Translated at the official CBR rate of RUR 26.3311 = USD1.00 as at December 31, 2006, RUR 28.7825 = USD1.00 as at December 31, 2005, RUR27.7487 = USD1.00 as at 31 December 2004 for information purposes only.

Maturity

The following table sets out the Bank's guarantees by maturity as at December 31, 2006, 2005 and 2004:

	As at December 31					
	2006		2005		2004	
	(RUR million[(1)])	*(%)*	*(RUR million[(1)])*	*(%)*	*(RUR million[(1)])*	*(%)*
One month or less	3,884.4	27.7	678.0	10.5	383.1	6.0
One to six months	1,416.8	10.1	1,709.8	26.5	2,302.6	36.0
Six months to one year	1,207.0	8.6	653.5	10.1	661.5	10.4
More than one year	7,499.2	53.6	3,418.2	52.9	3,041.4	47.6
Total guarantees	14,007.4	100.0	6,459.5	100.0	6,388.6	100.0

Capital Adequacy

The CBR requires Russian banks to maintain a capital adequacy ratio of at least 10 per cent. of risk-weighted assets. The minimum capital adequacy ratio of 8 per cent. was established pursuant to the Basel Accord.

As at December 31, 2006, the Tier 1 capital and total capital of the Bank had increased by 36.8 per cent., and 27.8 per cent., respectively, compared with December 31, 2005, primarily reflecting income gained by the Bank since December 31, 2005 and the 10th share issuance in August 2006. As at December 31, 2005, the Tier 1 capital and total capital of the Bank had increased by

20.7 per cent., and 54.2 per cent., respectively, compared to December 31, 2004, primarily reflecting income gained by the Bank in 2005 and the issuance of subordinated notes in November 2005. As at December 31, 2006, the Bank's total capital adequacy ratio decreased to 13.3 per cent., and Tier 1 capital adequacy ratio decreased to 10.2 per cent., from 15.7 per cent. and 11.1 per cent., respectively, as at December 31, 2005 due primarily to expanding of the Bank's lending activities. As at December 31, 2005, the Bank's total capital adequacy ratio decreased to 15.7 per cent., and Tier 1 capital adequacy ratio decreased to 11.1 per cent., from 18.0 per cent., and 16.4 per cent., respectively, as at December 31, 2004 due primarily to an increase of the Bank's risk-weighted assets by 77.1 per cent., during 2005. In 2004, the Tier 1 capital of the Bank grew by 57.4 per cent., primarily reflecting a share capital increase of RUR 3,750.1 million, as well as income gained by the Bank in 2004. Hence, the Bank's total capital adequacy ratio increased to 18.0 per cent., and Tier 1 capital adequacy ratio increased to 16.4 per cent., while its risk-weighted assets grew by 26.2 per cent.

As at December 31, 2006, the Bank's capital adequacy ratio calculated in accordance with the CBR's methodology was 12.6 per cent., compared with 13.4 per cent., as at December 31, 2005. The decrease was attributable to expanding of the Bank's lending activities. As at December 31, 2004, the Bank's capital adequacy ratio calculated in accordance with the CBR's methodology was 13.0 per cent. The increase in the Bank's capital adequacy in 2004 was attributable to a capital increase following a new share issue in December 2004. A decrease in the Bank's ratios of both Tier 1 and total capital indicates that the Bank may need to increase its charter capital in the future to continue to meet capital adequacy standards if it maintains its current growth rate.

The following table sets out the Bank's capitalization as at December 31, 2006 and 2005 and 2004 in accordance with IFRS and the Basel Accord, a paper entitled "International Convergence of Capital Measurement and Capital Standards", dated July 1988 and prepared by the Basel Committee on Banking Regulation and Supervision, as amended.

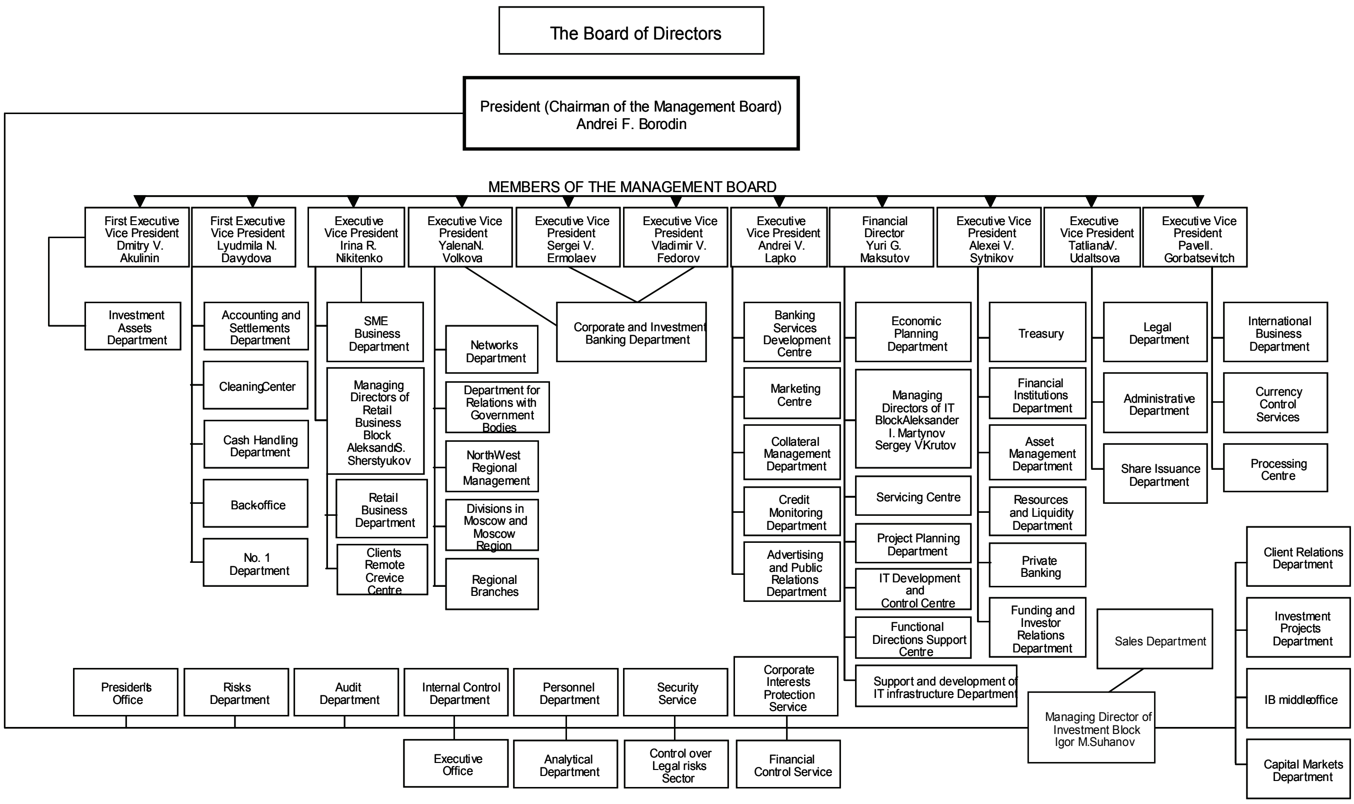
	As at December 31		
	2006	**2005**	**2004**
Tier 1 Capital			
Share Capital	14,786.8	14,226.8	14,226.8
Issuance income	2,346.4	—	—
Retained earnings	14,130.4	8,632.2	4,705.6
Total Tier 1 Capital	31,263.6	22,859.0	18,932.4
Tier 2 Capital			
Premises revaluation reserves	358.2	646.6	637.5
Subordinated Notes	10,655.3	8,719.0	—
Others reserves	(1,356.5)	(205.8)	1,192.0
Total Tier 2 Capital	9,657.0	9,159.8	1,829.5
Total Capital	40,920.6	32,018.8	20,761.9
Risk Weighted Assets			
With 20% risk	6,86.6	3,069.2	3.725.0
With 50% risk	12,802.5	24,274.2	7,097.3
With 100% risk	287,255.8	176,861.7	104,484.6
Total risk weighted assets	306,918.8	204,205.1	115,306.9
Capital Adequacy Ratios			
Tier 1 capital adequacy ratio	10.2%	11.1%	16.4%
Total capital adequacy ratio(1)	13.3%	15.7%	18.0%

Notes:
(1) Total capital divided by total risk weighted assets.

MANAGEMENT

Organizational Structure

The following chart outlines the organizational structure of the management of the Bank as at March 31, 2007:



Governing Bodies

In accordance with Federal Law No. 208-FZ "On Joint Stock Companies", dated October 26 1995, as amended (the "Joint Stock Companies Law"), the principal Russian legislation governing joint stock companies and the Charter, the Bank's principal governing bodies are the general shareholders' meeting, the board of directors (the "Board of Directors"), the management board (the "Management Board") and the President – Chairman of the Management Board (the "President").

General Shareholders' Meeting

The general shareholders' meeting is the highest governance body of the Bank, which meets at least once a year. The following matters can only be dealt with by the general shareholders' meeting and may not be delegated to other governing bodies of the Bank:

- alteration of the Charter and the size of its share capital (including decisions on additional share issuances);
- increase or decrease in the number of the members of the Bank's Board of Directors, election and early termination of the members of the Board of Directors;
- approval of appointment of the Bank's statutory and IFRS auditors, approval of annual reports and financial statements;
- distribution of the Bank's profits and coverage of the Bank's losses;
- approval of the manner of communication of information to shareholders;
- reorganization or liquidation of the Bank;
- election and termination of the authorities of the Audit Commission;
- election and termination of the authorities of the President of the Bank;
- approval of certain major transactions and interested party transactions;
- approval of the Bank's participation in holding companies, industry groups and associations and other commercial associations; approval of internal documents regulating the Bank's governance bodies;
- approval of distribution of profits; and
- certain other matters provided for in the Joint Stock Companies Law and the Charter.

Decisions of the Bank's general shareholders' meeting are generally made by a simple majority of votes. Amendments to the Charter, transactions involving assets with a balance sheet value exceeding 50 per cent. of the Bank's total assets and the reorganization or liquidation of the Bank require approval by a three-quarters majority of votes present at the general shareholders' meeting.

Board of Directors

The Board of Directors is responsible for general management matters, with the exception of those matters that are designated by law as being within the exclusive competence of the general shareholders' meeting. Members of the Board of Directors are elected by the shareholders for a one-year term. The current version of the Charter and the Regulations of the Board of Directors provide that the members of the Board of Directors are elected by a majority vote of the shareholders. However, following the amendments to the Joint Stock Companies Law that became effective on March 17, 2004, members of the Board of Directors must be elected by cumulative voting, which is a form of minority shareholder protection pursuant to which each share has the same number of votes as the number of members of the Board of Directors; the Bank amended its Charter and the Regulations of the Board of Directors to reflect the new requirement in late 2004. Under the Joint Stock

Companies Law the number of the members of the Board of Directors may not be less than five. The Charter provides that the Board of Directors may not have fewer than three or more than 15 members. The particular number of the members of the Board of Directors is determined by a resolution of a general shareholders' meeting. The current Board of Directors of the Bank consists of 13 members: 7 members of the Board of Directors represent the City of Moscow, the majority shareholder of the Bank; one member of the Board of Directors, Mukhadin A. Eskindarov, was elected as an independent director. The members of the Board of Directors may be re-elected an unlimited number of times.

Management Board

The Management Board is the executive body of the Bank and is elected by the Board of Directors for a four-year term, except for the Chairman of the Management Board (the President) who is elected by the shareholders. The Board of Directors determines the number of Management Board members, which cannot exceed 15 members. As at the date of this Prospectus, the Management Board consists of 12 members, including the President of the Bank. The Management Board meets monthly and on an ad hoc basis and makes its decisions by simple majority, provided that at least half of its members are present. The Management Board is responsible for the day-today management and administration of the Bank.

President of the Bank

The President of the Bank is elected by the general shareholders' meeting for a term of four years. The President reports to the Board of Directors and the general shareholders' meeting. The President represents and acts in the name of the Bank and is ultimately responsible for all operational matters of the Bank.

Audit Commission

The Bank is required under Russian law and the Charter to maintain an audit commission (the "Audit Commission"). The Audit Commission assists the Bank with oversight responsibility and reviews its systems of internal controls and its auditing, accounting and financial reporting processes. Under Russian law and the Charter, a member of the Audit Commission must be independent and may not simultaneously serve as a member of the Board of Directors or hold a management position in the Bank, such as the President. Members of the Audit Commission are elected by a general meeting of the Bank's shareholders for a one-year term.

Directors and Senior Management

As at the date of this Prospectus, the Board of Directors, the Management Board and the Audit Commission consisted of the following members:

Name	Year of birth	Title
Oleg M. Tolkachev	1948	Chairman of the Board of Directors
Lev F. Alaluev	1933	Member of the Board of Directors
Pavel A. Zlatin	1949	Member of the Board of Directors
Viktor A Korobchenko	1947	Member of the Board of Directors
Yuri V. Korostelev	1945	Member of the Board of Directors
Alexander P. Lavrentiev	1946	Member of the Board of Directors
Yuri V. Roslyak	1954	Member of the Board of Directors
Pyotr V. Saprykin	1936	Member of the Board of Directors
Vladimir N. Silkin	1957	Member of the Board of Directors
Mukhadin A Eskindarov	1951	Member of the Board of Directors
Andrei F. Borodin	1967	Member of the Board of Directors, President, Chairman of the Management Board
Dmitry V. Akulinin	1966	Member of the Board of Directors, First Executive Vice President
Yelena N. Volkova	1964	Member of the Board of Directors, Executive Vice President

Name	Year of birth	Title
Lyudmila N. Davydova	1964	First Executive Vice President, Chief Accountant
Andrei V. Lapko	1969	Executive Vice President
Alexei V. Sytnikov	1967	Executive Vice President
Tatiana V. Udaltsova	1961	Executive Vice President, General Counsel
Yuri G. Maksutov	1967	Chief Financial Officer, Financial Director
Sergei V. Ermolaev	1956	Executive Vice President
Irina R. Nikitenko	1955	Executive Vice President
Pavel I. Gorbatsevich	1958	Executive Vice President
Vladimir V. Fedorov	1961	Executive Vice President
Olina N. Safina	1973	Member of the Audit Commission
Konstantin 0. Popov	1966	Member of the Audit Commission
Tatiana A. Silina	1953	Member of the Audit Commission

Board of Directors, Management Board and Audit Commission

The name, year of birth, qualifications and certain other information for each member of the Board of Directors, the Management Board and the Audit Commission of the Bank are set out below:

Oleg M. Tolkachev (1948), Chairman of the Board of Directors. Mr. Tolkachev has been a member of the Board of Directors of the Bank and Chairman of the Board since March 1996. On January 14, 2004, Mr. Tolkachev was appointed a member of the Council of Federation (the Upper Chamber of the Russian Parliament) as the Representative of the City of Moscow. Before his appointment to the Council of Federation, Mr. Tolkachev held various senior positions in the City of Moscow. Most recently, he served as the First Deputy Mayor of the City of Moscow and the Head of the Property Department of the City of Moscow. Mr. Tolkachev also serves as the Chairman of the Board of Directors of OAO "Moscow Committee for Science and Technology". Mr. Tolkachev graduated from the Moscow Engineering and Physics Institute with a diploma in theoretical physics in 1972.

Lev F. Alaluev (1933), member of the Board of Directors. Mr. Alaluev has been a member of the Board of Directors since June 1997. Mr. Alaluev has served as an Advisor to the President of the Bank since 1995. From 1997 until 2002 Mr. Alaluev was a member of the Board of Directors of OJSC "Moscow Inter-Republic Wine Factory". Mr. Alaluev graduated from the Moscow Institute of Chemical Machine Building in 1956.

Pavel A. Zlatin (1949), member of the Board of Directors. Mr. Zlatin has been a member of the Board of Directors since June 1997. From 2004 until March 2006 Mr. Zlatin served as the Chairman of the Transport and Communication Committee of the City of Moscow. From September 2006 until January 2007 he served as a Deputy Head of the North-West Administrative District of the City of Moscow. In January 2007 he was appointed as a Chairman of the Personnel Management Chamber at the Moscow State Social University. He was the General Director of the State-Owned Enterprise "Mosgortrans" from March 2002 until January 2004. He was the General Director of OAO MTK "Mosavtotrans" from February 1992 until March 2002. Mr. Zlatin graduated from the Moscow Automobile and Roads Institute with a diploma in road building in 1975.

Viktor A. Korobchenko (1947), member of the Board of Directors. Mr. Korobchenko has been a member of the Board of Directors of the Bank since June 1998. In January 2004, Mr. Korobchenko was appointed as the Head of the Moscow Mayoral and Governmental Administration, ranking as the First Deputy Mayor of Moscow with the City of Moscow. From 2001 through 2003, he was the Head of the City of Moscow Governmental Administration, ranking as the First Deputy Mayor of Moscow with the City of Moscow. From January 1997 until August 2001, Mr. Korobchenko served as the administrator of the Moscow Mayor's Office. In 1996, he was appointed as Deputy Prime Minister of the City of Moscow for social issues. In 1992, he was appointed as the First Deputy Prime Minister of the City of Moscow and Head of the Social Protection Complex. Mr. Korobchenko has been employed with executive authorities since 1979, serving first as a secretary, then as the chairman, of the executive committee of the Baumansky District Council, the First Deputy Chairman of the Planning Commission of the Moscow City Executive Committee and finally as the First Deputy Chairman of the Executive Committee of the Moscow Council. He started his career at the Bauman Moscow Higher Technical School and has acted as a Komsomol and party leader for more than 10 years. Mr. Korobchenko holds a degree from the Bauman Moscow Higher Technical School.

Yuri V. Korostelev (1945), member of the Board of Directors. Mr. Korostelev has been a member of the Board of Directors of the Bank since March 1996. Mr. Korostelev has been the Head of the Finance Department since 1990; he was appointed Minister of the City of Moscow in 1992. Mr. Korostelev has been employed with the municipal executive authorities since 1985. For eight years, he supervised the industrial and transportation aspects of activities of enterprises as a party functionary. After completing military service, Mr. Korostelev graduated from university and worked as a senior teacher. Mr. Korostelev started his career as a mechanic at the Schekino Power Plant. He holds a degree from the Moscow Patrice Lumumba University of International Friendship and the degree of candidate of economics.

Alexander P. Lavrentiev (1946), member of the Board of Directors. Mr. Lavrentiev has been a member of the Board of Directors of the Bank since June 2000. Mr. Lavrentiev is the General Director of OAO "Helicopter Plant of Kazan". He also serves as the Chairman of the Board of Directors of OAO AKB "Zarechye", a commercial bank. Mr. Lavrentiev holds a diploma in engineering from the Kazan Aviation Institute.

Yuri V. Roslyak (1954), member of the Board of Directors. Mr. Roslyak has been a member of the Board of Directors of the Bank since March 1996. Mr. Roslyak was appointed as the First Deputy Mayor of Moscow with the City of Moscow and Head of the Department of Economic Policies and Development of Moscow in December 2003, following the election of Yuri Luzhkov as the Mayor of Moscow. In 1995, Mr. Roslyak was appointed as the Deputy Prime Minister with the City of Moscow and Head of the Department of Economic Policies and Development of Moscow and re-appointed in January 2000 and held this position until August 2001. Mr. Roslyak has been employed with municipal executive authorities since 1986, initially as deputy head of the Executive Committee of the Krasnogvardeysky District Council and later as the head of the Moscow Prospective Development Department. He started his career as a mechanic with a construction department, later was employed as a designer with the USSR Energy Ministry and as an engineer with the Supply Department of the Moscow City Executive Committee. Mr. Roslyak graduated from the Moscow Kuybyshev Civil Engineers Institute in 1972.

Pyotr V. Saprykin (1936), member of the Board of Directors. Mr. Saprykin has been a member of the Board of Directors of the Bank since June 2001. Mr. Saprykin is the Head of the Municipal Housing and Housing Policies Department of the City of Moscow. He also serves as a member of the Board of Directors of Commercial Bank "Moscow Mortgage Agency". Mr. Saprykin graduated from the All-Union Distance Learning Energy Institute with a diploma in radio technology in 1966.

Vladimir N. Silkin (1957), member of the Board of Directors. Mr. Silkin has been a member of the Board of Directors of the Bank since June 2004. From January 1992 until January 2004, Mr. Silkin served as the Deputy Head of the administration of the North-East District of the City of Moscow. Mr. Silkin has been the Head of the Property Department of the City of Moscow since January 2004. Mr. Silkin graduated from Moscow Railway Engineering Institute in 1982, the Russian Academy of Governmental Service in 1997 and the Financial Academy of the Government of the Russian Federation in 2004.

Mukhadin A. Eskindarov (1951), member of the Board of Directors. Mr. Eskindarov has been a member of the Board of Directors of the Bank since June 2004. After having served as the First Deputy Rector of the Financial Academy under the Government of the Russian Federation since 2002, Mr. Eskindarov was appointed as Rector of this Academy in 2006. Mr. Eskindarov is also a general director of the Supervisory Council of the Financial Academy of the Government of the Russian Federation. Mr. Eskindarov graduated from the Moscow Financial Institute in 1976.

Andrei F. Borodin (1967), President, Chairman of the Management Board, member of the Board of Directors. Mr. Borodin has been the President and Chairman of the Management Board of the Bank since April 1996. Before joining the Bank in April 1996, Mr. Borodin served as Advisor to the Mayor of the City of Moscow on financial and economic issues. Mr. Borodin worked at Dresdner Bank AG in Frankfurt from 1991 until 1993. Since August 2000, he has also been the Chairman of the Executive Board of OAO "Moscow Insurance Company". Mr. Borodin is the Chairman of the Board of Directors of Latvian Business Bank and ZAO "Concern Vechernyaya Moskva", subsidiaries of the Bank. He also serves as a board member of a number of companies and non-profit organizations, including OAO "Moscow Insurance Company", OAO "Moscow Oil Company", Commercial Bank "Moscow Mortgage Agency", Moscow Oil and Gas Company, OAO "Moscow Committee for Science and Technology" and the Moscow Stock Exchange. Mr. Borodin is the Executive Vice-President of the Board of the Association of Russian Banks, a member of the Board of the Moscow Banking Union and a member of the Board of Trustees of the Financial Academy under the Government of the Russian Federation. From 1997 until 2002 Mr. Borodin was the Chairman of the Board of Directors of Troika Dialog Investment Company, OAO "Moscow Inter-republic Wine Factory" and BM Securities. In 2000 and 2001 Mr. Borodin was named" - Best Banker of the year in Russia" by The Banker magazine; in 2001" - Best Manager of the Year in Russia" by The Company magazine; in 2002" - Donator of the year in Russia" by Sovershenno Sekretno holding; and in 2003" - Best Manager in Financial Sector in Russia" by The Company magazine. He graduated from the State Financial Academy in 1991 specializing in international economic relations.

Dmitry V. Akulinin (1966), Senior Executive Vice President, member of the Board of Directors. Mr. Akulinin is the First Vice President and a member of the Management Board of the Bank. Mr. Akulinin was appointed the First Vice President of the Bank in July 2001 and became a Member of the Board of Directors in June 2003. Mr. Akulinin is the Chairman of the Board of ZAO "Automated Banking Technologies", the Chairman of the Board of ZAO "Akviko" and the Chairman of the Board of Directors of OAO "Russian National Commercial Bank", a board member of ZAO "Concern "Vechernaya Moskva", Latvian Business Bank, Moscow-Minsk Bank, OAO AKB "Izhkombank", OAO Trading House "GUM", OOO "Sibneftegaz" and a number of other companies. He joined the Bank in July 1995 as the Head of Special and Project Finance Department. From 1996 until June 1998 he was the Head of Credit and Investment Department. Before re-joining the Bank as a Vice President in January 2000, Mr. Akulinin served as the Chairman of the Executive Board of Mosbusinessbank from September 1998 until January 2000. From 1991 to 1993, Mr. Akulinin was Chief Economist of Vnesheconombank. From 1993 to 1995, he worked at Inkombank as a Management Board expert and at AOZT Euro-Siberian Oil Financial Company as a financial expert, and was an accountant in the Moscow office of Fleming Russia Investment Corporation. He graduated from the State Financial Academy in 1991 specializing in international economic relations.

Yelena N. Volkova (1964), Executive Vice President, member of the Board of Directors. Ms. Volkova was appointed an Executive Vice President in February 2004. Ms. Volkova is a Board member of Latvian Business Bank and open joint stock company "Electronic Moscow". She has served as General Director of the Corporate and Investment Business Department of the Bank since January 2002. From February 1998 until January 2002 she was a Director and then the General Director of the Client Servicing Department. Before joining the Bank in August 1995, Ms. Volkova worked as a corporate customers branch manager of Sberbank in Moscow. Ms. Volkova graduated from the Moscow Plekhanov Institute of National Economy in 1985, specializing in business accounting.

Lyudmila N. Davydova (1964), Senior Executive Vice President Chief Accountant. Ms. Davydova has been a Vice President of the Bank since December 2002, the chief accountant since December 2000 and the Director of the Accounting, Reporting and Settlements Department since November 2000. In 2000, Ms. Davydova was a deputy general director of the Federal Agency for the Restructuring of Credit Institutions. Before that she served as chief accountant and deputy chief accountant of Mosbusinessbank and Neftekhimbank. Ms. Davydova graduated from the All-Union Distance Learning Finance and Economics Institute specializing in finance and credit in 1990. On March 14, 2005, Ms. Davydova was appointed a First Vice President.

Andrei V. Lapko (1969), Executive Vice President. Mr. Lapko has been a Vice President of the Bank since July 2002. In 2002 he was General Director of the Regional Business Department. From July 1999 until 2000 Mr. Lapko was Head of Trade Finance and International Projects. From August 2000 until 2002 he was General Director of the Client Servicing Department. Before serving as a Vice President of Credit-Moskva Bank from 1998 to 1999, Mr. Lapko worked in Mezheconombank in various capacities starting in 1992. Mr. Lapko graduated from the State Financial Academy in 1991 with a diploma in finance and credit.

Alexei V. Sytnikov (1967), Executive Vice President. Mr. Sytnikov has been Vice President of the Bank in charge of the Treasury Department since October 2001. Mr. Sytnikov is Chairman of the Board of Directors of Moscow-Minsk Bank and ZAO "Management Company of the Bank of Moscow". He also serves as a board member of Latvian Business Bank and OAO AKB "Mosvodokanalbank". From October 2000 until October 2001 he was Director of the Treasury Department at the Bank. From 1997 to 2000 Mr. Sytnikov served as a Deputy General Director in LLC "Sberinvest" and as a Deputy General Director of "MFK Moscow Partners" LLC. From 1994 to 1997 he worked as Head of Commercial Department at Stolichny Bank International N.V. From 1991 to 1994 Mr. Sytnikov also worked in Debt Instruments and Securities Department at BfG Bank AG. Mr. Sytnikov graduated with honors from the State Financial Academy with a diploma in international economic relations in 1991.

Tatiana V. Udaltsova (1961), Executive Vice President General Counsel. Ms. Udaltsova has been Vice President and General Counsel of the Bank since January 2003 and from August 1998 until October 2000. From September 2000 until January 2003, Ms. Udaltsova was the General Director of Inva-NV LLC. From January 1992 until July 1998, she was counsel in the New York and Moscow offices of Skadden, Arps, Slate, Meagher & Flom LLP, a U.S. law firm. Ms. Udaltsova graduated with honours from the Moscow State Institute of International Relations with a diploma in international law in 1983. In 1993, Ms. Udaltsova graduated from the Columbia University School of Law with an LL.M degree.

Yuri G. Maksutov (1967), Chief Financial Officer, Financial Director. Mr. Maksutov has been the Financial Director and Director of the Planning and Economic Department of the Bank since January 2001. In 1997 and 2000 he held various positions in the Controlling Department, including Head of the Controlling Department from 1999 to 2000. From 1994 to 1997 Mr. Maksutov worked as Deputy Chairman of the Management Board of Evromet Bank and from 1993 to 1994 as Deputy Director of a branch of President Bank. Mr. Maksutov graduated from the Moscow Physics and Technical Institute with a diploma in radio-electronics devices in 1989, has a diploma from the Zhukovsky Air-Force Academy and a diploma in finance and credit from the All-Russian Distance Learning Finance and Economics Institute in 1995.

Sergei V. Ermolaev (1956), Executive Vice President. Mr. Ermolaev has been Executive Vice President since March 2005. Mr. Ermolaev is a member of the Board of Directors of OAO AKB "Zarechye". From October 1998 until 2002 he served in the Client Servicing Department of the Bank as the Head of Client Base Development, Deputy General Director and General Director of this Department. Mr. Ermolaev was Deputy Chief and then Chief of Client Operations of Avtobank. Before that he worked in the Maritime Bank and in the Ministry of Transport of the Russian Federation and the Ministry of Marine Transport of the USSR. Mr. Ermolaev graduated from the Odessa Higher Sea School in 1978 and from the State Financial Academy in 1991 with a diploma in international economic relations. He received additional training at the Higher Courses of Banking and Finance of the Russia-American Forum in 1993.

Irina R. Nikitenko (1955), Executive Vice President. Ms. Nikitenko has been Executive Vice President of the Bank in charge of regional business since December 2003. Ms. Nikitenko is also a board member of Moscow-Minsk Bank. From 2001 to 2003, she served as General Director of the Corporate and Investment Business Department of the Bank. Ms. Nikitenko has served as Director of Regional Network Department and General Director of Client Servicing Department. From 1997 to 1998, she served as a member of the Management Board and Deputy Chairman of the Management

Board of Mosbusinessbank. From 1989 until 1997, she worked as a branch manager of Zhilsotzbank. Ms. Nikitenko graduated from the Moscow Finance Institute with a diploma in finance and credit in 1977. She received additional training at the American Institute of Banking in 1992.

Pavel I. Gorbatsevich (1958), Executive Vice President. Mr. Gorbatsevich was appointed an Executive Vice President of the Bank in July 2004. From February 1995 until March 2004 he was the Deputy Chairman of the Executive Board of Alfa Bank. From September 1992 until January 1995 Mr. Gorbatsevich served as regional manager of BHF Bank (Germany), responsible for Eastern Europe and the CIS. From 1980 to 1992 he held a number of positions in Vnesheconombank and VTB. Mr. Gorbatsevich graduated from the State Financial Academy in 1980 specializing in finance and credit.

Vladimir V. Fedorov (1961), Executive Vice President. Mr. Fedorov joined the Bank in March 2005. From 1998 until 2005, he worked as a banker with the European Bank for Reconstruction and Development ("EBRD"). He was Senior Banker in the Russia Team, Banking Department of the EBRD prior to his departure. From 1994 until 1998, Mr. Fedorov worked as Counsel at the Office of General Counsel of the EBRD in London. In 1994, Mr. Fedorov was seconded to Allen & Overy in London. From 1984 until 1994 he worked in the Ministry of Foreign Affairs of the USSR and the Russian Federation. Mr. Fedorov graduated with honors from the Moscow State Institute of International Relations with a diploma in International Public and Private Law in 1984.

Olina N. Safina (1973), member of the Audit Commission. Ms. Safina has been a member of the Audit Commission since June 2005. She is a member of the Management Board and the chief accountant of OAO "Russian National Commercial Bank" since 2004. From August 1999 until April 2003 Ms. Safina was Head of the banking audit segment of ZAO "Ami". Ms. Safina graduated from the Moscow Plekhanov Institute of National Economy in 1994.

Konstantin O. Popov (1966), member of the Audit Commission. Mr. Popov became a member of the Audit Commission in June 2003. Since April 2001 he has been the Chairman of the Board of Directors of ZAO "Corporation Incom-Real Estate". From September 1991 until April 2001 he was Chairman of the Board of Directors of the Moscow Central Real Estate Exchange. Mr. Popov graduated from the Moscow Institute of Radiotechnics, Electronics and Automatics in 1989.

Tatiana A. Silina (1953), member of the Audit Commission. Ms. Silina was elected to the Audit Commission of the Bank in 2005. Since May 2003 Ms. Silina has served as the Head of the controlling segment at the Main Department of Municipal Financial Control of the City of Moscow, where she worked since 1996. Ms. Silina graduated from the Moscow State University in 1976 specializing in philosophy.

The next election of members of the Board of Directors is expected at the forthcoming shareholders meeting scheduled for June 2007.

The business address of each member of the Board of Directors, the Management Board and the Audit Commission is 8/15, Bldg. 3, Rozhdestvenka Str., Moscow 107996, Russian Federation.

There are no current or potential conflicts of interest between the Board of Directors of the Bank or the Management Board of the Bank in their official capacity and their private interests.

Compensation

The total compensation of the members of the Management Board and the Board of Directors for 2006, 2005 and 2004 was RUR 537.2 million, RUR 397.0 million and RUR 123.7 million respectively. The Bank did not pay any compensation to the members of the Board of Directors and the Audit Commission in 2006, 2005 and 2004. As at March 1, 2007, the Bank has extended Rouble-denominated loans to members of the senior management with a total outstanding balance of RUR 66.9 million. As at March 1, 2007, the total outstanding balance of U.S. Dollar-denominated loans to members of the senior management of the Bank was USD 8.1 million, and the total outstanding balance of Euro-denominated loans to members of the senior management was EUR

0.8 million. Most of the loans to senior management bear an annual interest rate of between 5.25 per cent. and 9.0 per cent. and are not secured by any collateral. See “Business – Employees”.

The Bank does not have any stock option, bonus plans or similar programs for directors, officers or employees.

Board Practices

All current members of the Board of Directors were elected at the annual general shareholders meeting of the Bank held on June 28, 2006 for a one year term. The Bank has not entered into any service contracts with any of its current directors providing for benefits upon termination of service.

Share Ownership

As at March 31, 2007, the following directors and officers of the Bank held the following respective numbers of the Bank’s shares:

Name, position within the Bank	% of total Share capital
1. Andrei F. Borodin President of the Bank, Chairman of the Management Board, Member of the Board of Directors	0.00025
2. Dmitry V. Akulinin First Executive Vice-President of the Bank, Member of the Management Board, Member of the Board of Directors	0.00017
3. Lev F. Alaluev Advisor to the President of the Bank, Member of the Board of Directors	0.00021
4. Yelena N. Volkova Executive Vice-President of the Bank, Member of the Management Board, Member of the Board of Directors	0.00017
5. Pavel I. Gorbatsevich Executive Vice-President of the Bank, Member of the Management Board	0.02437

Code of Corporate Governance

Pursuant to the FSFM Order No. 421/r “On Recommendations for Application of Corporate Governance Code” dated April 4, 2002, the Bank’s Board of Directors adopted the Corporate Governance Code (the “Code”) on October 25, 2006 to unify and develop a corporate governance practice. The Code was developed in accordance with applicable laws and focuses on corporate governance provisions of the Charter and internal regulations.

The Code provides for a number of basic principles of corporate governance, sets out rules for implementation of these principles and disclosure of information. These basic principles, amongst others, include equal treatment of all the Bank’s shareholders and proper protection of their rights. The Code establishes certain procedures aimed at prevention and effective settlement of corporate conflicts that may arise between the Bank and its shareholders or between the Bank’s shareholders.

The Code sets forth a number of corporate management rules and requirements and develops the relevant provisions of the Charter and internal regulations to ensure proper performance by the Bank’s Board of Directors of its duties. These rules and requirements, amongst others, include the procedure for the election of directors designed to take into account all the shareholder votes and certain qualification criteria for the directors.

The principles of information disclosure include regularity, flexibility, availability, accuracy and completeness achieving a reasonable balance between the Bank’s level of transparency and the protection of its commercial interests.

The adoption of the Code is generally aimed at increasing the level of the Bank’s transparency and protection of shareholders’ and investors’ rights and interests.

RELATED PARTY TRANSACTIONS

The Bank enters into banking transactions in the normal course of business with shareholders (including the City of Moscow), directors, subsidiaries and companies with which it has significant shareholders in common. These transactions include settlements, loans, deposit taking, trade financing and foreign currency transactions and are priced at market rates.

As at December 31, 2006, the City of Moscow and more than 1,000 of its municipal entities deposited a significant portion of their budget funds with the Bank. Budget funds of the City of Moscow and these entities accounted for approximately 29.0 per cent. and 4.9 per cent., respectively, of the Bank's total deposit portfolio (or approximately 21.5 per cent. and 3.6 per cent., respectively, of the Bank's total liabilities) as at December 31, 2006, compared with 26.4 per cent. and 4.6 per cent., respectively, of the Bank's total deposit portfolio (or approximately 20.1 per cent. and 3.5 per cent., respectively, of the Bank's total liabilities) as at December 31, 2005, and with approximately 28.1 per cent. and 5.4 per cent. of the Bank's total deposit portfolio (or approximately 23.5 per cent. and 4.5 per cent., of the Bank's total liabilities) as at December 31, 2004. Related party lending, as defined in the IFRS Financial Statements, which includes lending to the City of Moscow, its municipal entities and associated companies, accounted for approximately 2.3 per cent. of the Bank's gross loan portfolio as at December 31, 2006 compared with approximately 2.5 per cent. as at December 31, 2005. As at December 31, 2006 most of those loans consisted of loans to enterprises owned by the City of Moscow totaled RUR 5.97 billion, and as at December 31, 2005 of loans to municipal entities of the City of Moscow totaled RUR 4.2 billion. Related party lending and loans to municipal entities of the City of Moscow accounted for 4.0 per cent. and 3.9 per cent. of the Bank's net and gross loan portfolio, respectively, as at December 31, 2004. See "Risk Factors – Risks Related to the Bank's Business and Industry – The Bank may lose some or all of the City of Moscow's business".

The table below sets out the outstanding balances as at December 31, 2006, 2005, 2004 and interest expense and income as well as other transactions for the year then ended with related parties in accordance with IFRS.

	As at December 31		
	2006	2005	2004
		RUR millions	
Correspondent accounts and overnight deposits with other banks	–	–	22.2
Trading securities	2,729.8	107.9	2,552.3
Due from other banks			
Placements with banks	540.0	554.4	798.7
Interest income	30.2	37.2	34.6
Loans to customers			
Loans outstanding	6,215.2	4,286.6	3,602.9
Allowance for loan impairment	258.1	81.0	77.1
Loans outstanding, net	5,957.1	4,205.6	3,525.8
Interest income	278.1	657.8	341.4
Due to other banks			
Correspondent accounts and overnight deposits of other banks.	13.5	15.1	14.4
Short-term placements outstanding			0.3
Correspondent accounts and overnight deposits of other banks, net	13.5	15.1	14.7
Interest expense	5.9	0.5	1.2
Customer accounts			
Current accounts and term deposits	89,140.1	53,464.6	39,071.5
Interest expense	3,571.5	1,162.8	599.2

PRINCIPAL SHAREHOLDERS

The following table lists the Bank's shareholders of record holding 2 per cent., or more of the Bank's outstanding ordinary shares as at March 31, 2007, such date being the most recent practicable date as of which this information is available. Executive officers and directors as a group owned less than 1 per cent., of the total share capital of the Bank as at such date.

	Per cent. of total share capital
The Property Department of the Government of the City of Moscow(1)	46.47
OAO "Moscow Insurance Company"(2)	13.48
OOO NPO "Farmatsevtika"	4.76
OOO "GCM"	4.75
OOO "Stroyelectromontazh"	4.72
OOO "Gazdorstroy"	4.69
OOO "GCM Investments"	4.62
OOO "Himpromexport"	4.44
OOO "Centrotransport"	4.06
OOO "Plastoinstrument"	2.81
J.P. Morgan International Finance Limited	2.21
Total	**97.01**

Note:

(1) See "—Share capital increases" below.

(2) This entity is an affiliate of the City of Moscow.

Share capital increases

On April 16, 2007, the Bank completed a capital increase by increasing the number of issued and outstanding ordinary shares from 123,100,932 ordinary shares to 130,000,932 ordinary shares. The amount of additional shares constituted 5.6 per cent. of the Bank's charter capital. The nominal value of the Bank's share capital was increased from RUR 12,310,093,200 to RUR 13,000,093,200. The new shares were sold to existing shareholders at a subscription price of RUR 928 each and by open subscription at a subscription price of RUR 1031 each. Shareholders of the Bank purchased 1,243,925 ordinary shares of the newly-issued shares by exercising their pre-emptive rights. An additional 5,656,075 shares were sold by open subscription. As a result of this increase, the Bank raised RUR 6,985,775,725 in aggregate. Due to the share capital increase, the direct shareholding of the City of Moscow in the Bank's charter capital was reduced from 46.465 per cent. to 43.999 per cent.

On January 22, 2007, the CBR registered the eleventh issue of 6,900,000 ordinary nominal shares, which raised RUR 6,985,775,725. The placement of shares was completed on April 16, 2007 and the report on the results of issuance of such shares has been filed for registration with the CBR on April 17, 2007. After registration of the placement with the CBR, the City of Moscow represented by the City of Moscow Property Department, will own directly 43.999 per cent. of the issued and paid-up share capital of the Bank.

On August 18, 2006 the CBR registered the tenth issue of the Bank's shares. The Bank issued 5,600,000 ordinary voting shares which raised RUR 2,906,400,000. J.P. Morgan International Finance Ltd. purchased 48 per cent. of shares of the tenth issue. See "Principal Shareholders – Share Capital Increases".

Following the recent capital increases, the City of Moscow remains the controlling shareholder of the Bank.

JSC Moscow Insurance Company

In the course of 2007, the City of Moscow plans to establish an insurance group, "Stolichnaya Strakhovaya Gruppa" (the "Insurance Group") by consolidating the insurance assets of the City of

Moscow (including its stake in the JSC Moscow Insurance Company, one of the principal shareholders of the Bank) and the insurance assets of the Bank of Moscow group and other companies. The control of the new Insurance Group will be with the City of Moscow and the Bank of Moscow group.

Admission to Trading of Ordinary Shares of the Bank

On December 10, 2004, the ordinary shares of the Bank were admitted to trading on the OTC market of MICEX under the trade code MMBM. In connection with the reorganization of MICEX, the Bank's ordinary shares were withdrawn from quotation on ZAO "MICEX" and re-admitted to ZAO "Stock Exchange MICEX". A number of ordinary shares of the Bank are held by nominees in order to allow the ordinary shares to be traded on MICEX.

THE ISSUER

General

Kuznetski Capital S.A. was incorporated on July 26, 2004 for an unlimited duration under the form of a company with limited liability (*societé anonyme*) under the laws of the Grand Duchy of Luxembourg. Its Articles of Incorporation were published in the Memorial Recueil des Sociétés et Associations No. 997, dated October 7, 2004. It is registered with the Trade Register of Luxembourg (*Registre de Commerce et des Sociétés á Luxembourg*) under number R.C.S. Luxembourg B102041. Its registered office is located at 69, Boulevard de la Pétrusse, L-2320, Luxembourg, and its telephone number is +352 40 49 601.

The Issuer's authorized and subscribed share capital amounts to U.S.$50,000, divided into 10,000 registered shares with a par value of U.S.$5.00 each. Of this total, 9,999 shares are owned by Kuznetski Holding I Stichting and one share is owned by Kuznetski Holding II Stichting. Kuznetski Holding I Stichting and Kuznetski Holding II Stichting are held on trust by Equity Trust whose registered address is located at Strawinskylaan 3105 Atrium 7th, NL-1077 ZX Amsterdam. On December 31, 2006, the Issuer had a fully paid-up share capital of U.S.$50,000.

The Issuer has a Board of Directors, currently consisting of three directors. The directors at present are Mr. Francois Brouxel whose business address is 69, Boulevard de la Pétrusse, L-2320 Luxembourg, Mr. Georges Gudenburg whose business address is 69, Boulevard de la Pétrusse, L-2320 Luxembourg, and Mr. Claude Zimmer whose business address is 5, Boulevard de la Foire, L-1528 Luxembourg.

The Board of Directors is generally responsible for managing the business and affairs of the Issuer. The directors are generally elected at the Annual General Meeting of shareholders of the Issuer.

The business of the Issuer, as described in Article 4 of its Articles of Incorporation, is the acquisition, holding and disposal of participations, in any form whatsoever, in Luxembourg companies and foreign companies, the acquisition by purchase, subscription or in any other manner, as well as the transfer by sale, exchange or otherwise, of stocks, bonds, notes and other securities of any kind, and the ownership, administration, development and management of its portfolio.

The Issuer may participate in the establishment and development of any financial, industrial or commercial enterprise in Luxembourg and abroad and may render them every assistance whether by way of loans, guarantees or otherwise. The Issuer may further carry out all transactions pertaining directly or indirectly to the taking of participating interests in whatever form in any enterprise or any private company, as well as to the administration, management, control and development of these participating interests. The Issuer may borrow and issue bonds and debentures within the limits of law.

The above summary is not exhaustive. In general, the Issuer may take any controlling and supervisory measures, and carry out any operation that it may deem useful in the accomplishment and development of its purposes.

The issuer is organized as a special purpose company. The Issuer was established to raise capital by the issue of debt securities and to use amounts equal to the proceeds of each such issuance to make loans to the Bank.

Audiex S.A., a company registered with the Trade Register of Luxembourg under number R.C.S. Luxembourg B 65.469 having its registered office at 57, avenue de la Faiencerie, L-1510 Luxembourg, has been appointed as the Issuer's statutory auditor. In addition, Ernst & Young S.A., a company registered with the Trade Register of Luxembourg under number R.C.S. Luxembourg B 47.771 having its registered office at 7, Parc d' Activité Syrdall, L-5365 Münsbach, Luxembourg, as external independent auditor contractually appointed by the Issuer, has audited the financial statements of the Issuer in respect of the financial years ended December 31, 2006, December 31, 2005 and December 31, 2004 in accordance with IFRS and which are set forth on pages F-124 to F-153.

Capitalization

The following table sets forth the audited capitalization of the Issuer as at December 31, 2006:

	USD
Share capital (issued ordinary shares of USD 5 each)	50,000
USD 250,000,000 8% Loan Participation Notes due 2009	250,000,000
USD 300,000,000 7.375% Loan Participation Notes due 2010	300,000,000
USD 300,000,000 7.5% Loan Participation Notes due 2015 with interest rate step up in 2010	300,000,000
USD 500,000,000 7.335% Loan Participation Notes due 2013	500,000,000
Total capitalization	**1,350,050,000**

Other than as detailed above, the Issuer does not have any loan capital, borrowings or contingent liabilities.

FORM OF SUBORDINATED LOAN AGREEMENT

This **SUBORDINATED LOAN AGREEMENT** is made on May 4, 2007 between:

(1) **JOINT STOCK COMMERCIAL BANK "BANK OF MOSCOW"**, a company incorporated under the laws of Russia whose registered office is at Rozhdestvenka Str., 8/15 Building 3, Moscow 107996, Russian Federation (the "**Borrower**"); and

(2) **KUZNETSKI CAPITAL S.A.**, a company incorporated under the laws of Luxembourg, whose registered office is at 69, boulevard de la Petrusse, L2320, Luxembourg (the "**Lender**").

R E C I T A L S

(A) WHEREAS, the Lender has, at the request of the Borrower, made available to the Borrower a subordinated loan facility in the amount of U.S.$400,000,000 on the terms and subject to the conditions of this Agreement.

(B) WHEREAS, it is intended that, concurrently with the extension of the Loan under this subordinated loan facility, the Lender will issue certain loan participation notes in the same aggregate nominal amount and bearing the same rate of interest as such Loan.

(C) WHEREAS, the Lender and the Borrower have agreed that, in the event of the bankruptcy and/or winding up of the Borrower, the claims of the Lender in respect of principal of, and interest on, the Loan shall be subordinated to the claims of Senior Creditors of the Borrower in the manner set out in this Agreement.

A G R E E M E N T

NOW THEREFORE in consideration of this and the representations, warranties, covenants and undertakings contained in this Agreement and for good and binding consideration, the parties to this Agreement agree as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

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

"**Acceleration Event**" means each of the events listed in Clauses 13.1 and 13.2.

"**Account**" means the account in the name of the Lender with The Bank of New York, with payment being made to The Bank of New York, New York, SWIFT: IRVTUS3N, Account Name: The Bank of New York, London, SWIFT: IRVTGB2X, account number: 8033093455 for further credit to account: 2040348400, as notified by the Lender in writing to the Borrower, or such other account as may from time to time be agreed by the Lender and the Borrower with the Agreed Funding Source, or any assignee or transferee appointed in connection with the Agreed Funding, and notified in writing to the Borrower at least five Business Days in advance of such change.

"**Additional Amounts**" has the meaning set forth in Clause 8.1.

"**Advance**" has the meaning set out in Clause 4.1.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state.

"**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 or initialled for the purpose of identification on behalf of each of White & Case LLP (in its capacity as counsel to Deutsche Bank AG, London Branch and J.P. Morgan Securities Ltd.) and LeBoeuf, Lamb, Greene & MacRae (in its capacity as counsel to the Borrower), or such document has been signed on behalf of the parties thereto and delivered to White & Case LLP to be held in escrow pending release on the Closing Date.

"**Agreed Funding**" shall mean the Indebtedness (including in the form of securities), owed to the Agreed Funding Source.

"**Agreed Funding Source**" means any Person (including a designated representative of such Person) to whom the Lender owes any Indebtedness (including indebtedness in respect of securities), which Indebtedness was incurred solely and expressly to fund the Loan.

"**Agreement**" means this subordinated loan agreement as originally executed or as it may be amended from time to time.

"**Approval**" has the meaning set out in Clause 3.3.

"**Approval Date**" has the meaning set out in Clause 3.3.

"**Board of Directors**" means, as to any Person, the board of directors or equivalent competent governing body of such Person, or any duly authorized committee thereof.

"**Borrower Account**" has the meaning set out in Clause 8.3.

"**Business Day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York, London and Luxembourg.

"**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**" or "**CBR**" means the Central Bank of the Russian Federation or such other governmental or other authority as shall from time to time carry out functions in relation to the supervision of banks in the Russian Federation as are, on the date hereof, carried out by the CBR.

"**Closing Date**" means May 10, 2007.

"**Dispute**" has the meaning assigned to it in Clause 20.2.

"**Dollars**", "**U.S. Dollars**" and "**U.S.$**" mean the lawful currency of the United States of America.

"**Event of Illegality**" has the meaning set out in Clause 6.4.

"**Facility**" means the subordinated term loan facility granted by the Lender to the Borrower as specified in Clause 2.

"**Facility Fee**" has the meaning set out in Clause 2.

"**Finance Documents**" means this Agreement and the other agreements and deeds relating to the issuance of the Agreed Funding, including any subscription agreement related to such Agreed Funding to which the Lender is a party.

"**Group**" means the Borrower and its Subsidiaries taken as a whole.

"**IFRS**" means International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

"**IFRS Fiscal Period**" means any fiscal period for which the Borrower has produced financial statements in accordance with IFRS which have either been audited or reviewed by independent accountants of recognised international standing.

"**incur**" means issue, assume, guarantee, incur or otherwise become liable for.

"**Indebtedness**" means any indebtedness, in respect of any Person for, or in respect of, monies 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 other similar instrument; any amount raised pursuant to any issue of shares which are expressed to be redeemable; any amount raised under any other transaction (including any forward sale or purchase agreement) having the economic effect of a borrowing; and the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above.

"**Indemnified Party**" has the meaning set out in Clause 14.1.

"**Initial Interest Term**" means the period from and including the Closing Date to but excluding the Reset Date.

"**Initial Rate of Interest**" has the meaning set out in Clause 5.1.

"**Insolvency Law**" has the meaning set out in Clause 3.1.

"**Interest Determination Date**" means the second Business Day immediately preceding the Reset Date.

"**Interest Payment Date**" means May 10 and November 10 of each year in which the Loan remains outstanding, commencing on November 10, 2007 and ending on the Repayment Date.

"**Interest Period**" means each period from and including an Interest Payment Date (or, in the case of the first Interest Period, the Closing Date) to but excluding the next Interest Payment Date (or, in the case of the first Interest Period, the first Interest Payment Date).

"**Lien**" means any mortgage, pledge, encumbrance, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction) and any title retention agreement having a similar effect.

"**Loan**" means, at any time, an amount equal to the aggregate principal amount of the Facility advanced by the Lender pursuant to this Agreement and outstanding at such time.

"**Margin**" means 375 basis points (3.75 per cent.).

"**Material Adverse Effect**" means a material adverse effect on (i) the operations, property or condition (financial or otherwise) of the Group taken as a whole; or (ii) the Borrower's ability to perform its obligations under this Agreement; or (iii) the validity or enforceability of this Agreement or the rights or remedies of the Lender hereunder.

"**Material Subsidiary**" means any Subsidiary of the Borrower:

(a) which, for the most recent IFRS Fiscal Period, accounted for more than 10 per cent of the consolidated revenues of the Borrower or more than 10 per cent of the consolidated net income of the Borrower;

(b) which, as of the end of the most recent IFRS Fiscal Period, was the owner of more than 10 per cent of the consolidated assets of the Borrower, all as set forth in the most recent available consolidated financial statements of the Borrower for such IFRS Fiscal Period; or

(c) to which are transferred substantially all of the assets and undertaking of a Subsidiary of the Borrower which immediately prior to such transfer was a Material Subsidiary.

"**Notes**" means the U.S.$400,000,000 6.807 per cent. loan participation notes due 2017 proposed to be issued by the Lender pursuant to the Trust Deed.

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two officers of the Borrower, at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower.

"**Opinion of Counsel**" means a written opinion from recognised international legal counsel as reasonably selected by the Borrower (and, following the execution of any other agreements entered into in connection with the Agreed Funding Source, to the party designated by such agreement).

"**Own Funds**" has the meaning set out in Clause 3.3.

"**Paying Agent**" means the Principal Paying Agent or such other paying agent as may be appointed from time to time in connection with the Agreed Funding.

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality.

"**Potential Acceleration Event**" means any event which is, or after notice given hereunder or the passage of time or the making of any determination would be, an Acceleration Event.

"**Principal Paying Agent**" means The Bank of New York or any other principal paying agent appointed from time to time in connection with the Agreed Funding.

"**Proceedings**" has the meaning assigned to it in Clause 20.2.

"**Qualifying Jurisdiction**" means any jurisdiction which has a double taxation treaty with Russia under which the payment of interest by Russian borrowers to lenders in the jurisdiction in which the lender is incorporated is generally able to be made without deduction or withholding of Russian income tax upon completion of any necessary formalities required in relation thereto.

"**Rate of Interest**" means the Initial Rate of Interest or the Step Up Rate of Interest, as the case may be and as such terms are defined in Clause 5.1.

"**Regulation No. 215-P**" means Regulation No. 215-P "On the Methodology of Calculation of Net Worth (Capital) of Credit Organisations" dated 10 February 2003 issued by the CBR, as the same may be amended or replaced from time to time.

"**Repayment Date**" means May 10, 2017.

"**Reset Date**" means the date which is five (5) years after the Closing Date. (The Closing Date being the date from which the Loan is expected to be included into Own Funds of the Borrower pursuant to Regulation No. 215-P).

"**Rouble**" means the lawful currency of Russia.

“**Russia**” shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and “Russian” shall be construed accordingly.

“**Russian Tax Payment**” has the meaning set out in Clause 8.3.

“**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.

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

“**Senior Creditors**” means all creditors of the Borrower other than creditors of the Borrower whose claims are in respect of (i) the share capital of the Borrower (including preference shares) or (ii) other obligations ranking equally with or junior to the claims of the Lender pursuant to Russian law or an agreement.

“**Step Up Interest Term**” means the period from and including the Reset Date to but excluding May 10, 2017.

“**Step Up Rate of Interest**” has the meaning set out in Clause 5.1.

“**Subscription Agreement**” means the subscription agreement dated May 8, 2007 between the Lender, the Borrower, Deutsche Bank AG, London Branch and J.P. Morgan Securities Ltd. in relation to the issue of the Notes by the Lender.

“**Subsidiary**” means, in relation to any Person, any corporation, association, partnership or other business entity of which more than 50 per cent, of the Voting Stock is at the time owned or controlled directly or indirectly by such Person, such Person and one or more Subsidiaries of such Person or one or more Subsidiaries of such Person.

“**Tax Benefit**” has the meaning set out in Clause 8.3.

“**Tax Indemnity Amounts**” has the meaning set out in Clause 8.2.

“**Taxes**” means any present and future tax, duty, levy, impost, assessment or other governmental charge or withholding of any nature (including penalties, interest and other liabilities related thereto).

“**Taxing Authority**” has the meaning set out in Clause 8.1.

“**Trust Deed**” means the trust deed to be entered into on or about May 10, 2007 in connection with the Agreed Funding.

“**Trustee**” means BNY Corporate Trustee Services Limited or any other Person appointed as trustee for the Agreed Funding Source from time to time.

“**U.S. Treasury Rate**” means:

(i) in respect of the period from and including the Closing Date to but excluding the Reset Date, 3.057 per cent; and

(ii) in respect of the period from and including the Reset Date to but excluding the Repayment Date:

  (a) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H. 15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which established a yield for actively traded United States treasury notes adjusted to constant maturity under the caption "Treasury Constant Maturities", with a maturity (or remaining maturity) closest to the time period from the Reset Date to the Repayment Date (if no maturity falls within three months before or after such time period, yields for the two published maturities most closely corresponding to such time period shall be determined and the U.S. Treasury Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month); or

(b) in the event that such yield referred to in sub-clause (a) above does not appear in such statistical release or any such successor publication during the week preceding the Interest Determination Date, the yield determined by the Principal Paying Agent as follows:

(i) the Principal Paying Agent shall request the principal New York office of each of four primary United States government securities dealers to provide a quotation of the yield it offers for United States treasury notes with a maturity (or remaining maturity) closest to the time period from the Reset Date to the Repayment Date, and determine the average of such quotations (rounded, if necessary, to the nearest one thousandth of a percentage point, 0.0005 per cent, being rounded upwards); and

(ii) if the Principal Paying Agent is unable to obtain quotations and determine the yield pursuant to sub-clause (b)(i) above, the Principal Paying Agent shall determine, in the manner set forth in sub-clause (b)(i) above, the latest calculable yield for United States treasury notes with a maturity (or remaining maturity) closest to the time period from the Reset Date to the Repayment Date on the latest Business Day prior to the Interest Determination Date.

"**Voting Stock**" means, in relation to any Person, Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

1.2 Interpretation

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

1.2.1 all references to "**Clause**" or "**sub-clause**" are references to a Clause or sub-clause of this Agreement;

1.2.2 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;

1.2.3 words importing the singular number include the plural and vice versa;

1.2.4 the headings are for convenience only and shall not affect the construction hereof;

1.2.5 the "**equivalent**" on any given date in one currency (the "**first currency**") of an amount denominated in another currency (the "**second currency**") is a reference to the amount of the first currency which could be purchased with the amount of the second currency at the spot rate of exchange quoted on the relevant Reuters page or, where the first currency is (i) Roubles and the second currency is (ii) U.S. Dollars (or vice versa), by the Central Bank at or about 10.00 a.m. (New York time or, as the case may be, Moscow time) on such date for the purchase of the first currency with the second currency;

1.2.6 a "**month**" is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next succeeding calendar month save that, where any such period would otherwise end on a day which is not a Business Day, it shall end on the next succeeding Business Day, unless that day falls in the next calendar month, in which case it shall end on the immediately preceding Business Day, provided that, if a period starts on the last Business Day in a calendar month or if there is no numerically corresponding day in the month in which that period ends, that period shall end on the last Business Day in that later month (and references to "months" shall be construed accordingly); and

1.2.7 the "**Lender**" or the "**Borrower**" shall be construed so as to include it and any of its subsequent successors, assignees and chargees in accordance with their respective interests.

2. FACILITY

On the terms and subject to the conditions set forth herein, the Lender hereby grants to the Borrower a single disbursement term loan facility in an aggregate amount of U.S.$400,000,000. On the Closing Date, the Borrower shall pay a fee (the "**Facility Fee**") to the Lender in connection with the arrangement of the Facility in accordance with the invoice to be issued by the Lender no later than two Business Days before the Closing Date.

If the Lender receives the Facility Fee and the Advance is not subsequently made to the Borrower, it shall return such funds to the Borrower as soon as reasonably practicable.

3. SUBORDINATION OF THE LOAN

3.1 Subordination

The claims of the Lender against the Borrower in respect of the principal of, and interest on, the Loan will be subordinated, in the event of the winding up of the Borrower or in the event of the administration of the Borrower where the administrator makes a distribution to creditors, to the claims of Senior Creditors in accordance with the Federal Law "On Insolvency (Bankruptcy) of Credit Organisations" No. 40-FZ dated 25 February 1999 (as amended, replaced or superseded from time to time) (the "**Insolvency Law**") and will rank at least *pari passu* with the claims of other subordinated creditors of the Borrower (whether actual or contingent) having a fixed maturity from time to time outstanding and will be senior to the claims of holders of (i) the Borrower's share capital (including preference shares, if any) and (ii) all other obligations ranking junior to the claims of the Lender pursuant to applicable law.

Neither the Lender nor the Borrower shall be entitled to offset any liabilities of the Borrower under this Agreement against any liabilities owing by the Lender to the Borrower or the Borrower to the Lender, as the case may be.

3.2 Absence of collateral

No collateral (as defined by the legislation of the Russian Federation) shall be provided to secure the Loan.

3.3 Reclassification

If, by the date falling 60 days after the date of this Agreement (the "**Approval Date**"), the CBR has not finally and unconditionally approved this Agreement and the Loan as a subordinated loan eligible for inclusion into own funds (capital) ("**Own Funds**") of the Borrower within the meaning of Regulation No. 215-P (the "**Approval**"), (i) the Loan shall be treated as senior in priority to any subordinated debt or class of equity of the Borrower, (ii) Clause 3.1 shall be disregarded and (iii) Clause 6.2.1 shall apply.

4. DRAWDOWN

4.1 Drawdown

On the terms and subject to the conditions of this Agreement, on the Closing Date the Lender shall make an advance of U.S.$400,000,000 (the "**Advance**") to the Borrower and the Borrower shall make a single drawing in the full amount of the Advance.

4.2 Disbursement

Subject to the conditions set forth herein, on the Closing Date the Lender shall transfer the full amount of the Advance to the Borrower's account number 400 920 190 with JP Morgan Chase Bank, New York, 270 Park Avenue, New York City, NY 10017, USA, SWIFT CHAS US 33 in Same-Day Funds.

5. INTEREST

5.1 Rate of Interest

The Borrower will pay interest in Dollars to the Lender on the outstanding principal amount of the Loan from time to time at the rate of 6.807 per cent per annum (the "**Initial Rate of Interest**") representing the aggregate of (i) the U.S. Treasury Rate and (ii) the Margin during the Initial Interest Term and thereafter, at a rate per annum representing the aggregate of (i) the U.S. Treasury Rate, (ii) the Margin and (iii) 150 basis points (1.5 per cent.) (the "**Step Up Rate of Interest**") during the Step Up Interest Term. The U.S. Treasury Rate shall be, in respect of the Step Up Rate of Interest only, determined by the Principal Paying Agent on the Interest Determination Date in accordance with this Agreement (such determination by the Principal Paying Agent being final and binding on the Lender and the Borrower, in the absence of manifest error).

5.2 Payment of Interest

Interest at the Rate of Interest shall accrue from day to day, starting from (and including) the Closing Date and shall be paid semi-annually in arrear not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date. Interest on the Loan will cease to accrue from the due date for repayment thereof unless payment of principal is withheld, refused or not made, 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.

5.3 Calculation of Interest

The amount of interest payable in respect of the Loan for any Interest Period shall be calculated by applying either the Initial Rate of Interest or the Step Up Rate of Interest, as the case may be, to the Loan, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, 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 actually elapsed.

5.4 Publication of Step Up Rate of Interest

The Lender and the Borrower shall (unless the Loan has been prepaid in accordance with Clause 6) cause notice of the Step Up Rate of Interest to be given to any representative of any Agreed Funding Source, any agents appointed in respect of the Agreed Funding, any stock exchange on which the Agreed Funding is listed at the applicable time and, in accordance with the conditions of the Agreed Funding, the Agreed Funding Source as soon as practicable after its determination but in any event not later than the Reset Date.

6. REPAYMENT AND PREPAYMENT

6.1 Repayment

Except as otherwise provided herein:

6.1.1 the Borrower shall repay the Loan and, to the extent not already paid in accordance with Clause 5.2, any accrued interest to the date of repayment not later than 10.00 a.m. (New York City time) one Business Day prior to the Repayment Date;

6.1.2 the Borrower shall not prepay all or any part of the Loan including interest (except with the prior consent of the CBR); and

6.1.3 this Agreement may not be terminated earlier than the Reset Date, subject to the provisions of Clause 6.2.

6.2 Prepayment Option

6.2.1 Notwithstanding the provisions of Clause 6.1 above, the Borrower may prepay the Loan (in whole but not in part) either (i) at any time after the Approval Date, if the CBR does not unconditionally approve this Agreement and the Loan as Own Funds on or before the Approval Date or (ii) at any time after the Approval Date, if, as a result of any amendment to, clarification of or change in (including a change in interpretation or application of) Regulation No. 215-P or other applicable requirements of the CBR, this Agreement and the Loan would cease to qualify as Own Funds; provided that irrevocable notice thereof, together with an Officers' Certificate confirming the existence of the relevant circumstances permitting such a prepayment, shall be given to the Lender and the Trustee not more than 60 nor less than 30 days prior to the date of prepayment. Following the delivery of such notice and such Officers' Certificate, the Borrower shall be bound on the prepayment date specified therein to prepay the Loan (in whole but not in part) at 101 per cent. of the principal amount thereof in the case of a prepayment pursuant to Clause 6.2.1(i) or at the principal amount thereof in case of a prepayment pursuant to Clause 6.2.1(ii), in each case together with interest accrued to the date of prepayment and all other amounts payable by the Borrower pursuant to this Agreement.

6.2.2 The Borrower shall be entitled, at its option and with the prior written consent of the CBR, to prepay the Loan in whole but not in part, without penalty or premium, on the Reset Date (the "**Conditional Prepayment Date**") in an amount equal to the outstanding principal amount of the Loan together with interest accrued to the date of prepayment and all other amounts payable by the Borrower pursuant to this Agreement to the Conditional Prepayment Date on giving not less than 30 nor more than 60 days' prior notice to the Lender (which notice shall be irrevocable).

6.3 Prepayment in the Event of Taxes or Increased Costs

If by reason of the introduction of any change in any applicable law, regulation, regulatory requirement or directive of any Agency after the date of this Agreement the Borrower is required to pay any Additional Amount as provided by Clause 8.1 or any Tax Indemnity Amount as provided by Clause 8.2, or if the Borrower would have to or has been required to pay additional amounts pursuant to Clause 10, and in any such case such obligation cannot or could not be avoided by the Borrower taking reasonable measures available to it, then the Borrower may, on or after the earliest date permitted by Regulation No. 215-P, (without premium or penalty), if it obtains the prior consent of the CBR, upon not more than 60 nor less than 30 days' prior notice to the Lender and the Trustee (which notice shall be irrevocable), prepay the Loan (in whole but not in part) on the date specified in the notice, in an amount equal to the outstanding principal amount of the Loan together with interest accrued to the date of prepayment and all other amounts payable by the Borrower pursuant to this Agreement. Prior to giving any such notice in the event of the Borrower being obliged to make an additional payment as referred to in this Clause 6.3, the Borrower shall address and deliver to the Lender and the Trustee an Officers' Certificate confirming that the Borrower would be required to make such payment and that the obligation to make such payment cannot or could not be avoided by the Borrower taking reasonable measures available to it, supported by an opinion of an independent tax adviser of recognised standing in the relevant tax jurisdiction.

6.4 Prepayment in the Event of Illegality

If, by reason of the introduction of any change in any applicable law, regulation, regulatory requirement or directive of an Agency (having applicable jurisdiction) after the date of this Agreement the Lender reasonably determines (such determination being accompanied and verified, if so requested by the Borrower, by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to such applicable law, regulation, regulatory requirement or directive for the Lender to allow all or part of the Loan or the Agreed Funding to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with this Agreement or the Security and/or to charge or receive or to be paid interest at the rate then applicable to the Loan (an "**Event of Illegality**"), then upon notice by the Lender to the Borrower in writing (setting out in reasonable detail the nature and extent of the relevant circumstances), the Borrower and the Lender shall consult in good faith as to a solution which eliminates the application of such Event of Illegality; provided, however, that the Lender shall be under no obligation to continue such consultation if a solution has not been determined within 30 days of the date on which the Lender so notified the Borrower. If such a solution has not been determined within such 30 days (or on such earlier date as the Lender shall certify (as above) to be necessary to comply with such regulation, regulatory requirement or directive), then upon written notice by the Lender to the Borrower the Borrower shall, on or after the earliest date permitted by Regulation No. 215-P and subject to the prior consent of the CBR, prepay the Loan (without penalty or premium), (in whole but not in part) in an amount equal to the outstanding principal amount of the Loan together with interest accrued to the date of prepayment and all other amounts payable by the Borrower pursuant to this Agreement, on the next Interest Payment Date or on such earlier date as the Lender shall certify (as above) to be necessary to comply with such regulation, regulatory requirement or directive.

6.5 Payment of Other Amounts

If the Loan is to be prepaid by the Borrower pursuant to any of the provisions of this Clause 6, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to this Agreement.

6.6 Provisions Exclusive

The Borrower shall not prepay or repay the Loan except at the times and in the manner expressly provided for in this Agreement. The Borrower shall not be permitted to re-borrow any amounts prepaid or repaid.

7. PAYMENT

7.1 Making of Payments

Subject to Clause 7.3, payments of principal and interest to be made by the Borrower under this Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (New York City time) one Business Day prior to each Interest Payment Date or the Repayment Date (as the case may be), or in the case of any payments made in connection with Clause 6 one Business Day prior to the date on which such prepayment or repayment is due to be made, in Same-Day Funds to the Account.

The Lender agrees with the Borrower that the Lender will not deposit any other monies into the Account and that no withdrawals shall be made from the Account other than for payments to be made in accordance with this Agreement and the Finance Documents.

7.2 No Set-Off or Counterclaim

All payments to be made by the Borrower under this Agreement shall be made in full without set-off or counterclaim and shall be made free and clear of and without deduction for or on account of any set-off or counterclaim.

7.3 Alternative Payment Arrangements

If, at any time, it shall become impracticable, by reason of any action of any governmental authority or any change of law, exchange control regulations or any similar event, for the Borrower to make any payments hereunder in the manner specified in Clause 7.1, then the Borrower may agree with the Lender and the Trustee alternative arrangements for such payments to be made; provided that, in the absence of any such agreement, the Borrower shall be obliged to make all payments due to the Lender in the manner specified herein.

8. TAXES

8.1 Additional Amounts

All payments made by the Borrower under or in respect of this Agreement shall be made (except to the extent required by law) free and clear of and without deduction or withholding for or on account of any Taxes imposed, collected, withheld, assessed or levied on behalf of any government or political subdivision or territory or possession of any government or authority or Agency therein having the power to tax (each a "**Taxing Authority**") within Russia or Luxembourg. If the Lender or Borrower becomes subject at any time to any taxing jurisdiction other than or in addition to Russia or Luxembourg, as the case may be, references to jurisdiction in this Clause 8.1 shall be construed as references to Russia and/or Luxembourg and/or such other jurisdiction and in addition, upon enforcement of the fixed charge in the Finance Documents over certain rights, benefits and/or obligations under this Agreement, references in this Clause 8.1 to "**Luxembourg**" shall be construed as references to the jurisdiction which the Trustee is a resident of and acting through for tax purposes.

If the Borrower is required by applicable law to make any deduction or withholding from any payment under or in respect of this Agreement for or on account of any such Taxes referred to in the preceding paragraph of this Clause 8.1, it shall, on the date such payment is made, pay to the Lender such additional amounts ("**Additional Amounts**") as may be necessary to ensure that the Lender receives and retains a net amount in Dollars equal to the full amount which it would have received and retained had such deduction or withholding from such payment not been required and shall promptly account to the relevant Taxing Authority (within the time specified by legislation or assessment) for the relevant amount of such Taxes so withheld or deducted and shall deliver to the Lender without undue delay evidence satisfactory to the Lender of such deduction or withholding and of the accounting therefore to the relevant Taxing Authority. If the Lender is or will be subject to any liability or required to make any payment for or on account of Taxes in relation to a sum received or receivable (or any sum deemed for the purposes of Taxes to be received or receivable) under or in respect of any Agreed Funding, the Borrower shall on demand pay to the Lender an amount in Dollars equal to the loss, liability or cost which the Lender, or as the case maybe, Trustee has or will have (directly or indirectly) suffered for or on account of Tax by the Lender or the Agreed Funding Source.

8.2 Tax Indemnity

Without prejudice to the provisions of Clause 8.1, if the Lender notifies the Borrower (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) that it is obliged (or would be but for the limited recourse nature of the Agreed Funding) to make any withholding or deduction for or on account of any Taxes from any payment that is due, or would otherwise be due but for the imposition of any such withholding or deduction for or on account of any such Taxes, pursuant to any Agreed Funding, the Borrower agrees to pay to the Lender, no later than one Business Day prior to the date on which payment is due to the Agreed Funding Source, an additional amount equal to such additional amount as the Lender is required to pay in order that the net amount received by the Agreed Funding Source after such deduction or withholding will equal the respective amounts which would have been received by the Agreed Funding Source in the absence of such withholding or deduction; provided, however, that the Lender shall immediately upon receipt from any Paying Agent of any sums paid pursuant to this provision, to the extent that the Agreed Funding Source is not entitled to such additional amounts pursuant to the terms and conditions of the Agreed Funding, repay such additional amounts to the Borrower as are recovered (it being understood that none of the Lender, or any Paying Agent shall have any obligation to determine whether any Agreed Funding Source is entitled to such additional amount).

Without prejudice to, and without duplication of the provisions of Clause 8.1, if at any time the Lender makes or is required to make any payment to a Person (other than to or for the account of the Agreed Funding Source) on account of Tax in respect of this Agreement or the Loan or in respect of the Agreed Funding imposed by any Taxing Authority in the jurisdiction in which the Lender is resident for tax purposes, or any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, as soon as reasonably practicable, and in any event within 30 calendar days of, written demand (setting out in reasonable detail the nature and extent of the obligation with such evidence as the Borrower may reasonably require) made by the Lender, indemnify the Lender against any such payment or liability, or any claim, demand, action, damages or loss in respect thereof, together with any interest, penalties, costs and expenses (including without limitation, legal fees and any applicable value added tax properly payable) payable or incurred in connection therewith.

For the avoidance of doubt, the Borrower shall not be obliged to pay such additional amounts in circumstances where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive (Directive 2003/48/EC) on the taxation of savings income or any law implementing or complying with, or introduced to conform to, such Directive.

Any payments required to be made by the Borrower under this Clause 8.2 are collectively referred to as "**Tax Indemnity Amounts**". For the avoidance of doubt, the provisions of this Clause 8.2 shall not apply to any withholding or deductions of Taxes with respect to the Loan which are subject to payment of Additional Amounts under Clause 8.1.

If the Lender intends to make a claim for any Tax Indemnity Amounts, it shall promptly notify the Borrower thereof.

8.3 Tax Credits and Refunds

If an Additional Amount is paid under Clause 8.1 or a Tax Indemnity Amount is paid under Clause 8.2 by the Borrower and the Lender, in its absolute discretion, determines that it has received or been granted a credit against, a relief, remission for, or a repayment of any Taxes, then if and to the extent that the Lender determines that such credit, relief, remission or repayment (a "**Tax Benefit**") is in respect of or calculated with reference to the deduction or withholding giving rise to such increased payment, or as the case may be in respect of an additional payment with reference to the loss, liability or cost giving rise to the additional payment, the Lender shall, to the extent that it determines in its reasonable discretion that it can do so without prejudice to its right to the amount of such credit, relief, remission or repayment and without worsening the position it would have been in had such Additional Amount or Tax Indemnity Amount not been required to be repaid, repay to the Borrower an amount equal to such amount as is attributable to such deduction or withholding or, as the case may be, such loss, liability or cost.

Nothing contained in this Clause 8.3 shall interfere with the right of the Lender to arrange its tax affairs in whatever manner it thinks fit nor oblige the Lender to disclose any confidential information or any information relating to its tax affairs, any computations in respect thereof, or its business or any pail of its business.

If the Borrower makes a withholding or deduction for or on account of Taxes from a payment under or in respect of this Agreement and if an Additional Amount is paid under Clause 8.1 or a Tax Indemnity Amount is paid under Clause 8.2 by the Borrower, the Borrower may apply on behalf of the Lender to the relevant Russian Taxing Authority for a payment to be made by such authorities to the Lender with respect to such Tax. If, whether following a claim made on its behalf by the Borrower or otherwise, the Lender receives and retains such a payment ("**Russian Tax Payment**") from the Russian Taxing Authority with respect to such Taxes, it will as soon as reasonably possible notify the Borrower that it has received and retained that payment (and the amount of such payment); whereupon, provided that the Borrower has notified the Lender in writing of the details of an account (the "**Borrower Account**") to which a payment or transfer should be made, and that the Lender is able to make a payment or transfer under applicable laws and regulations and without worsening the position it would have been in had such Additional Amount or Tax Indemnity Amount not been required to be paid, the Lender will pay or transfer an amount equal to the Russian Tax Payment to the Borrower Account.

8.4 Tax Treaty Relief

The Lender, at the cost of the Borrower, shall make reasonable and timely efforts to assist the Borrower to obtain relief from withholding of Russian income tax pursuant to the double taxation treaty between Russia and the jurisdiction in which the Lender is incorporated, including its obligations under Clauses 8.5 and 8.6.

8.5 Residency Certificate

The Lender (and any successor thereto) shall provide the Borrower no later than 10 Business Days before the first Interest Payment Date (and thereafter as soon as possible at the beginning of each calendar year but not later than 10 Business Days prior to the first Interest Payment Date in that year) with the certificate, issued and certified by the competent Qualifying Jurisdiction authorities, as the case may be, confirming that the Lender (or such successor) is resident in a Qualifying Jurisdiction. Such certificate shall be appropriately apostilled.

The Borrower and the Lender agree that, should the Russian legislation regulating the procedure for obtaining an exemption from Russian income tax withholding change then the procedure referred to in the above paragraph will be deemed changed accordingly.

8.6 Delivery of Forms

The Lender (or any successor thereto) shall within 30 days of the request of the Borrower (to the extent it is able to do so under applicable law including Russian laws) use its best efforts to deliver to the Borrower such other information or forms, including a power of attorney in form and substance acceptable to the Borrower authorising it to file the certificate on behalf of the Lender (or its successor) with the relevant tax authority, as may need to be duly completed and delivered by the Lender (or its successor) to enable the Borrower to obtain relief from deduction or withholding of Russian Taxes or, as the case may be, to obtain a tax refund if a relief from deduction or withholding of Russian Taxes has not been obtained. If required, the other forms referred to in this Clause 8.6 shall be duly signed by the Lender (or its successor) and stamped or otherwise approved by the competent tax authority in the Qualifying Jurisdiction and the power of attorney shall be duly signed and apostilled or otherwise legalised. If a relief from deduction or withholding of Russian tax or a tax refund under this Clause 8 has not been obtained and further to an application of the Borrower to the relevant Russian tax authorities the latter requests the Lender's Rouble bank account details, the Lender shall at the request of the Borrower (i) use reasonable efforts to procure that such Rouble bank account of the Lender is duly opened and maintained, and (i) thereafter furnish the Borrower with the details of such Rouble bank account. The Borrower shall provide the Lender with all assistance it may reasonably require to ensure that the Lender can obtain the certificate referred to in Clause 8.5 and deliver the certificate and complete and deliver the other information or forms specified in this Clause 8.6.

8.7 Tax Treatment

The Borrower and the Lender hereby agree to treat the Loan as a debt obligation of the Borrower payable to the Lender, as the beneficial owner of such debt obligation, for Russian and Luxembourg tax purposes.

8.8 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower to make any deduction, withholding or payment as described in Clauses 8.1 or 8.2, then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall promptly upon becoming aware of such circumstances notify the other party, in writing 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 the 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 circumstance, including the case of the Lender (without limitation) by transfer of its rights or obligations under this Agreement (but only in accordance with the terms and conditions of the other Finance Documents); provided, however, that the Lender shall, in no circumstances, be required to undertake any expense prior to being ensured to its satisfaction that it will be reimbursed therefore.

8.9 Lender Notification

The Lender agrees promptly, upon becoming actually aware thereof, to notify the Borrower if it ceases to be resident in Luxembourg or a Qualifying Jurisdiction or if any of the representations set forth in Clause 12.2 are no longer true and correct.

9. CONDITIONS PRECEDENT

9.1 Documents to be Delivered

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

9.1.1 An opinion of OOO LeBoeuf, Lamb, Greene & MacRae, counsel to the Borrower, regarding issues of Russian law.

9.1.2 An opinion from each of White & Case LLP and White & Case LLC regarding issues of English law and Russian law respectively.

9.1.3 An opinion of Elvinger, Hoss & Prussen, regarding issues of Luxembourg law.

9.1.4 An opinion from BDO Unicon and BDO Compagnie Fiducaire regarding certain Russian and Luxembourg tax matters, respectively.

9.1.5 Evidence that the persons mentioned in Clauses 20.5 and 20.6 hereof have agreed to receive process in the manner specified therein.

9.1.6 A certified copy (together with a certified translation in the English language) of a resolution of the management board dated April 20, 2007 approving the entry by the Borrower into this Agreement.

9.2 Further Conditions

The obligation of the Lender to make the Advance shall be subject to the further conditions precedent that as at the Closing Date (i) the representations and warranties set out in Clause 12.1 are true and accurate as if made and given on the Closing Date with respect to the facts and circumstances then existing, (ii) no Acceleration Event or Potential Acceleration Event shall have occurred, (iii) the Lender shall have received the full funding of the Advance from the Agreed Funding Source and that funding shall be and remain available in full to be on-lent to the Borrower (iv) the Borrower shall not be in breach of any of the terms, conditions and provisions of this Agreement, and (v) the Lender shall have received in full the Facility Fee pursuant to Clause 2 hereof.

10. CHANGE IN LAW; INCREASE IN COST

10.1 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 or other fiscal, monetary or other authority, Agency or any official of any such authority which:

10.1.1 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, capital gains or any Taxes referred to in Clause 8.1); or

10.1.2 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, capital gains or as a result of any Taxes referred to in Clause 8.1); or

10.1.3 imposes or will impose on the Lender any other condition affecting this Agreement, the Facility or the Loan, and if as a result of any of the foregoing:

(i) the cost to the Lender of making, funding or maintaining the Loan or the Facility, is increased; or

(ii) the amount of principal, interest or other amount payable to or received by the Lender hereunder is reduced; or

(iii) the Lender makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of any sum receivable by it from the Borrower hereunder or makes any payment or foregoes any interest or other return on or calculated by reference to the gross amount of the Loan,

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

(a) the Lender shall, as soon as practicable after becoming actually aware of such increased cost, reduced amount or payment made or foregone, give written notice to the Borrower, together with a certificate signed by two authorised officials of the Lender describing in reasonable detail the introduction or change or request which has occurred and the country or jurisdiction concerned and the nature and date thereof and demonstrating the connection between such introduction, change or request and such increased cost, reduced amount or payment made or foregone, and setting out in reasonable detail the basis on which such amount has been calculated, and all relevant supporting documents evidencing the matters set out in such certificate; and

(b) the Borrower, in the case of sub-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 sub-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, 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,

provided, however, that this Clause 10.1 will not apply to or in respect of any matter for which the Lender has already been compensated under Clause 8.1 or Clause 8.2.

10.2 Mitigation

In the event that the Lender becomes entitled to make a claim pursuant to Clause 10.1 the Lender shall consult in good faith with the Borrower and shall use reasonable efforts (based on the Lender's reasonable interpretation of any tax, law, regulation, requirement, official directive, request, policy or guideline) to reduce, in whole or in part, the Borrower's obligations to pay any additional amount pursuant to such Clause, except that nothing in this Clause 10.2 shall obligate the Lender to incur any costs or expenses in taking any action hereunder unless the Borrower agrees to reimburse the Lender such costs or expenses.

11. CAPITAL TREATMENT

To the extent that any part of the Loan is to be treated as Own Funds by the Borrower, the Borrower will use its best efforts to procure that the CBR issue a final confirmation (z*akluchenie*) for such treatment, and will provide all relevant information about the Loan to the CBR as may be necessary for the issuance of such final confirmation (z*akluchenie*).

12. REPRESENTATIONS AND WARRANTIES

12.1 Borrower's Representations and Warranties

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

12.1.1 The Borrower is duly organised and incorporated and validly existing under the laws of Russia, is not in liquidation or receivership, and has the power and legal right to enter into and to perform its obligations under this Agreement and to borrow the Loan; the Borrower has taken all necessary corporate, legal and other action required to authorize the borrowing of the Loan on the terms and subject to the conditions of this Agreement and to authorize the execution and delivery of this Agreement and all other documents to be executed and delivered by it in connection with this Agreement, and the performance of this Agreement in accordance with its terms and, except where failure to do so would not have a Material Adverse Effect, has the corporate power and legal right to own its own property and to conduct its business as currently conducted.

12.1.2 This Agreement has been or will be duly executed and delivered by the Borrower and constitutes legal, valid and binding obligations of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity; (ii) with respect to the enforceability of a judgment whether there is a treaty in force relating to the mutual recognition of foreign judgments; and (iii) to the fact that certain gross-up and indemnity provisions may not be enforceable under Russian law.

12.1.3 The execution, delivery and performance of this Agreement by the Borrower will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial or public body or authority in Russia, (ii) the constitutive documents, rules and regulations of the Borrower or (iii) to the extent such conflict, breach or violation might have a Material Adverse Effect, any agreement or other undertaking or instrument to which the Borrower is a party or which is binding upon the Borrower or any of its assets, nor result in the creation or imposition of any Lien on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument.

12.1.4 All consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial, and bodies of Russia (including without limitation, the CBR), if any, in connection with the execution, delivery, performance, legality, validity, enforceability, and admissibility in evidence of this Agreement (subject to a Russian legal requirement to provide to a Russian court a duly certified translation thereof into Russian) have been obtained or effected and are in full force and effect, other than in each case, any such consent, license, notification, authorisation, approval or filing required in relation to the exchange control regulations which may only be obtained after the date of this Agreement.

12.1.5 No event has occurred and is continuing that constitutes an Acceleration Event or a Potential Acceleration Event, or a default under any agreement or instrument evidencing any Indebtedness of the Borrower, and no such event will occur upon the making of the Loan.

12.1.6 There are no judicial, arbitral or administrative actions, proceedings or claims current (including, without limitation, with respect to Taxes) or pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its Material Subsidiaries, which are reasonably likely to be adversely determined against the Borrower or such Material Subsidiary and the adverse determination of which would singly or in the aggregate (i) prohibit the execution and delivery of this Agreement or the Borrower's compliance with its obligations hereunder or (ii) have a Material Adverse Effect.

12.1.7 The Borrower's obligations under the Loan (i) constitute direct, unconditional and unsecured obligations of the Borrower and (ii) based on the preliminary view of the CBR, the Borrower reasonably believes that the liabilities of the Borrower under this Agreement shall qualify as Own Funds.

12.1.8 The audited consolidated financial statements of the Group as at and for the three years ended 31 December 2006 and the related notes thereto were prepared in accordance with IFRS current as at the relevant dates thereof and (save as disclosed therein) present fairly all material respects the assets and liabilities of the Group at the date as of which they were prepared and the results of operations of the Group during the relevant financial years or period.

12.1.9 No event or circumstance has occurred since 31 December 2006 (being the date of the most recent audited financial statements of the Group as at the date hereof) which has had a Material Adverse Effect.

12.1.10 Under the laws of Russia in force at the date of this Agreement, the execution, delivery and enforceability of this Agreement is not subject to any tax, duty, fee or other charge, including, without limitation, any registration or transfer tax, stamp duty or similar levy, imposed by or within Russia or any political subdivision or taxing authority thereof or therein (other than state duty paid on any claim filed with a Russian court).

12.1.11 Neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to this Agreement.

12.1.12 The Borrower is in compliance in all material respects with all applicable provisions of law except where failure to be so in compliance would not have a Material Adverse Effect.

12.1.13 There are no labour strikes, disturbances, lockouts, slowdowns or stoppages of employees, or other employment disputes, of or against the Borrower or which exist, are pending or, to the Borrower's knowledge, threatened in writing, except for those that would not have a Material Adverse Effect.

12.1.14 In any proceedings commenced in Russia 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 to thereto will be recognised and enforced after compliance with the applicable procedural rules and all other legal requirements in Russia.

12.1.15 Under the laws of Russia in force at the date of this Agreement, it is not, subject to Clause 8.4, required to make any deduction or withholding from any payment of principal or interest on the Loan.

12.1.16 It has no overdue tax liabilities which could have a Material Adverse Effect.

12.1.17 All licences, consents, examinations, clearances, filings, registrations and authorisations which are necessary to enable the Borrower or any of its Material Subsidiaries to own its assets and carry on its business are in full force and effect, where the absence of such could have a Material Adverse Effect.

12.2 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower as follows:

12.2.1 The Lender is duly incorporated under the laws of Luxembourg and has full power and capacity to execute this Agreement and to undertake and perform the obligations expressed to be assumed by it herein and the Lender has taken all necessary action to approve and authorise the same.

12.2.2 The execution of this Agreement and the documents or deeds evidencing or relating to the Agreed Funding and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of Luxembourg or the constitutive documents, rules and regulations of the Lender or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety.

12.2.3 The Lender represents that (i) it is a *société anonyme* incorporated under Luxembourg law, registered under number B-102041 in the Trade Register of Luxembourg and having its registered office and its principal establishment in Luxembourg. As such it will be considered as a resident company fully subject to the Luxembourg tax legislation. The Lender will thus be liable to Luxembourg taxes on its Luxembourg sourced income as well as on its foreign sourced income. The Lender may also benefit from the network of tax treaties signed by the Grand Duchy of Luxembourg, including the double tax treaty concluded on 28 June 1993 between Luxembourg and Russia. At the date hereof, it does not have a permanent establishment in Russia; and (ii) it will book the Loan on the asset side of its balance sheet under "Loans and advances to customers" and any arrangements with the Agreed Funding Source as a liability under "Liabilities evidenced by paper".

12.2.4 This Agreement and the documents or deeds evidencing or relating to the Agreed Funding, constitute legal, valid and binding obligations of the Lender enforceable against the Lender in accordance with its terms, except that the enforcement thereof may be subject to bankruptcy, insolvency, fraudulent conveyance, reorganisation, moratorium and other similar laws relating to or affecting creditors' rights generally and general equitable principles.

12.2.5 All authorisations, consents and approvals required by the Lender for, or in connection with, the execution of this Agreement and the documents or deeds evidencing or relating to the Agreed Funding, 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.

13. ACCELERATION EVENTS

13.1 Payment Default

If the Borrower fails to pay within five Business Days any amount payable under this Agreement as and when such amount becomes payable in the currency and in the manner specified herein, the Lender may, at its discretion and without further notice, institute proceedings in the manner and to the extent contemplated by the applicable law for the winding up of the Borrower and/or to prove for its debt, and claim, in any liquidation of the Borrower.

13.2 Winding-up

On occurrence of any of the following events:

13.2.1 the Borrower seeking or consenting to the introduction of proceedings for its liquidation or the appointment of a liquidation committee (*likvidatsionnaya komissiya*) or a similar officer of the Borrower;

13.2.2 institution of the financial rehabilitation (*finansovoye ozdorovleniye*), temporary administration (*vremennaya administratsiya*) or reorganisation (*reorganizatsiya*) with respect to the Borrower as such terms are defined in the Insolvency Law;

13.2.3 any judicial liquidation, dissolution, administration or winding-up in respect of the Borrower;

13.2.4 the shareholders of the Borrower approving any plan of dissolution, administration or winding-up of the Borrower; or

13.2.5 any event occurring which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

the Lender may give notice to the Borrower that the Loan is, and it shall accordingly become, due and repayable (subject to and in accordance with the provisions of Clause 3.1 above) at the principal amount thereof together with any interest accrued to the date of repayment, and the Lender may at its discretion and without further notice, institute proceedings in the manner and to the extent contemplated by the applicable law for the winding up of the Borrower and/or to prove for its debt, and claim, in any liquidation of the Borrower.

13.3 Notice of Acceleration Event

The Borrower shall deliver to the Lender and the Trustee, immediately upon becoming aware of the same, written notice in the form of an Officers' Certificate of any event which is an Acceleration Event or Potential Acceleration Event, its status and what action the Borrower is taking or proposes to take with respect thereto.

13.4 Proceedings

In addition to its rights under Clauses 13.1 and 13.2, the Lender may institute such other proceedings against the Borrower as it may think fit to enforce any obligation, condition or provision binding on the Borrower under this Agreement (other than any obligation for payment of any principal or interest in respect of the Loan contemplated by Clause 13.1) provided that the Borrower shall not by virtue of any such proceedings be obliged to pay (i) any sum or sums representing or measured by reference to principal or interest in respect of the Loan sooner than the same would otherwise have been payable by it or (ii) any damages (save in respect of the Trustee's fees and expenses incurred by it in its personal capacity).

14. INDEMNITY

14.1 Indemnification

The Borrower undertakes to indemnify the Lender and each director, officer or employee of the Lender (each an "**Indemnified Party**") against any properly incurred and properly documented cost, claim, loss, expense (including, without limitation, taxes, legal fees and expenses and any amount payable by the Lender under the documents or deeds evidencing or relating to the Agreed Funding, where such amount is subject to receipt by the Lender of the relevant amount from the Borrower) or liability, together with any VAT thereon, which an Indemnified Party may sustain or incur as a consequence of the occurrence of any default by the Borrower in the performance of any of the obligations expressed to be assumed by it in this Agreement. Except as expressly provided in the documents or deeds evidencing or relating to the Agreed Funding, 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 14.1.

For the purposes of this Clause 14.1 a cost, claim, loss, expense or liability shall be regarded as properly documented if it is supported by an itemised invoice from the Lender to the Borrower, on the headed paper of the Lender and signed by an authorised officer of the Lender, supported, to the extent available, by a documented evidence of the respective cost, claim, loss, expense or liability.

14.2 Independent Obligation

Clause 14.1 constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with this Agreement and the other Finance Documents to which it is a party or any other obligations of the Borrower in connection with the issue of the Agreed Funding by the Lender and shall not affect, or be construed to affect, any other provision of this Agreement or any such other obligations.

14.3 Evidence of Loss

A certificate of the Lender setting forth the amount of the Loss described in Clause 14.1 and specifying in full detail the basis therefore and calculations thereof shall, in the absence of manifest error, be conclusive evidence of the amount of such loss, cost, charges and expenses.

14.4 Currency Indemnity

Each reference in this Agreement to Dollars is of the essence. To the fullest extent permitted by law, the obligation of the Borrower in respect of any amount due in Dollars under this Agreement shall, notwithstanding any payment in any other currency (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in Dollars that the party entitled to receive such payment may, in accordance with normal banking procedures, purchase with the sum paid in such other currency (after any costs of exchange) on the Business Day immediately following the day on which such party receives such payment. If the amount in Dollars that may be so purchased for any reason falls short of the amount originally due, the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in Dollars. Any obligation of the Borrower not discharged by payment in Dollars shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided herein, shall continue in full force and effect. If the amount of Dollars that may be so purchased exceeds the amount originally due, the Lender shall promptly repay the amount of the excess to the Borrower.

15. SURVIVAL

The obligations of the Borrower and the Lender pursuant to Clauses 8, 14.1 and 14.4 shall survive the execution and delivery of this Agreement, the drawdown of the Facility and the repayment of the Loan.

16. GENERAL

16.1 Evidence of Debt

The entries made in the Account referred to in Clause 7.1 shall, in the absence of manifest error, constitute conclusive evidence of the existence and amounts of the Borrower's obligations recorded therein.

16.2 Stamp Duties

16.2.1 The Borrower shall pay all stamp, registration and documentary taxes or similar charges (if any) imposed on the Borrower by any person in Russia or 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 shall indemnify the Lender against any and all costs and expenses properly documented which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such taxes or similar charges.

16.2.2 The Borrower 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 Russia or 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, the Borrower 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 properly documented which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such taxes or similar charges.

16.3 Amendments and Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power or privilege hereunder and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights, or remedies provided by applicable law.

Any term of this Agreement may be amended or terminated by the Parties only after prior consent of the CBR, the Lender and the Borrower.

16.4 Prescription

Subject to the Lender having previously received from the Borrower the relevant principal amount or interest amount, the Lender shall repay to the Borrower the principal amount or the interest amount in respect of any Agreed Funding upon the relevant certificates pertaining thereto becoming void pursuant to their terms and conditions (as confirmed to the Lender by the Trustee).

17. FEES, COSTS AND EXPENSES

The Borrower shall, from time to time on demand of the Lender, (i) pay all ongoing commissions, costs, fees and expenses (including, without limitation, enforcement costs), payable by the Lender under or in respect of this Agreement, the Agreed Funding and all related documents and (ii) compensate the Lender at such daily and/or hourly rates as the Lender shall from time to time reasonably determine (notifying such rates to the Borrower), for all costs and expenses (including telephone, fax, copying, travel and such personnel costs) reasonably incurred and properly documented by the Lender in connection with its taking such action as it may deem appropriate or in complying with any request by the Borrower in connection with: (a) granting or proposed granting of any waiver or consent requested hereunder by the Borrower; (b) any actual breach by the Borrower of its obligations hereunder; or (c) any amendment or proposed amendment hereto requested by the Borrower.

18. NOTICES

All notices, requests, demands or other communications to or upon the respective parties hereto shall be given in writing (in English) by facsimile, by hand or by courier addressed as follows:

18.1 if to the Borrower:

Bank of Moscow
3, Rozhdestvenka Str., 8/15, Building 3
Moscow 107996
Russian Federation

Fax: +7 495 795 3080

Attention: Alla Averina, Head of Loan Administration /
Alexei Sytnikov, Executive Vice President /
Anastasia Belyanina, Head of Funding and Investor Relations

18.2 if to the Lender:

Kuznetski Capital S.A.
69, boulevard de la Petrusse
L-2320, Luxembourg

Fax: +352 40 44 09

Attention: The Board of Directors

18.3 if to the Trustee:

BNY Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

Fax: +44 20 7964 2536

Attention: Corporate Trust Administration

or to such other address or fax number as any party may hereafter specify in writing to the other. Every notice or other communication sent in accordance with this Clause 18 shall be effective upon receipt by the addressee on a Business Day in the city of the recipient, provided however, that any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day, shall not take effect until 10.00 a.m. on the immediately succeeding Business Day in the place of the addressee.

19. ASSIGNMENT

(a) This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective successors and any permitted assignee or transferee of some or all of such 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 pursuant to the grant of the Security referred to in Clause 19(c) below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee). Notwithstanding the foregoing, the Trustee shall not be entitled to participate in any determinations by the Lender or any discussions or agreements between or of the Borrower and the Lender pursuant to Clauses 6.4, 8.3, 8.5, 8.6 or 10.2.

(b) The Borrower shall not be entitled to assign or transfer all or any part of its rights or obligations hereunder to any other party.

(c) The Lender may not assign or transfer, in whole or in part, any of its rights and benefits or obligations under this Agreement except to the Trustee by granting the Security or pursuant to and in compliance with Clause 25 of the Trust Deed.

20. LAW AND JURISDICTION

20.1 Choice of Law

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

20.2 Jurisdiction

The Borrower hereby irrevocably agrees for the benefit of the Lender that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this Agreement (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts.

20.3 Appropriate Forum

Each of the parties to this Agreement irrevocably waives any objection which it may now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate 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 (to the extent permitted by law).

20.4 Non-exclusivity

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any party to this Agreement or the Trustee 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 any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) or in any other court of competent jurisdiction to the extent permitted by any applicable law.

20.5 Service of Process (Borrower)

The Borrower agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Corporate Services Limited at 5th floor, 100 Wood Street, London EC2V 7EX 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 the Borrower's behalf, the Borrower 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 the Borrower. Nothing in this Clause 20 shall affect the right of the Lender to serve process in any other manner permitted by law.

20.6 Service of Process (Lender)

The Lender agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Law Debenture Services Limited at 5th Floor, 100 Wood Street, London EC2V 7EX, England, 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 the Lender's behalf, the Lender shall, on the written demand of the Borrower, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a person by written notice to the Lender. Nothing in this Clause 20 shall affect the right of the Borrower to serve process in any other manner permitted by law.

20.7 Waiver of Immunity

To the extent that the Borrower may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before making of a judgment or award or otherwise) or other legal process including in relation to enforcement of an arbitration award and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Borrower or its assets or revenues, the Borrower agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

21. ARBITRATION

In the case of any Dispute, the Lender may elect, by notice in writing to the Borrower, to settle such claim by arbitration in accordance with the following provisions. The Borrower hereby agrees that (regardless of the nature of the Dispute) any Dispute may be settled by arbitration in accordance with the Rules of the London Court of International Arbitration (the "**Rules**") which are deemed to be incorporated by reference into this Clause 21. 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 not be interested 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 20 calendar days after the initiating party serves the arbitration demand or if a Chairman has not been selected within 30 calendar days of the selection of the second arbitrator, the Arbitration Court of the London Court of International Arbitration shall (pursuant to Articles 7(2) and 7(3) of the Rules) 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.

The fact that an arbitration award has been made, the content of that award and the arbitration proceedings contemplated by this Clause shall be kept confidential by the parties (other than for purposes of enforcement of the award). 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.

22. 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.

23. COUNTERPARTS

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when so executed shall constitute one and the same binding agreement between the parties.

24. SEVERABILITY

In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

25. LIMITED RECOURSE AND NON PETITION

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received by or for the account of the Lender pursuant to this Agreement (the "**Lender Assets**"), subject always (i) to the Security Interests (as defined in the Trust Deed) and (ii) to the fact that any claims of the Managers (as defined in the Subscription Agreement) pursuant to the Subscription Agreement shall rank in priority to any claims of the Borrower hereunder, and that any such claim by any and all such Managers or the Borrower shall be reduced *pro rata* so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. Neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, the Borrower shall not be entitled to institute, or join with any other person in bringing, instituting or joining, insolvency proceedings (whether court based or otherwise) in relation to the Lender.

The Borrower shall have no recourse against any director, shareholder, or officer of the Lender in respect of any obligations, covenants or agreement entered into or made by the Lender in respect of this Agreement, except to the extent that any such person acts in bad faith or is negligent in the context of its obligations.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes that will be endorsed on each Definitive Certificate (if issued). All capitalized terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

The U.S.$400,000,000 6.807 per cent. Loan Participation Notes due 2017 with interest rate step up in 2012 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of Kuznetski Capital S.A. (the "**Issuer**", which expression shall include any successor to the Issuer from time to time) are constituted by, are subject to and have the benefit of, a trust deed (as amended or supplemented from time to time, the "Trust Deed") dated, May 10, 2007 between the Issuer and BNY Corporate Trustee Services Limited, as trustee (the "Trustee", which expression includes all persons from time to time appointed trustee or trustees under the Trust Deed for the holders of the Notes (the "Noteholders")).

The Issuer has authorized the creation, issue and sale of the Notes for the sole purpose of financing the U.S.$400,000,000 subordinated loan by the Issuer (the "Subordinated Loan") to Joint Stock Commercial Bank—Bank of Moscow (the "Bank"). The Issuer and the Bank have recorded the terms of the Subordinated Loan in an agreement (as amended or supplemented from time to time, the "Subordinated Loan Agreement") dated May 4, 2007 between the Issuer (in its capacity as lender thereunder) and the Bank.

In each case where amounts of principal, interest and additional amounts, if any, due pursuant to Condition 7 (*Taxation*) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligation of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts, if any, are due in respect of the Notes, for an amount equivalent to the sums of principal, interest, additional amounts, if any, actually received by, or for the account of, the Issuer pursuant to the Subordinated Loan Agreement, less any amount in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Subordinated Loan Agreement and the credit and financial standing of the Bank. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer.

Security

The Issuer (as lender) has:

(a) charged by way of a first fixed charge to the Trustee (i) all of its rights, title and interests and benefits in and to principal, interest and additional amounts, if any, paid and payable now or at any time to it under the Subordinated Loan Agreement and (ii) all of its rights, title, interest and benefit in and to receive amounts paid and payable now or at any time to it under any claim, award or judgment relating to the Subordinated Loan Agreement (other than its right to amounts in respect of any rights, title and interests and benefits of the Issuer under the following clauses of the Subordinated Loan Agreement: Clause 8.2 (*Tax Indemnity*) (excluding Tax Indemnity Amounts), Clause 10 (*Change in Law; Increase in Cost*), Clause 16.2 (*Stamp Duties*), Clause 14 (*Indemnity*) (limited in the case of Clause 14.4 (*Currency Indemnity*) to the extent that the Issuer's claim is in respect of sums due under one of the aforementioned clauses of the Subordinated Loan Agreement) and Clause 17 (*Fees, Costs and Expenses*) (to the extent that the Issuer's claim is in respect of one of the aforementioned clauses of the Subordinated Loan Agreement) (such rights referred to herein as the "Reserved Rights"));

(b) charged by way of a first fixed charge to the Trustee all of the Issuer's rights, title and interests and benefits in and to all sums held on deposit from time to time, in an account in London in the name of the Issuer with the Principal Paying and Transfer Agent (as defined below) together with the debts represented thereby (other than interest from time to time earned thereon and the Reserved Rights) (the "Account") pursuant to the Trust Deed; and

(c) assigned absolutely to the Trustee all of the Issuer's rights, title and interests and benefits whatsoever, both present and future, whether proprietary, contractual or otherwise under or arising out of, evidenced by or pursuant to the Subordinated Loan Agreement (including, without limitation, the right to declare the Subordinated Loan immediately due and payable and to take proceedings to enforce the obligations of the Bank thereunder) (save for those rights expressed to be charged or excluded in (a) above) (the "Loan Administration Transfer"), together, the "Security Interests".

In certain circumstances, the Trustee (subject to it being indemnified and/or secured to its satisfaction) may be required by Noteholders holding at least one quarter of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising in connection with the Security Interests).

The Notes are also subject to the provisions of an agency agreement dated May 10, 2007 (as amended or supplemented from time to time, the "Agency Agreement") among the Issuer, The Bank of New York, acting through its London branch, as Principal Paying and Transfer Agent (the "Principal Paying and Transfer Agent", which expression includes any successor Principal Paying and Transfer Agent appointed from time to time in connection with the Notes), The Bank of New York as Paying and Transfer Agent (the "Paying and Transfer Agent" and together with the Principal Paying and Transfer Agent, the "Paying and Transfer Agents", which expressions include any additional or successor Paying and Transfer Agent appointed from time to time in connection with the Notes), The Bank of New York, acting through its New York Office as registrar (the "Registrar", which expression includes any successor registrar appointed from time to time in connection with the Notes), and the Trustee. References herein to the "Agents" are to the Principal Paying and Transfer Agent, the Registrar and any Paying and Transfer Agent and any reference to an "Agent" is to any one of them. Certain provisions of these Conditions are summaries of the Trust Deed, the Subordinated Loan Agreement and the Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Subordinated Loan Agreement and the Agency Agreement applicable to them. Copies of the Trust Deed, the Subordinated Loan Agreement and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Principal Paying and Transfer Agent, being at the date hereof One Canada Square, London, E14 5AL, and at the Specified Offices (as defined in the Agency Agreement) of the Trustee, the Registrar and any other Paying and Transfer Agent.

1. Form, Denomination, Register, Title and Transfers

(a) *Form and Denomination*: The Notes are in registered form in the denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof.

(b) *Register*: The Registrar will maintain a register (the "Register") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions the "holder" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "Noteholder" shall be construed accordingly. A 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.

(c) *Title*: The holder of any Certificate shall (except as ordered by a court of competent jurisdiction or 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 thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

(d) *Transfer*: Subject to paragraphs (g) and (h) 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 any Paying and Transfer Agent, together with such evidence as the Registrar or such Paying and 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 at least U.S.$100,000 and in integral multiples of U.S.$1,000 in excess thereof. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.

(e) *Registration and delivery of Certificates*: Within five business days of the surrender of a Certificate in accordance with paragraph (d) 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 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 Paying and Transfer Agent has its specified office.

(f) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or the relevant Paying and Transfer Agent but against such indemnity as the Registrar or (as the case may be) Paying and 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.

(g) *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.

(h) *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 each 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.

2. Status and Limited Recourse

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Subordinated Loan. The Notes constitute the obligation of the Issuer to apply an amount equal to the gross proceeds from the issue of the Notes for financing the Subordinated 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 Subordinated Loan Agreement, less any amount in respect of the Reserved Rights. The right to receive such sums is being charged by way of security to the Trustee by virtue of the Security Interests as security for the Issuer's payment obligations under the Trust Deed and in respect of the Notes.

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 and additional amounts, if any, under the Subordinated Loan Agreement (less any amount in respect of the Reserved Rights) will be made *pro rata* among all Noteholders (subject to Condition 7 (*Taxation*)) on the payment dates on which such payments are due in respect of the Notes subject to the conditions attaching to, and in the currency of, the corresponding payment made in accordance with the Subordinated Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed.

Noteholders are deemed to have accepted that:

(i) neither the Issuer nor the Trustee makes any representation or warranty in respect of, and shall at no time have any responsibility for, or liability, or obligation in respect of the performance and observance by the Bank of its obligations under the Subordinated Loan Agreement or (save as otherwise expressly provided in the Trust Deed and paragraph (vii) below) the recoverability of any sum of principal, interest and any additional amounts, if any, due or to become due from the Bank under the Subordinated Loan Agreement;

(ii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the condition (financial, operational or otherwise), creditworthiness, affairs, status, nature or prospects of the Bank;

(iii) neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, any misrepresentation or breach of warranty or any act, default or omission of the Bank under or in respect of the Subordinated Loan Agreement;

(iv) 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 and Transfer Agent or any other Paying and Transfer Agent of their respective obligations under the Agency Agreement;

(v) the financial servicing and performance of the terms of the Notes depend solely and exclusively upon the performance by the Bank of its obligations under the Subordinated Loan Agreement, its covenant to pay under the Subordinated Loan Agreement and its credit and financial standing;

(vi) the Issuer shall not be responsible for investigating any aspect of the Bank's performance in relation to its obligations under the Subordinated Loan Agreement and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make any investigations which might be made by a security holder in relation to the property which is expressed to be the subject of the Security Interests 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 secured property whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security expressed to be created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee will have no responsibility for the value of such security; and

(vii) the Issuer will not be responsible for any withholding or deduction or for any payment on account of Taxes (as defined in the Subordinated Loan Agreement) required to be made by the Issuer on or in relation to any sum received by it under the Subordinated Loan Agreement which will or may affect payments made or to be made by the Bank under the Subordinated Loan Agreement save to the extent that it has actually received any additional amounts or other amounts under the Subordinated Loan Agreement in respect of such withholding or deduction and then only to the extent of those amounts actually received; the Issuer shall, furthermore, not be obliged to take any actions or measures as regards such deductions or withholdings other than those set out in this context in the Subordinated Loan Agreement and the Trust Deed.

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 Subordinated 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 Subordinated Loan Agreement or have direct recourse to the Bank except through action by the Trustee under the Security Interests. Neither the Issuer nor the Trustee pursuant to the Loan Administration Transfer shall be required to take proceedings to enforce payment under the Subordinated Loan Agreement unless, in the case of the Trustee, it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

As provided in the Trust Deed, the obligations of the Issuer are solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer from the Bank in respect of principal, interest, or any additional amounts as the case may be, pursuant to the Subordinated Loan Agreement (less any amount in respect of the Reserved Rights), the right to which is being charged by way of security to the Trustee as aforesaid. Noteholders must therefore rely solely and exclusively upon the covenant to pay under the Subordinated Loan Agreement and the credit and financial standing of the Bank.

The Notes rank *pari passu* and rateably without any preference among themselves.

3. Issuer's Covenant

As provided in the Trust Deed, so long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution or Written Resolution (each as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorize any breach or proposed breach of, the terms of the Subordinated Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Subordinated Loan Agreement except as otherwise expressly provided in the Trust Deed and the Subordinated Loan Agreement. Any such amendment, modification, waiver or authorization made with the consent of the Trustee shall be binding on the Noteholders and any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 14 (*Notices*).

4. Interest

(a) *Accrual of Interest*: On each Interest Payment Date (as defined below), 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 Subordinated Loan Agreement. Under the Subordinated Loan Agreement, interest accrues on the Subordinated Loan at a rate of 6.807 per cent. per annum (the "Initial Rate of Interest") representing the aggregate of (i) the U.S. Treasury Rate and (ii) the Margin (as defined in the Subordinated Loan Agreement) up to the Reset Date (as defined in the Subordinated Loan Agreement) and thereafter, at a rate per annum equal to the aggregate of (i) the U.S. Treasury Rate, (ii) the Margin (as defined in the Subordinated Loan Agreement, and (iii) 150 basis points (1.5 per cent.) (the "Step Up Rate of Interest"), up to the Repayment Date.

The U.S. Treasury Rate will be determined on the second Business Day (as defined in the Subordinated Loan Agreement) immediately preceding the Reset Date as more fully set out in the Subordinated Loan Agreement by the Principal Paying Agent (such determination by the Principal Paying Agent being final and binding on the Issuer and the Bank, in the absence of manifest error).

If interest is required to be calculated for any period other than an Interest Period, 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 actually elapsed.

In this Condition 4, "Interest Payment Date" means May 10 and November 10 of each year commencing on November 10, 2007 and ending on the Repayment Date and "Interest Period" means each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date.

(b) *Overdue Interest*: In the event that, and to the extent that, the Issuer actually receives any amounts in respect of interest on overdue interest from the Bank, under the Subordinated Loan Agreement (less any amount in respect of the Reserved Rights), the Issuer shall account to the Noteholders for an amount equivalent to the amounts in respect of interest on overdue interest actually so received.

(c) *Notification to the Paying and Transfer Agents and London Stock Exchange*: The Issuer will cause the Step Up Rate of Interest to be notified to the Paying and Transfer Agents and the London Stock Exchange's Gilt Edged and Fixed Interest Market on which the Notes are then listed as soon as practicable after receipt by the Issuer of notice from the Principal Paying Agent of such determination but in any event not later than the first day of the relevant Step Up Interest Period (as defined in the Subordinated Loan Agreement).

5. Redemption

(a) *Final redemption*: Unless previously prepaid pursuant to Clause 6 (*Repayment and Prepayment*) of the Subordinated Loan Agreement, the Bank will be required to repay the Subordinated Loan (in full and not in part) on its due date as provided in the Subordinated Loan Agreement and, subject to such repayment, all the Notes will be redeemed at their principal amount on May 10, 2017, subject to Condition 6 (*Payments*).

(b) *Prepayment Option*: If the Subordinated Loan should become repayable in full or in part pursuant to the terms and conditions of the Subordinated Loan Agreement prior to the Repayment Date (as defined in the Subordinated Loan Agreement), the Notes will be redeemed (i) at 101 per cent. of their principal amount in the case of a prepayment of the Subordinated Loan pursuant to Clause 6.2.1 of the Subordinated Loan Agreement or (ii) at par in all other circumstances, on giving not less than 25 days' nor more than 60 days' notice to the Noteholders in accordance with Condition 14 (which notice shall be irrevocable) at the outstanding principal amount thereof together with interest accrued on the amount of principal so repaid to the date fixed for redemption (which shall be the date fixed for prepayment under Clause 6 (*Repayment and Prepayment*) of the Subordinated Loan Agreement).

To the extent that the Issuer receives amounts of principal, interest or any additional amounts (other than amounts in respect of the Reserved Rights) following acceleration of the Subordinated Loan, the Issuer shall pay an amount equal to and in the same currency as such amounts on the business day following receipt of such amounts, subject as provided in Condition 6.

6. Payments

(a) *Payments of Principal*: Payments of principal shall be made by U.S. dollar cheque drawn on, or, upon application by a holder of a Note to the Specified Office of the Principal Paying and Transfer Agent not later than the fifteenth day before the due date for any such payment, by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying and Transfer Agent.

(b) *Payments of Interest*: Payments of interest shall be made by U.S. dollar cheque drawn on, or upon application by a holder of a Note to the Specified Office of the Principal Paying and Transfer 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 and Transfer Agent.

(c) *Record Date*: Each payment in respect of a Note will be made to the person shown as the holder in the Register at the opening of business (in the place of the relevant 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.

(d) *Payments subject to Applicable Law*: Payments in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*).

(e) *Payments on business days*: If the due date for payments of interest or principal is not a business day, the holder of a Note shall not be entitled to payment of the amount due until the next following business day and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "business day" means a day on which a payment is to be made hereunder, and commercial banks generally are open for business in London and/or New York City, if not London or New York City then in the city where the Specified Office of the Principal Paying and Transfer Agent is located.

(f) *Accrued Interest*: In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the date of issuance of the Notes, shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement.

(g) *Initial Paying and Transfer Agents and Registrar*: The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying and Transfer Agent or Registrar and to appoint additional or other Paying and Transfer Agents or Registrar in accordance with the provisions of the Agency Agreement provided that it will at all times maintain a:

  (i) Paying and Transfer Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to the European Union Directive on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

  (ii) Principal Paying and Transfer Agent; and

(iii) Registrar.

Notice of any termination or appointment of any Paying and Transfer Agent or Registrar and of any changes in Specified Offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 14 (*Notices*).

(h) *Payment obligations limited*: The obligations of the Issuer to make payments under Condition 5 (*Redemption*) and Condition 6 (*Payments*) shall constitute an obligation only to account to the Noteholders on each Interest Payment Date or such other date upon which a payment is due in respect of the Notes, for an amount equivalent to sums of principal, interest, or any additional amounts actually received by or for the account of the Issuer pursuant to the Subordinated Loan Agreement, less any amount in respect of the Reserved Rights.

7. Taxation

All payments by, or on behalf of, the Issuer in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature ("Taxes") imposed or levied by Luxembourg or any governmental or political subdivision or territory or possession of any government or any authority thereof or agency therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall, subject as provided below, pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been made or required to be made. No such additional amounts shall be payable in respect of any Note:

(a) held by a holder which is liable for such Taxes in respect of such Note by reason of its having some connection with Luxembourg other than the mere holding of such Note (including being a citizen or resident or national of, or carrying on a business or maintaining a permanent establishment in, or being physically present in, Luxembourg); or

(b) to a holder in respect of Taxes that are imposed or withheld by reason of the failure of the holder to comply with a request of, or on behalf of, the Issuer addressed to the holder to provide information concerning the nationality, residence or identity of such holder or to make any declaration or similar claim or satisfy any information or reporting requirement, which is required or imposed by a statute, treaty, regulation, protocol or administrative practice as a precondition to exemption from all or part of such Taxes; or

(c) where the relevant Certificate is presented for payment of principal or interest on redemption more than 30 days after a Relevant Date except to the extent that such additional payment would have been payable if such Certificate had been presented for payment on the last day of such period of 30 days; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Union Directive on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) in respect of a Certificate presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying and Transfer Agent in a Member State of the European Union.

Notwithstanding the foregoing provisions, the Issuer shall only make payments of additional amounts to the Noteholders pursuant to this Condition 7 to the extent and at

such time as it shall have actually received an equivalent amount for such purposes from the Bank under the Subordinated Loan Agreement.

To the extent that the Issuer receives a lesser sum, in respect of an additional amount from the Bank for the account of the Noteholders, the Issuer shall account to each Noteholder for such additional amount pursuant to this Condition 7 for an additional amount equivalent to *pro rata* portion of such additional amount (if any) as is actually received by, or for the account of, the Issuer pursuant to the provisions of the Subordinated 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.

In these Conditions, "Relevant Date" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying and Transfer Agent, the Registrars or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders in accordance with Condition 14 (*Notices*).

Any reference in these Conditions to principal or interest or other amounts shall be deemed to include any additional amounts in respect of principal or interest or other amounts (as the case may be) which may be payable under this Condition 7 or any undertaking given in addition to or in substitution of this Condition 7 pursuant to the Trust Deed or the Subordinated Loan Agreement.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Luxembourg, references in these Conditions to Luxembourg shall be construed as references to Luxembourg and/or such other jurisdiction.

8. Prescription

Notes will be prescribed and become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes.

9. Replacement of Certificates

If a Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and stock exchange requirements, at the Specified Office of the Principal Paying and Transfer Agent or any Paying and Transfer Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

10. Trustee and Agents

Under (a) a separate agreement between the Bank and the Trustee (the "Trustee Indemnification and Compensation Agreement") and (b) a separate agreement among the Bank and the Agents, each of the Trustee and the Agents is entitled to be indemnified and relieved from responsibility in certain circumstances. The Trustee is also entitled pursuant to the Trustee Indemnification and Compensation Agreement to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer, the Bank and any entity related to the Issuer or the Bank without accounting for any profit, fees, commissions, interest, discounts or share of brokerage earned, arising or resulting from any such contracts or transactions or trusteeships and the Trustee shall also be at liberty to retain the same for its benefit.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The Trust Deed provides for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified and/or secured to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity or security to it, and it will be for Noteholders to take action directly.

As provided in the Trust Deed, any Trustee for the time being may retire at any time upon giving not less than three months' notice in writing to the Issuer and the Bank without assigning any reason therefore and without being responsible for any costs occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a new trustee (being a trust corporation) in office after such retirement. In the event of a Trustee giving such notice, the Issuer shall use its reasonable endeavors to procure a new trustee to be appointed. The Noteholders shall together have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees for the time being hereof. The removal of any trustee shall not become effective unless the Bank has given its prior written consent thereto and there remains a trustee hereof (being a trust corporation) in office after such removal. Notice of any change in the Trustee or any of the Agents shall promptly be given to the Noteholders in accordance with Condition 14 (*Notices*).

11. Meetings of Noteholders; Modification and Waiver; Substitution

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of the Subordinated Loan Agreement or any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution (as defined below). Such a meeting will be convened on not less than 14 days' notice by the Trustee, the Bank or the Issuer or by the Trustee at the request in writing of Noteholders holding not less than one tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons present in person holding or representing more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more persons present in person holding Notes in definitive form or voting certificates or being proxies (whatever the principal amount of the Notes so held or represented); provided however, that certain proposals (including but not limited to any proposal to alter the terms and conditions relating to the maturity, redemption and repayment of the Notes, to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to change any date fixed for payment of principal or interest under the Subordinated Loan Agreement, to reduce the amount of principal or interest payable under the Subordinated Loan Agreement, to alter the method of calculating the amount of any payment under the Subordinated Loan Agreement, to change the currency of payment under the Subordinated Loan Agreement, to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution, to alter the governing law of the Conditions, the Trust Deed or the Subordinated Loan Agreement or to change the Events of Default under the Subordinated Loan Agreement (each, a "Reserved Matter")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more persons present holding or representing not less than three quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding

Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders whether present or not.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of all Notes who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Affiliates of the Bank who are also Noteholders shall not be allowed to vote on or be included in a quorum for purposes of Extraordinary Resolutions.

The expression "Extraordinary Resolution" means a resolution passed at a meeting of the Noteholders duly convened and held by a majority consisting of more than 50 per cent, of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of more than 50 per cent, of the votes cast on such poll.

(b) *Modification and waiver*. The Trustee may, without the consent of the Noteholders but with the consent of the Bank, agree to any modification of these Conditions, the Trust Deed or, pursuant to the Loan Administration Transfer, the Subordinated Loan Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders or which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders, and without prejudice to its rights in respect of any subsequent or other breach, condition, event or act, in writing and on such terms and conditions (if any) as shall seem expedient to it, authorize or waive any breach or proposed breach of the Notes or the Trust Deed by the Issuer or, pursuant to the Loan Administration Transfer, the Subordinated Loan Agreement by the Bank or determine that the right of acceleration under the Subordinated Loan Agreement shall not be treated as such if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Any such authorization or waiver shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such authorization, waiver or modification shall be notified to the Noteholders in accordance with Condition 14 (*Notices*) as soon as practicable thereafter.

(c) *Substitution*: The Trust Deed contains provisions under which the Issuer may, without the consent of the Noteholders, transfer the obligations of the Issuer as principal debtor under the Trust Deed and the Notes to a third party provided that certain conditions specified in the Trust Deed are fulfilled. So long as any of the Notes are admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market, in the event of such substitution, the London Stock Exchange will be informed of such substitution, a supplemental prospectus will be produced and will be made publicly available at the Specified Offices of the Principal Paying and Transfer Agent in London and such substitution shall be notified to the Noteholders as soon as practicable thereafter and in accordance with Condition 14 (*Notices*).

12. Enforcement

At any time after an Acceleration Event (as defined in the Subordinated Loan Agreement) or Relevant Event (as defined below) shall have occurred and be continuing, the Trustee may, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least one quarter in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security to its satisfaction against all liabilities, proceedings, actions, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing, provided that any judgment or amount obtained as a result of such action or exercise of rights must be entered or held or, as the case may be, registered in the name of the Trustee and shall be held or dealt with by or on behalf of the Trustee in accordance with the Trust Deed.

The Trust Deed also provides that, in the case of an Acceleration Event or a Relevant Event, the Trustee may, and shall if requested to do so in writing by Noteholders holding at least one quarter in 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, (i) require the Issuer to declare all amounts payable under the Subordinated Loan Agreement by the Bank to be due and payable (in the case of an Acceleration Event) or (ii) enforce the security created in the Trust Deed in favor of the Noteholders (in the case of a Relevant Event). Upon repayment of the Subordinated Loan following an Acceleration Event, the Notes will be redeemed or repaid at the principal amount thereof together with interest accrued to the date fixed for redemption together with any additional amounts due in respect thereof pursuant to Condition 7 (*Taxation*) and thereupon shall cease to be outstanding.

For the purposes of these Conditions, "Relevant Event" means any of the following events pertaining to the Issuer: (i) the failure by the Issuer to make any payment of principal or interest on the Notes on the due date for payment thereof; (ii) bankruptcy, pre insolvency composition (*concordat prevéntif de faillite*), moratorium, controlled management (*gestion contrólée*), suspension of payments (*sursis de paiement*), general settlement with creditors, liquidation, reorganization, administration, dissolution and any other similar legal proceedings affecting the Issuer or a *commissaire à gestion contrôlée, a liquidateur, a commissaire, a curateur, an administrateur* or any similar officer is appointed as a consequence of the financial difficulties affecting the Issuer; or (iii) the taking of any action in furtherance of dissolution of the Issuer.

13. Further Issues

Subject as provided in Condition 3 (*Issuer's Covenant*), 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 issue date and/or first payment of interest on such further notes) and so that such further issue is consolidated and forms a single series with the Notes. Such further Notes will be constituted by a deed supplemental to the Trust Deed. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Subordinated Loan Agreement with the Bank on the same terms as the original Subordinated Loan Agreement (or on the same terms except for the date thereof or 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. The Issuer will provide a further fixed charge and absolute assignment in favor of the Trustee of its rights under such supplemental loan agreement equivalent to the rights charged and assigned as security in relation to the Issuer's rights under the original Subordinated Loan Agreement which will, together with the security referred to in the Conditions, secure both the Notes and such further Notes. The purpose of the creation and issue of further notes shall be to finance and increase the principal amount of the Subordinated Loan or a further loan to the Bank.

14. Notices

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe.

The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication.

In case by reason of any other cause it shall be impracticable to publish any notice to Noteholders as provided above, then such notification to such Noteholders as shall be given with the approval of the Trustee shall constitute sufficient notice to such Noteholders for every purpose hereunder.

15. Governing Law and Jurisdiction

(a) *Governing law*: The Trust Deed, the Agency Agreement, the Notes, the Subordinated Loan Agreement and all other agreements entered into in connection therewith are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*: The Issuer has in the Trust Deed (i) submitted irrevocably to the non exclusive jurisdiction of the courts of England for the purposes of hearing any determination and suit, action or proceedings or settling any disputes arising out of or in connection with the Trust Deed and the Notes; (ii) waived any objection which it might have to such courts being nominated as the forum to hear and determine any such suit, action or proceedings or to settle any such disputes and agreed not to claim that any such court is not a convenient or appropriate forum; (iii) designated a person in England to accept service of any process on its behalf; and (iv) consented to the enforcement of any judgment.

16. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

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.

1. Exchange

The Notes which will be offered and sold in reliance on Regulations S and which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form, without coupons, (the "Global Certificate") which will be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear or Clearstream, Luxembourg. Prior to expiry of the distribution compliance period (as defined in Regulation S), beneficial interests in the Global Certificate may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided pursuant to an available exemption from U.S. securities laws and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and the Global Certificate will bear a legend regarding such restrictions on transfer.

The Global Certificate will be exchangeable in whole but not in part (free of charge to the holder) for definitive Certificates:

(a) upon the happening of any Relevant Event (as defined in "Terms and Conditions of the Notes");

(b) if either Euroclear or Clearstream, Luxembourg is closed for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

(c) if the Issuer would suffer a material disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Global Certificate (acting on the instructions of one or more Accountholders (as defined in paragraph 4 below)) may give notice to the Issuer, and (in case of (c) above) the Issuer may give notice to the Trustee and the Noteholders of its intention to exchange the Global Certificate for Definitive Certificates on or after the Exchange Date (as defined below), provided, however, that so long as the Notes are listed on the London Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in England (which is expected to be the *Financial Times*). See paragraph 3 below.

For these purposes, "Exchange Date" means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for business in the place in which the specified office of the Principal Paying and Transfer Agent is located.

2. Payments

Payments of principal, interest and any other amount in respect of the Global Certificate will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 1) as the registered holder of the Global Certificate. None of the Issuer, any Paying and Transfer Agent, the Bank or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Global Certificate or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

3. Notices

For so long as all of the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, subject to any additional requirements of any stock exchange, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 14 (*Notices*), provided, however, that so long as the Notes are listed on the London Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in England (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

4. Accountholders

For so long as all of the Notes are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an "Accountholder") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including, but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal, interest and additional amounts, if any, on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely for the benefit of the person who appears at the relevant time on the Register as holder of the Global Certificate in accordance with, and subject to, its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to a person who appears at the relevant time on the Register as holder of the Global Certificate.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by the Global Certificate will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7 (*Taxation*)).

6. Cancellation

Cancellation of any Note represented by the Global Certificate and required by the Terms and Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying and Transfer Agent of the reduction in the principal amount of the Global Certificate on the relevant part of the schedule thereto.

7. Euroclear and Clearstream, Luxembourg

References in the Global Certificate and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

TAXATION

The following is a general description of certain tax laws relating to the Notes and interest on the Subordinated Loan and does not purport to be a comprehensive discussion of the tax treatment of the Notes and interest on the Subordinated Loan. Prospective investors in the Notes should consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Notes in light of their particular circumstances, including but not limited to the consequences of receipt of interest and sale or redemption of the Notes.

The Russian Federation

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 taxation of payments of interest on the Subordinated Loan. The summary is based on the laws of Russia in effect on the date of this Prospectus. 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 the Russian Federation. 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 involved in claiming double tax treaty relief. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Notes. No representation with respect to Russian tax consequences to any particular Noteholder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Further, the substantive provisions of Russian tax law applicable to financial instruments as well as the relative practice of Russian authorities may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and tax systems.

For the purposes of this summary, a non-resident Noteholder means:

- a physical person actually present in Russia for an aggregate period of less than 183 days in the course of 12 consecutive months; or
- a legal entity or corporate body in each case not organized under Russian law which holds and disposes of the Notes, otherwise than through a permanent establishment in the Russian Federation.

A resident Noteholder means any person not qualifying as a non-resident Noteholder.

Non-Resident Noteholders

A non-resident Noteholder that is a legal entity or corporate body should not be subject to Russian withholding tax on any gain on sale or other disposition of the Notes even if payment is received from a source within the Russian Federation, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes. Accrued interest may be distinguished from the total gain and taxed at a rate of 20 per cent. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of an applicable double tax treaty. However, there is no assurance that advance treaty relief would be granted and obtaining a refund can be difficult, if not impossible. Non-resident holders that are commercial and governmental entities should consult their own tax advisors with respect to this possibility.

A non-resident Noteholder who is a physical person should generally not be subject to any Russian taxes in respect of gains or other income realized on sale or other disposition of the Notes outside the Russian Federation. In certain circumstances, if the disposal proceeds are payable by a Russian legal entity or organization, by an individual entrepreneur, or through a permanent establishment of a foreign organization in the Russian Federation (which are brokers, fiduciaries or other persons carrying out operations under an agency agreement, a commission agreement or another agreement in the taxpayer's favor), the payer may be required to withhold tax at 30 per cent. from such gain or income. If the Notes are disposed of in the Russian Federation, gains or other income realized thereon are likely to be regarded for personal income tax purposes as Russian-source income, and, as such, will be subject to tax at the rate of 30 per cent. 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. This tax may be reduced or eliminated pursuant to the provisions of an applicable double tax treaty, although, in practice, it is not certain that treaty relief will be available, whilst obtaining a refund of the taxes withheld can be difficult, if not impossible. Non-resident holders that are physical persons should consult their own tax advisors with respect to this possibility.

Resident Noteholders

A resident Noteholder is subject to all applicable Russian taxes.

Taxation of Interest on the Subordinated Loan

The Russian tax treatment of interest payments made by the Bank to the Issuer under the Subordinated Loan Agreement may affect the Noteholders.

In general, payments of interest on borrowed funds by a Russian entity to a non-resident legal entity are subject to Russian withholding tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on professional advice the Bank has received, it believes that payments of interest on the Subordinated Loan should not be subject to withholding under the terms of the double tax treaty between the Russian Federation and Luxembourg. However, there can be no assurance that such relief will be obtained. Preliminary approval from the Russian tax authorities for the purposes of obtaining treaty relief from Russian withholding tax is neither required nor possible. However, the Russian tax authorities may subsequently scrutinize the Issuer's eligibility for treaty relief during tax audits in respect of each payment under the Subordinated Loan Agreement.

The Issuer has granted security by way of charge in favor of the Trustee over certain of its rights and interests as lender under the Subordinated Loan Agreement (other than any rights over and benefits constituting Reserved Rights as defined in the Trust Deed) as security for the Issuer's payment obligations in respect of the Notes and under the Trust Deed and has assigned absolutely certain administrative rights under the Subordinated Loan Agreement. Upon any enforcement by the Trustee of the security granted to it by the Issuer by way of the security interests in the Trust Deed, payments under the Subordinated Loan Agreement (other than in respect of Reserved Rights) would be required to be made to, or to the order of, the Trustee. Under Russian tax law, payments of interest and other payments made by the Bank to the Trustee will in general be subject to Russian income tax withholding at a rate of 20 per cent. It is not expected that the Trustee will, or will be able to, claim a withholding tax exemption under any double tax treaty. It may be impossible for Noteholders to claim a refund of such tax withheld.

If payments under the Subordinated Loan are subject to any withholding tax, the Bank will be obliged (except in limited circumstances) to increase the amounts payable as may be necessary to ensure that the Issuer receives a net amount that will not be less than the amount it would have received in the absence of such withholding. As provided in the Luxembourg taxation section below, payments in respect of the Notes will be made without deduction or withholding for or on account of Luxembourg taxes save as required by law. In that event, the Issuer will be required to pay additional amounts only to the extent that the Issuer receives corresponding amounts from the Bank under the Subordinated Loan Agreement. The Subordinated Loan Agreement provides for the Bank to pay such corresponding additional amounts in these circumstances. There is some doubt as to whether the gross-up provisions contained in the Subordinated Loan Agreement are valid and enforceable under

Russian law. Due to the limited recourse nature of the Notes, if the Bank were to fail to pay any such gross-up amounts (e.g., by reason of such gross-up amounts payable to the Issuer under the Subordinated Loan Agreement being held to be invalid under Russian law), the amounts payable by the Issuer under the Notes would be correspondingly reduced. Also, subject to certain conditions (including the consent of the CBR), the Bank may repay the Subordinated Loan in full, in which case all outstanding Notes would be redeemable at par with accrued interest.

VAT is not applied to interest and principal payments under the Subordinated Loan, since rendering of financial services involving the provision of the Subordinated Loan in monetary form is not subject to Russian VAT.

Luxembourg

The following is a general summary of certain tax considerations relevant to the purchase, ownership and disposition of the Notes. The summary is based upon the tax laws of Luxembourg as in effect on the date of this Prospectus and is subject to any change that may come into effect after that date.

Withholding Tax

All payments of interest and principal by the Issuer under the Notes will be made free of withholding tax or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein to the extent that such interest has been negotiated at arm's length and is not profit participating.

Taxes on Income and Capital Gains

(a) A Noteholder who derives income from a Note or who realizes a gain on the disposal or redemption of a Note will not be subject to Luxembourg taxation on income or capital gains unless:

  (i) the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or

  (ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

(b) A Noteholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of a Note or the execution, performance, delivery and/or enforcement of the Note.

Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder unless:

(a) the Noteholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or

(b) such Note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

Other Taxes

Luxembourg inheritance taxes will only be levied on the transfer of a Note on the death of the Noteholder if the Noteholder is an inhabitant of Luxembourg. Under article 1 of the inheritance tax law dated December 27, 1817, an inhabitant of Luxembourg is a person whose domicile or seat of wealth is located in Luxembourg. Luxembourg gift tax will be levied on the transfer of a Note by way of gift by the Noteholder if this gift is registered in Luxembourg.

There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Notes or the performance of the Issuer's obligations under the Notes, except that in the case of court proceedings in a Luxembourg court or the presentation of the documents relating to the Notes, other than the Notes, to an "*autorité constituée",* such court or "*autorité constituée*" may require registration thereof, in which case the documents will be subject to registration duties depending on the nature of the documents and, in particular, a loan agreement, not represented by the Notes, will be subject to an *ad valorem* registration duty of 0.24 per cent. calculated on the amounts mentioned therein.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issue of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of a Note, provided that Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

EU Savings Directive on the Taxation of Savings Income in the form of Interest Payments (Directive 2003/48/EC)

On June 3, 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is, in principle, applied by Member States as from 1 July 2005 and has been implemented in Luxembourg by the Law of 21 June 2005. Under the directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent within the meaning of the EU Savings Directive to an individual or certain types of entities called ''residual entities'' resident(s) in that other Member State (or certain dependant and associated territories). For a transitional period, however, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system will apply for a transitional period during which the rate of withholding will be of 15 per cent. from July 1, 2005 to June 30, 2008, 20 per cent. from July 1, 2008 to June 30, 2011 and 35 per cent. as from July 1, 2011. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries (Switzerland, Liechtenstein, San Marino, Monaco and Andorra) to exchange information in a specific form.

Also with effect from July 1, 2005, a number of non-EU countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino), and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual or a residual entity in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories (Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles and Aruba) in relation to payments made by a paying agent in a Member State to, or collected by such a paying agent for, an individual or a residual entity resident in one of those territories.

SUBSCRIPTION AND SALE

Deutsche Bank AG, London Branch, J.P. Morgan Securities Ltd., ALPHA BANK A.E. and DZ BANK AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main (the "Managers") have jointly and severally agreed, subject to the satisfaction of the terms and conditions of a Subscription Agreement, dated May 8, 2007 by and among the Issuer, the Managers and the Bank as borrower, to subscribe and pay for the Notes at the issue price of 100 per cent. of the principal amount of the Notes. The Managers are entitled to be released and discharged from their obligations under the Subscription Agreement in certain circumstances prior to the closing of the issue of the Notes.

The Subscription Agreement provides that the obligation of the Managers to purchase the Notes is subject to the satisfaction of certain conditions. In connection with this offering, the Issuer has agreed to pay a combined management, underwriting and selling commission of 0.15 per cent. of the aggregate principal amount of the Notes to the Managers and to reimburse certain of their expenses related to this offering. Such payment by the Issuer will be funded by the payment by the Bank to the Issuer of a fee of a corresponding amount under the Subordinated Loan Agreement. The Bank and the Issuer have each agreed to severally indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes.

The Bank has agreed that during a period of one month from the date of the Subscription Agreement, it will not, without the prior written consent of the Managers, directly or indirectly, issue, sell, offer or agree to sell, grant any option for the sale of, or otherwise dispose of, any debt securities of the Bank which are substantially similar to the Notes (including, without limitation, direct issues of debt securities by the Bank or by any other company and guaranteed by the Bank) or that are convertible into, or exchangeable for, the Notes or such other debt securities and, in each case, which are (a) denominated in a currency other than Russian roubles and (b) are listed, quoted or traded on any stock exchange or traded in any securities market and (c) were initially offered and distributed outside the Russian Federation.

In connection with this issue, J.P. Morgan Securities Ltd. (the "Stabilizing Manager") (or any person acting for it) 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 stabilizing manager (or any agent of the Stabilizing Manager) to do this. Such stabilizing, 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 stabilizing shall be in compliance with all applicable laws, regulations and rules.

The Managers and their respective affiliates have engaged in, and may in the future engage in, banking and other commercial dealings in the ordinary course of business with the Bank. They have received customary fees and commissions for these transactions and services.

The United States

The Notes and the Subordinated Loan 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 certain transactions exempt from, or not subject to the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has represented, warranted and undertaken that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

The European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Joint Lead Manager has severally represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to such offer which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Manager; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall result in a requirement for the publication by the Issuer or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The United Kingdom

Each of the Managers has severally represented, warranted and undertaken that:

(a) 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 or the Bank; and

(b) 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.

The Russian Federation

Each Joint Lead Manager has severally represented and agreed that it has not offered or sold and will not offer or sell as part of their initial distribution any Notes to or for the benefit of any person (including legal entities) resident, incorporated, established or having their usual residence in the

Russian Federation or to any person located within the territory of the Russian Federation, except to the extent otherwise permitted by Russian laws or regulations.

Luxembourg

Each Joint Lead Manager has severally represented, warranted and agreed that the Notes have not been offered or sold, and will not be offered or sold, in or from Luxembourg, except in circumstances that do not constitute a public offering or distribution under applicable Luxembourg laws and regulations. The Notes have not been and will not be authorized for public offering in or from Luxembourg and may not be offered or sold in or from Luxembourg in circumstances that would constitute a public offer unless the requirements of the Luxembourg law concerning public offers have been complied with.

General

No action has been or will be taken in any jurisdiction by the Issuer or the Bank or either of the Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Accordingly, each of the Managers has undertaken that it will comply, to the best of its knowledge and belief, 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.

The Issuer estimates that the total expenses of this offering will be approximately U.S.$1,030,000.

BANKING INDUSTRY AND BANKING REGULATION IN THE RUSSIAN FEDERATION

Brief History of the Russian Banking Industry

Prior to its reorganization in 1987, the Soviet banking system consisted of Gosbank of the USSR, which allocated resources from the state budget according to the prevailing economic plan and in whose regional branches all production and trading entities held their current accounts, Stroybank of the USSR and VTB of the USSR, which primarily serviced payments relating to capital construction projects and the foreign trade of Soviet entities, respectively. Gosbank of the USSR operated a network of so-called "savings branches" (*sberegatelnyie kassy*), which offered limited banking services to retail clients (mainly taking deposits and processing utility payments) throughout the country. At the beginning of 1986, there were 78,500 savings branches in the USSR.

In 1987, with the relaxation of controls over companies and the implementation of a "self-financing" system in the economy, which minimized reliance on state subsidiaries, the Soviet banking system was reorganized. A few specialized banks were established to service specific industries, namely Agroprombank (Agricultural Industry Bank), Promstroybank (Industrial and Construction Bank), Zhilsotsbank (Bank for Housing Maintenance, Utilities Sector and Social Development), Vnesheconombank of the USSR (Bank for Foreign Economic Activity) and Sberbank.

With the launch of more substantial economic reforms in 1988 and 1989, regional commercial banks (primarily in the form of cooperatives or joint stock companies) began to emerge. After the introduction of new banking legislation in December 1990 (in the USSR, the Law "On the State Bank of the USSR" and the Law "On Banks and Banking Activity" and in the Russian Soviet Federated Socialist Republic (RSFSR), the Law "On the Central Bank of the RSFSR (Bank of Russia)" and the Law "On Banks and Banking Activity in the RSFSR"), the development of commercial banking in the Russian Federation accelerated. Pursuant to the new legislation, in 1991 three of the specialized state-dependent banks were transformed into joint stock companies, including Sberbank. By early 1992, 1,500 permits to provide banking services in the Russian Federation had been granted.

Between 1991 and 1998, the Russian banking system grew rapidly, with the number of commercial banks in the Russian Federation increasing from approximately 358 in 1990 to 2,538 in 1996. Additionally, a number of large privately held banking groups were formed, including UNEXIM Bank, Inkombank, Menatep, Russian Credit and SBS-Agro. Although most private banks focused on providing banking services to newly privatized companies and working with governmental and municipal funds, several started to compete with the Bank in various regions of the Russian Federation by offering banking products to retail customers.

On August 17, 1998, a series of events triggered a severe financial crisis in the Russian financial markets, resulting in significant concerns over the liquidity and solvency of the banking sector. Many banks were subsequently reorganized, went bankrupt or fell under the administration of the newly-formed Agency for the Restructuring of Credit Organizations ("ARCO"), a state corporation established in January 1999 for ensuring the financial recovery of banks and protecting the interests of their creditors. Since the 1998 financial crisis, the number of credit organizations operating in the Russian Federation has been decreasing. The 1998 financial crisis revealed the lack of proper controls in the Russian banking sector at that time and reinforced concerns about the integrity of the Russian banking system. Due to the stabilization of the Russian banking sector since 1998, the importance of ARCO as the administrator of credit organizations undergoing financial restructuring decreased and, pursuant to Federal Law No. 87-FZ, dated July 28, 2004, ARCO was liquidated on September 14, 2004. The assets of ARCO are currently being transferred to the state corporation, Agency for Insurance of Deposits.

From 1999 through 2001, the Russian banking industry began to recover, as evidenced by higher liquidity levels and a shift in emphasis from investments in government securities to loans to companies and other commercial and governmental entities.

Banking and Other Relevant Reforms

At the end of 2001, the Russian Government and the CBR issued a joint declaration entitled "The Strategy for the Development of the Banking Sector of the Russian Federation" (the "Declaration") that proposed a strategy for banking reform in the Russian Federation and called for certain legislative steps and structural changes to be taken during the next five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy set forth in the Declaration envisaged: (a) an increase in the capital adequacy requirements; (b) development of a more efficient system of mandatory economic ratios; (c) adoption of IFRS by all Russian banks; (d) introduction of amendments to the Civil Code preventing individuals from early withdrawal of funds from their term deposit accounts; (e) gradual implementation of a mandatory system of insuring private depositors' funds; and (f) an increase in the interest of reputable foreign banks in investing in the Russian banking sector.

The Russian Government and the CBR have taken a number of steps to implement the Declaration. These include:

- a CBR requirement for credit organizations to prepare, have audited and disclosed their IFRS accounts effective from January 1, 2004 and which would apply to the accounts of credit organizations for the periods ending September 30, 2004 and December 31, 2004; and
- Russian Federal Law "On Insuring Deposits of Individuals with Banks in the Russian Federation" (the "Deposit Insurance Law") which became law in December 2003 and which establishes a deposit insurance scheme for retail depositors (see "Risk Factors—Risks Related to the Bank's Business and Industry—The Bank faces competition in the Russian banking market").

The goals of the Russian banking reform are, among other things: simplifying procedures for reorganizing banks; regulating syndicated lending; financing of affiliates; credit bureaus; and pledge of money held in bank accounts. The CBR has stated that it plans to introduce a number of initiatives in 2005 aimed at improving the banking system in the Russian Federation. In its program called "Major Trends of the Uniform State Monetary Credit Politics for the Year 2005", approved by the CBR Board of Directors on November 15, 2004, the CBR outlined the most important amendments that it intends to propose to major laws regulating the banking sector. For instance, the CBR intends to participate in amending the Banking Law and the CBR Law (as defined below) in order to require more transparency of the ownership structure of private Russian credit institutions. The CBR plans to obtain the right to establish criteria for identifying actual owners of a credit institution and the procedures for disclosing information relating thereto. The proposed amendments will allow the CBR to obtain information on the founders and the actual owners of a credit institution, its affiliates and the group of persons to which such founders and owners belong and to evaluate their financial position. Pursuant to other proposals, the CBR plans to introduce qualification requirements for board members and executive officers of credit institutions. The CBR also intends to obtain a higher degree of control over bank holdings and, in particular, to extend its authority to inspect such bank holdings. Likewise, the CBR will propose amendments to the laws "On Limited Liability Companies" and the Joint Stock Companies Law that will impose liability on affiliates of credit institutions for the quality of information they provide. The CBR has stated that another priority for 2005 is strengthening the measures against money laundering. The CBR plans to prepare amendments to the Money Laundering Law aimed at enhancing the efficiency and transparency of the cash turnover control in the Russian Federation.

The CBR also intends to liberalize restrictions in certain areas of the Russian banking sector. For instance, the CBR has indicated that it plans to propose amendments to the Banking Law that will simplify the procedures for opening branches of credit institutions, including eliminating registration fees. The CBR has also stated that it intends to continue to work towards establishment of equal access to the Russian banking services market for Russian and foreign banks. An important step will be the introduction of a requirement to notify the CBR of purchases of over 1 per cent. of shares of (ownership interests in), and to seek the CBR's permission to purchase over 10 per cent. of shares of (ownership interests in), a credit institution by a resident or a non-resident replacing the current requirements (i) to notify the CBR of purchases of over 5 per cent, of shares of (ownership interests in), and to seek the CBR's permission to purchase over 20 per cent. of shares of (ownership interests in) a credit institution by a resident or a non-resident; and (ii) to obtain permission of the CBR in the event of increase of the share capital of a Russian bank at the expense of non-residents applicable to the Russian bank. The relevant draft law was introduced for consideration of the State Duma on 19 October 2006.

On April 5, 2005, the Russian government and the CBR issued their joint Strategy for the Development of the banking sector of the Russian Federation until 2008 (the "Strategy"). The Strategy replaced the Declaration, and sets out an action plan for the facilitation of the development of the Russian banking sector in the medium term (2005-2008).

Among other things, the Strategy outlines the targets for the reform of the Russian banking sector, the forecast of the results of such reform and the analysis of the current condition of the Russian banking sector. The Strategy also lists measures which should be implemented for the achievement of these targets.

Pursuant to the Strategy, the main objective of the development of the Russian banking sector is to increase the stability of the banking system and the effectiveness of banking activities. Among the main goals set forth by the Strategy are:

- improving the protection of the interests of depositors and creditors of banks;
- increasing the effectiveness of deposit-taking and lending activities of banks;
- increasing the competitiveness of Russian credit organizations;
- ensuring the transparency of banking activities;
- preventing the use of credit organizations for unlawful purposes (such as money laundering); and
- strengthening investors', depositors' and creditors' trust in the Russian banking sector.

The Strategy lists the main measures which should be implemented by the Russian Government and the CBR, among which are:

- improving the legislative regulation of banking activities;
- facilitating banks' role as financial intermediaries;
- increasing the efficiency of banking regulation and supervision;
- strengthening market discipline in the banking sector and ensuring equal competitive conditions for all credit organizations;
- upgrading corporate governance rules in credit organizations; and
- developing a banking infrastructure.

As part of the improvement of legislative regulation of banking activities, the Strategy outlines, *inter alia*, the following steps:

- improving the protection of creditors' rights (in particular, those secured by collateral);
- improving the procedures for the liquidation of credit organizations whose banking licenses have been revoked;

- simplifying the procedures for mergers and acquisitions of credit organizations;
- facilitating an efficient system of depositing and use of credit history data; and
- continuing the improvement of taxation regime of credit organizations.
- Among other priority tasks, the Strategy envisages the following measures:
- increasing the minimum amount of bank charter capital to five million euros (starting 2007);
- increasing the minimum amount of a bank's net worth (capital) to 10 per cent. (mandatory economic ratio N1), irrespective of the type of a credit organization and the value of its net worth (starting 2007);
- easing procedures for the participation of non-residents in the capital of Russian banks (albeit without lifting the restrictions on the opening by foreign banks of branches in Russia); and
- introducing a simplified procedure for the assignment of bank loans.

Pursuant to the Strategy, the recommendations of the International Monetary Fund and the World Bank, as set forth in the 2002-2003 Russian Financial Sector Assessment Program, will be taken into account in the course of the implementation of the Strategy. Upon the achievement of the targets set forth in the Strategy, the next priority for the period 2009-2015 will be the effective positioning of the Russian banking sector on the international financial market.

In December 2004, the Federal Law "On Credit Histories" was passed. This law provides for the establishment, for the first time in the recent history of the Russian Federation, of "credit bureaus" that will maintain a database of borrowers' credit histories. The law requires all credit organizations, starting from September 1, 2005, to provide at least one credit bureau with credit histories of all borrowers that have consented to the distribution of their credit histories. The borrower's credit history will consist both of public and confidential parts and must include, among other things, information on the borrower's outstanding debt and interest thereon, the terms of repayment and legal proceedings involving the borrower in respect of loans and credits. The CBR will supervise the credit bureaus and maintain a general catalogue of credit histories. The new law will become effective on June 1, 2005 and is expected to decrease exposure of lenders to credit risk.

The Russian market and legal framework for mortgages and mortgage-backed securities remains underdeveloped. Efforts are underway to establish a legislative framework for this market. In addition to the Federal Law "On Mortgage-Backed Securities" of November 2003, a number of new legislative proposals are under discussion now. On August 20, 2004, President Putin signed into law amendments to the Tax Code establishing a 9 per cent. tax on income received from mortgage-backed securities. These amendments came into effect on January 1, 2005 and cover securities issued before January 1, 2007. In December 2004, a number of federal laws related to mortgage lending were amended. These laws include, among others, amendments to the Civil Code, the Civil Procedure Code, and the Federal Laws "On Mortgage" and "On Mortgage-Backed Securities".

Description of the Russian Banking Industry

The Russian banking sector consists of Russian credit organizations (banks and non-bank credit organizations) and representative offices of foreign banks. Non-bank credit organizations provide only limited banking services, such as maintaining accounts and making payments, while banks provide a wide range of banking services. The representative offices of foreign banks in practice do not carry out the same operations as Russian licensed credit institutions and their activities are generally limited to facilitating banking operations of their respective parents through representing their interests. The main business areas of Russian banks are taking deposits and maintaining accounts, lending, providing settlement services for commercial and governmental entities and investing in securities.

The Russian banking market is highly fragmented. According to the CBR, as at March 1, 2007, 1,183 banks and other non-bank credit organizations entitled to carry out banking operations were registered in the Russian Federation. As at April 1, 2007, 98.5 per cent. of such entities were profitable, while 1.5 per cent. were not, and a majority of them (598 or more than 51 per cent. of the total) were located in Moscow and the Moscow region. Large regional banks conduct most of their business in the regional capitals and economic centers.

During 2003, 2004, 2005 and 2006, creditors and retail depositors continued to regain their confidence in the Russian banking sector, facilitating an increase in the resource base available to banks. The main source of growth for banks' financial resources has been the increasing number of retail deposits. As at February 1, 2007, the aggregate amount of credit balances on accounts of retail customers in the Russian Federation increased to RUR 3,794 billion as compared to RUR 200.7 billion in July 1998, according to CBR statistics. The second source of growth of financial resources is credit balances on accounts of corporate clients. CBR statistics indicate that the amount of credit balances on accounts of corporate clients increased from RUR 101.2 billion in July 1998 to RUR 2,325 billion by February 1, 2007. The remaining sources of growth of the banking sector's resource base are increasing volumes of issuances of debt securities (primarily promissory notes) and interbank credit operations amounting to RUR 970.7 billion and RUR 660.5 billion, respectively, in as on February 1, 2007 as compared to RUR 41.8 billion and RUR 105.0 billion, respectively, in July 1998. According to the CBR, of the Russian banking sector's total assets as at February 1, 2007, account receivables under credit operations accounted for 64.2 per cent., securities investments accounted for 10 per cent., and credit balances on accounts with the CBR accounted for 3 per cent.

From April through July 2004, the Russian banking system experienced its first serious turmoil since the financial crisis of August 1998. During this period, several Russian banks experienced liquidity problems and were unable to raise funds on the interbank market or from their clients. Simultaneously, these banks faced large withdrawals of deposits by both retail and corporate customers. Several of these banks ceased or severely limited their operations. On May 12, 2004, the CBR withdrew the banking license of Sodbiznessbank for alleged violations of the Money Laundering Law and of its internal anti-money laundering compliance procedures. The CBR subsequently withdrew the banking licenses of three other smaller Russian banks, Credittrust, Kommerchesky Bank Sberezhenyi and Bank Paveletskyi. In June 2004, the CBR reduced its refinancing rate and the rate paid on compulsory reserves with the aim of stabilizing the banking market and to avert a general liquidity crisis. From August to October 2004, Credittrust, Kommerchesky Bank Sberezhenyi and Bank Paveletskyi were held bankrupt by various Russian courts. Guta Bank, one of the largest Russian banks, was acquired by VTB, a bank owned by the Russian Government. See "Risk Factors—Risks Related to the Bank's Business and Industry—Instability of the Russian banking sector may adversely affect the Bank's operations."

According to the CBR, as at January 1, 2007, the equity (capital) of credit institutions grew by 136 per cent. per cent. and reached RUR 1,693 billion, compared to January 1, 2006. CBR statistics also show that balances in customer accounts grew by 146 per cent. per cent. and accounted for 60.3 per cent. of total banking sector liabilities as at January 1, 2007. According to the CBR, as at February 1st, 2007 the total assets of the Russian banking sector were valued at RUR 14,127 billion. Although the volume and amount of lending operations is increasing, Russian banks are focused mainly on short-term financing, due to the lack of long-term financing and insufficient creditworthiness and transparency of Russian entities. That, in turn, has led to the practice of financing through banks affiliated with a financial or industrial group.

The Russian banking sector is characterized by a high level of capital concentration. According to the CBR, as at February 1, 2007, the 200 largest Russian banks held approximately 91 per cent. of the banking sector's total assets. State-owned banks continue to play a vital role in the development of the Russian banking sector. Sberbank remains the largest bank in the Russian Federation in terms of assets, client base and branch offices. Sberbank, benefiting from an indirect state guarantee for deposits placed with it, and the size of its branch network (the largest in Russia), also remains the leader in terms of assets, volume of banking operations, including retail banking operations, client base and number of branch offices. State-owned banks offering retail-banking services include Sberbank and VTB. Other state-owned banks focus primarily on operations with budgetary funds and participate in the realization of governmental programs (e.g., Rosselkhozbank (Russian Agricultural Bank) and Roseximbank (Russian Export Import Bank)).

Although it is not possible for foreign banks to directly conduct business in the Russian financial markets, many major foreign banks have subsidiary banks in the Russian Federation. According to the CBR statistics, as at January 1, 2007, 153 banks and non-bank credit organizations operating in the Russian Federation were controlled by foreign groups. A number of large foreign banks are considering launching retail and SME corporate banking services in the Russian Federation. Foreign controlled banks focus primarily on cash and settlement services to non-residents and interbank operations. Although foreign controlled banks, such as ING Bank (Eurasia) ZAO, International Moscow Bank, Raiffeisen Bank, Citibank and Bank Société Générale Vostok have recently started offering retail-banking services and increased their loan portfolios, however, currently their role in the Russian retail banking sector remains relatively insignificant. Most subsidiaries of foreign banks have a limited clientele (e.g., relatively wealthy residents in Moscow), rely on new technologies that are still not easily available to the general population of the Russian Federation (e.g., touch-tone based telephone banking and Internet banking) and do not seek to develop a local branch network. Although large foreign banks such as Deutsche Bank AG, HSBC and ABN AMRO Bank N.V. have established a presence in the Russian Federation and obtained general banking licenses, they do not take deposits from retail customers and have limited local resources to extend large loans to companies and investment banking services. See also “Banking Industry and Banking Regulation in the Russian Federation.”

According to the CBR, as at March, 1 2007, funds in current accounts, budget accounts and deposits of commercial and governmental entities, liabilities to clients under corporate debt securities as well as other liabilities to clients (excluding retail deposits, other accounts of retail customers, funds in correspondent accounts and interbank loans and deposits) accounted for 39.7 per cent. (RUR 5,710 billion) of the total liabilities of Russian credit organizations, while retail deposits accounted for 27.0 per cent. (RUR 3,914 billion). Loans to customers and other investments (other than in securities) accounted for 69.3 per cent. (RUR 10,041 billion) of all assets of credit organizations, including 43.3 per cent. (RUR 6,266 billion) in loans to companies and other commercial and governmental entities in the non-financial sector and 8.7 per cent. (RUR 1,257 billion) in loans to and deposits with banks. According to the CBR, loans extended by Russian banks to non-financial sector companies rose from 19.8 per cent. of gross domestic product as at January 1, 2006, to 22.4 per cent. as at January 1, 2007.

The Bank believes that, despite the July 2004 banking crisis, the Russian banking system will continue to attract monetary funds from retail customers while the rate of growth of deposits may decrease slightly during 2007. The slower growth rate is related to the fact that those retail customers who, having evaluated the existing situation in the Russian Federation decided to entrust their funds to the banking system, have already done so (thus causing the previous rapid growth of deposits). Although lower interest rates could affect the growth rate of deposits, the Bank expects the growth of deposit to continue due to the overall increase in wages in the Russian Federation.

In 2007, the Bank anticipates that the private deposit structure will still tend towards longer deposit periods and the share of long-term deposits will grow due to higher annual interest rates offered by banks compared to interest rates offered on short-term deposits. The Bank believes that the Deposit Insurance Law, adopted in December 2003, which guarantees individual deposits of up to RUR 400,000 per bank, will not result in significant changes either to the inflow of funds to the banking system or to the redistribution of funds among banks, in particular, between Sberbank and other commercial banks. The Bank believes it is unlikely that customers will split large deposits into a number of deposits (up to RUR 400,000) and spread them among several banks. The Bank also does not believe that there will be significant increases in retail deposits with larger banks as a result of the CBR’s revocation of the banking licenses of smaller banks.

Regulation of the Russian Banking Sector

The main law regulating the Russian banking sector is the Banking Law. Among other things, it defines credit organizations, sets out the list of banking operations and other transactions that may be performed by credit organizations and establishes the framework for the registration and licensing of credit organizations and the regulation of banking activity by the CBR.

The Banking Law names the following services as "banking operations" that require receipt by a credit organization of an appropriate license from the CBR: taking deposits from retail customers and commercial and governmental entities (both demand and term deposits); investing the deposited funds as principal; opening and maintaining bank accounts for retail customers and commercial and governmental entities; performing settlements in accordance with the instructions of retail customers and commercial and governmental entities, including correspondent banks, from/to their bank accounts; handling services and over-the-counter operations with cash, checks, promissory notes and payment documents; services provided to retail customers and commercial and governmental entities; sale and purchase of foreign currency (including banknotes and coins); taking deposits in precious metals and investing them; issuing bank guarantees; and making payments in accordance with the instructions of retail customers without opening bank accounts (excluding payments by post).

The Banking Law provides that a credit organization may be authorized to take deposits from retail customers only after it has been registered for two years. According to the CBR, as at March 1, 2007, 925 banks registered by the CBR had been admitted to participate in the deposit insurance system and authorized to take deposits from to retail customers.

In addition to banking operations, credit organizations are permitted to enter into and perform the following transactions: to give sureties for obligations of third parties contemplating payment in cash; to take assignments of rights to demand payment; to engage in fiduciary management of monetary funds and other property for retail customers and commercial and governmental entities; to engage in operations with precious stones and metals (in accordance with Federal Law No. 41-FZ "On Precious Stones and Precious Metals", dated March 26, 1998, as amended, and implementing regulations); to rent out special premises and safe deposit boxes to retail customers and commercial and governmental entities for safe-keeping of documents and valuables; to finance leasing operations; and to provide information technology and consultancy services. A credit organization may enter into and perform any other transactions in accordance with the relevant legislation of the Russian Federation.

Under the Banking Law, a credit organization cannot engage in production, commodities trading (excluding precious metals) or insurance activities.

On June 18, 2004, the Currency Law came into force replacing almost in its entirety the former Federal Law "On Currency Regulation and Currency Control" of 1992. The Currency Law is generally aimed at the gradual liberalisation of Russian currency control regulations. Pursuant to the Currency Law, the CBR had the power to regulate certain currency operations (including non-banking operations performed by Russian banks) by introducing mandatory reserving and a "special account requirement". As of January 1, 2007, the major remaining restrictions envisaged in the Currency Law (including the "special account requirement") have been abolished.

As part of implementing legislation contemplated by the Currency Law, the CBR passed Directive No. 1425-U of April 28, 2004 which came into force on June 18, 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorized banks and sets forth a list of non-banking transactions between authorized banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non-banking transactions of authorized banks will fall under the general currency control regime applicable to resident legal entities.

General banking licenses allow banks to perform virtually all banking operations set out in the Banking Law in roubles and foreign currency. Banks holding general banking licenses act as "currency control agents" that supervise all operations of their clients in foreign currency and operations of non-Russian clients in roubles and are obligated to report these operations to the CBR. Currently, the amount of export proceeds subject to mandatory conversion is 0 per cent.

Securities dealer, broker and custody services (other than when acting as a paying agent) are not covered by the banking license and a credit organization must obtain specific licenses from the FSFM pursuant to Federal Law No. 39-FZ "On the Securities Market", dated April 22, 1996, as amended (the "Securities Market Law") to perform such services. The operations of Russian banks in the Russian securities market are subject to the Securities Market Law and implementing regulations.

On August 7, 2001, the Money Laundering Law No. 115-FZ was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering. The Money Laundering Law came into effect on February 1, 2002. Credit organizations are required to comply with the provisions of the Money Laundering Law relating to, among other things, customer identification, reporting of suspicious activities and having appropriate standards and procedures in place.

One of the main obligations of banks under the Money Laundering Law is the control function which involves the identification of banks' clients, information gathering with respect to clients' operations and reporting of specific operations to the Federal Service for Financial Monitoring, which acts as the anti-money laundering authority in the Russian Federation. The Money Laundering Law requires that banks control any operations with money or other property if the sum of such operation is equal to or exceeds RUR 600,000 (or its equivalent in foreign currencies) when such operation involves any of the following: cash transactions, transactions when one of the counterparties is resident or has a bank account in a country that does not participate in international efforts to combat money-laundering, making certain bank deposits that do not identify beneficiaries, other similar transactions involving precious stones, precious metals and other property. In addition, banks are required to control any operation involving any individual or organization that is known to participate in terrorist activities, any legal entity they control or their agents. If bank officers suspect that an operation is conducted in order to legalize any funds received as a result of illegal activity or to finance terrorist activities, banks are required to report such operations whether or not they qualify as controlled operations. Banks are not allowed to inform customers that transactions are being reported to the Federal Service for Financial Monitoring.

Credit organizations are subject to specific insolvency procedures, which are set out in the Federal Law "On Insolvency of Credit Organizations", dated February 25, 1999, as amended (the "Bank Insolvency Law"). Among other things, the Bank Insolvency Law provides that, in the event of the winding-up of a credit organization its retail depositors are paid first. Federal Law No. 121-FZ, dated August 20, 2004, which came into force on November 26, 2004, amends certain provisions of the Bank Insolvency Law. The principal changes include: (a) clarification with respect to the period of activity of a temporary administration; (b) amendment to the definition of "transactions at under value" (increasing the number of transactions that may fall within the scope of that definition); (c) certain changes in the creditors' priority ranking in liquidation; and (d) introduction of a detailed procedure for liquidation of credit organizations. These new provisions apply to insolvency proceedings commenced after November 26, 2004.

In December 2003, President Putin signed the Deposit Insurance Law, which introduced a system of insuring private deposits. Insurance of private deposits is now mandatory for all Russian banks that hold a CBR license to attract deposits from retail customers (the "retail banking license"). The Deposit Insurance Law provides for the establishment of a new regulator, Agency for Insurance of Deposits, that is responsible for collecting insurance contributions, managing funds in the mandatory insurance pool, determining insurance premiums and monitoring insurance payments.

Banks that held a valid retail banking license were required, prior to June 27, 2004, to apply to the CBR to become registered as a participant in the mandatory deposit insurance system. A bank must comply with certain regulatory requirements to qualify for participation in the deposit insurance system and must make quarterly payments into a deposit insurance fund. If a bank fails to comply with the applicable requirements and/or chooses not to participate in the deposit insurance system, it will not be permitted to attract deposits from, and open accounts for, retail customers. The basis of the deposit insurance contribution is the quarterly average of daily balances of retail deposits (excluding bearer deposits). Standard contribution premiums cannot exceed 0.15 per cent. of the contribution basis. In certain circumstances, the premium can be increased up to 0.3 per cent. of the contribution basis, but not for more than two quarters per every 18 months. When the size of the insurance fund reaches 5 per cent. of combined retail deposits of all Russian banks, all succeeding contribution premiums cannot exceed 0.05 per cent. of the contribution basis, and when the size of the insurance fund exceeds 10 per cent. of all Russian banks' retail deposits, no contributions need to be made, but they have to resume once the insurance fund has fallen below 10 per cent. Insurance payments from the deposit insurance fund become payable to depositors if the bank's license is revoked or if a moratorium on payments by the bank has been imposed. The Deposit Insurance Law guarantees each depositor repayment of deposits not exceeding RUR 100,000 per bank. The Bank was admitted to the deposit insurance system on October 26, 2004.

The Association of Russian Banks, a private, self-regulating body with over 620 members, offers technical support to its members and lobbies for the interests of commercial banks in various institutions, including the Federal Assembly (the Russian Parliament), the Government and the CBR.

On March 10, 2006, the CBR adopted Instruction No. 128-I "On the Rules of Issue and Registration of Securities of Credit Organizations on the Territory of the Russian Federation" (the "Instruction 128-I"). Instruction 128-I became effective from 8 May 2006 and governs the process of issuance of equity and debt securities by Russian credit organizations.

Amendments to the Civil Code of the Russian Federation have been implemented by the Law on Derivatives. In accordance with the Law on Derivatives, certain transactions with derivative financial instruments became enforceable in Russia, provided that at least one party to the respective transaction has a Russian banking license or a Russian securities market participant's license or a Russian license to deal in the regulated exchange. Persons may become parties to such transactions only if such transaction is made trough a regulated exchange. Previously transactions depending on occurrence of an event which might not happen were deemed wagering contracts and, therefore, were unenforceable in Russia. The Law on Derivatives establishes the minimum legal framework to enable to deal with the derivative financial instruments, including NDFs and various hedging contracts in the Russian market. The Law on Derivatives is viewed very positively by the market participants. The Law on Derivatives entered into force on February 9, 2007.

The Civil Code allows the immediate withdrawal of all retail deposits, including term deposits, at any time. The Finance Ministry of the Russian Federation has recently proposed amendments to the Civil Code prohibiting retail depositors from withdrawing funds held in the form of term deposits prior to their maturity. It is not clear whether and when such amendments will be approved by the State Duma and become law.

The CBR and its Functions

The CBR's main goal is to protect the rouble and provide for its stability. The CBR is also responsible for the development and strength of the Russian banking system and regulates banking activities in the Russian Federation. The status of the CBR as the banking sector's regulator is determined by the Constitution of the Russian Federation and developed by Federal Law No. 86-FZ "On the Central Bank of the Russian Federation (Bank of Russia)", dated July 10, 2002, as amended (the "CBR Law"). The CBR issues licenses that authorize banks to perform a full range of banking operations either both in roubles and foreign currencies or only in roubles, as well as to take deposits from retail customers.

The CBR was established on July 13, 1990 as a successor to the Russian Republican Bank of Gosbank of the USSR (State Bank of the USSR). With the collapse of the USSR in 1991, the CBR inherited the operational facilities and resources of Gosbank of the USSR, including its subsidiaries and branches. According to the CBR Law, the Russian Government is not liable for the CBR's obligations, nor is the CBR liable for the obligations of the Russian Government, unless the relevant liability has been undertaken or is required under other Russian laws. The share capital and other assets of the CBR are federal property. As at March 1, 2007, the CBR's assets amounted to RUR 8,890 billion (U.S.$339.8 billion) at an exchange rate of U.S.$1.00=RUR 26.16) and its gold and currency reserves amounted to U.S.$314.5 billion as at March 1, 2007.

The CBR is a separate legal entity and is legally and financially independent from the Russian Government. Under the CBR Law, the CBR is prohibited from extending credits to the Russian Government and regional and municipal governments for purposes of budget deficit financing.

The management of the CBR consists of the Chairman, the Board of Directors and the National Banking Council, a collegial management body of the CBR that conducts certain supervisory functions, such as making decisions on maximum capital expenditures of the CBR, distribution of its profits, appointment of its auditor and approval of its accounting rules and requirements. The CBR is based in Moscow and also has a number of regional branches in the regions of the Russian Federation (in some of the Russian republics the CBR's regional branches are called National Banks) and local branches. The Chairman of the CBR is nominated by the President of the Russian Federation and appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament). The members of the Board of Directors are nominated by the Chairman of the CBR and are appointed by the State Duma.

The Chairman of the CBR can be replaced under the same procedure governing his nomination and appointment and has the right to participate in the Government (Cabinet) meetings. Of the 12 members of the National Banking Council, two are appointed by the Federation Council (the upper chamber of the Russian Parliament), three are appointed by the State Duma from among its members, three are appointed by the President of the Russian Federation and three are appointed by the Russian Government. The Chairman of the CBR is an *ex officio* member of the National Banking Council.

Under the CBR Law, the Banking Law and the Currency Law, the CBR is authorized to adopt binding regulations concerning banking and currency operations. The CBR has actively used this power in recent years, creating a detailed and extensive body of regulations.

Under current legislation, the CBR has the following major functions:

Function	**Summary**
Issuing money and regulating its circulation	The CBR is the sole issuer of Russian rouble banknotes and it regulates their circulation. The CBR plans and arranges for the printing of banknotes and the engraving of coins, establishes the rules for their transportation and storage and regulates over-the-counter operations with cash. The CBR is prohibited from issuing money and extending credits to the Russian Government for purposes of budget deficit financing.
Financing/monetary policy	The CBR helps banks refinance by granting them short-term credits at a discount rate. It also fixes the banks' reserve requirements, and sets their capital adequacy and similar ratio requirements. The CBR also establishes interest rates for its financings, performs currency interventions, issues its own bonds (which can be offered to credit organizations only) and participates in trading in Russian Government securities.
Transactions with other banks	The CBR renders decisions on the registration of banks, registers securities issued by banks,

Function	Summary
	extends credits to banks, and maintains corresponding accounts of banks in roubles. The CBR also provides cash and settlement services to banks; provides banks with guarantees; purchases and sells Russian Government securities; issues CBR bonds and certificates of deposit; purchases and sells precious metals and natural gems and holds them in depositary accounts; and purchases and sells foreign currencies and foreign currency payment documents issued by Russian and foreign banks.
Implementing the federal budget and internal debt service	Under the CBR Law, the CBR is prohibited from extending loans to the Russian Government in order to finance the state budget deficit. However, the CBR acts as a placement agent with respect to government securities issued by the Finance Ministry of the Russian Federation, maintains budget accounts and acts as an agent for servicing of the Russian Federation domestic state debt.
Exchange controls	The CBR regulates dealing and settlements in roubles, foreign currency operations in the Russian Federation and by Russian residents abroad, administers Russian gold and currency reserves and establishes the regimes for rouble and foreign currency accounts of residents and non-residents in the Russian Federation.
Licensing	The CBR is responsible for issuing, suspending and revoking banking licenses of credit organizations.
Banking control and supervision	The CBR is responsible for monitoring and controlling banks' compliance with ratios and reserve requirements. The CBR imposes administrative sanctions for violations of banking legislation by credit organizations operating in the Russian Federation. The CBR sets out standards for financial, accounting and statistical reporting by credit organizations in the Russian Federation. The CBR appoints the temporary administration of banks that are facing insolvency.

The CBR is authorized to enter into transactions with credit organizations, foreign banks and the Russian Government in order to perform the functions outlined above.

The CBR also has a number of supervisory roles as described below. However, other governmental authorities have indirect influence over credit organizations in the Russian Federation. For instance, the FSFM issues licenses for broker/dealer or custodian operations in the Russian securities market. Tax authorities supervise tax assessments of banks. The FAS controls mergers of credit organizations and acquisitions of more than 25 per cent. of voting stock in a credit organization.

The CBR Regulation of the Russian Banking Sector

Under the CBR Law, the Banking Law and the Currency Law, the CBR is authorized to adopt binding regulations concerning banking and currency operations. The CBR has actively used this power in recent years, creating a detailed and extensive body of regulations. Set out below are some of the principal features of the supervisory regime governing banks in the Russian Federation.

1. Licensing

A CBR license must be obtained for any "banking activity" as defined in the Banking Law. Applicants must be registered in the Russian Federation, submit an application for state registration with an attached feasibility report and present detailed information on the suitability of its management, documents certifying the source of funds contributed by individual to the Charter capital of the credit organization as well as some other information.

Under the Banking Law, a bank can be created in the form of a joint stock company or a limited liability company or company with additional liability. An application for a banking license may be turned down if the foundation documents do not comply with the requirements set out in the Banking Law and the CBR's regulations, the financial or banking records of the founders are unsatisfactory or proposed candidates for chief executive and chief accountant positions do not meet qualification requirements and the business reputation of the members of the board of directors is unsatisfactory.

2. Mandatory Economic Ratios

The CBR is authorized to introduce various capital adequacy and liquidity requirements applicable to banks. Such requirements currently exist in the form of the relevant mandatory economic ratios described in Instruction No. 110-I of the CBR "On the Banks' Mandatory Economic Ratios". Set out below is the system of mandatory economic ratios which banks are required to observe on a daily basis and regularly report to the CBR. Unless stated otherwise, all ratios described below are calculated on the basis of RAR, as formulated by applicable Russian laws and CBR regulations.

Mandatory Economic Ratios	Description	CBR Mandatory Economic Ratio Requirements
Capital adequacy ratio (N1)	This is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base necessary to cover credit and market risks. It is formulated as a ratio of a bank's capital base to its risk-weighted assets. The risk-weighted assets are calculated under a formula that takes into account the bank's capital, select categories of assets, reserves created for possible losses of those assets, credit risk on contingent liabilities, credit risk on forward transactions, as well as risks relating to interest rates, securities markets and currencies, in each case separating the systemic and idiosyncratic factors.	Minimum 11 per cent. (where a bank's capital base is below €5 million) and minimum 10 per cent. (where a bank's capital base is equal to or more than €5 million).
Instant liquidity ratio (N2)	This ratio is intended to limit the bank's liquidity risk within one operational day. It is formulated as the minimum ratio of a bank's highly liquid assets to its liabilities payable on demand.	Minimum 15 per cent.
Current liquidity ratio (N3)	This ratio is intended to limit the bank's liquidity risk within 30 calendar days preceding the date of the calculation of this ratio. It is formulated as the minimum ratio of a bank's liquid assets to its liabilities payable on demand and liabilities with terms of up to 30 calendar days.	Minimum 50 per cent.

Mandatory Economic Ratios	Description	CBR Mandatory Economic Ratio Requirements
Long-term liquidity ratio (N4)	This ratio is intended to limit the bank's liquidity risk from placement of funds into long-term assets. It is formulated as the maximum ratio of the bank's credit claims maturing in more than one year to the sum of its capital base and liabilities maturing in more than one year.	Maximum 120 per cent.
Maximum exposure to a single borrower or a group of related borrowers (N6)	This ratio is intended to limit the credit exposure of a bank to one borrower or a group of related borrowers (defined as persons who belong to the same banking or financial industrial group, are close relatives, or persons who can directly or indirectly materially influence the decisions of legal entity borrowers). It is formulated as the maximum ratio of the aggregate amount of the bank's various credit claims to a borrower (or a group of related borrowers) to its capital base.	Maximum 25 per cent.
Maximum amount of major credit risks (N7)	This ratio is intended to limit the aggregate amount of a bank's major credit risks (defined as the sum of loans to, and guarantees or sureties in respect of, one client that exceeds 5 per cent. of a bank's capital base). It is formulated as the maximum ratio of the aggregate amount of major credit risks to a bank's capital base.	Maximum 800 per cent.
Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1)	This ratio is intended to limit a bank's credit exposure to the bank's owners. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its participants or shareholders, to its capital base.	Maximum 50 per cent.
Aggregate amount of exposure to the bank's insiders (N10.1)	This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (defined as individuals capable of influencing credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims against its insiders to its capital base.	Maximum 3 per cent.
Ratio for the use of the bank's capital base to acquire shares (participation interests) in other legal entities (N12)	This ratio is intended to limit the aggregate risk of a bank's investments in shares (participation interests) of other legal entities. It is formulated as the maximum ratio of the bank's investments in shares (participation interests) of other legal entities to its capital base.	Maximum 25 per cent.

In addition, in May 2004 the CBR passed Regulation No. 112-I that outlines the obligatory ratios for credit organizations that issue bonds secured by mortgages. The regulation provides that the capital adequacy (N1) ratio for such banks should be at least 14 per cent. and establishes new methodologies for calculating the general liquidity ratio (N5). In addition, the regulation details the methods for calculating new ratios that were introduced by the Federal Law "On Mortgage-Backed Securities", such as a minimum ratio of 10 per cent. for loans secured by mortgages to a bank's capital base (N17), a minimum ratio of 100 per cent. for claims relating to principal and interest of loans secured by mortgages to the principal plus interest of issued mortgage-backed bonds (N18) and a maximum ratio of 50 per cent. for a bank's aggregate obligations to creditors who have priority right to satisfy their claims before holders of mortgage-backed bonds (such as a bank's depositors) to a bank's capital base (N19). Banks are required to comply with these special ratios from the time that the decision to issue mortgage-backed bonds is taken until the complete redemption of such bonds. In February 2005, the CBR passed Regulation No. 1549-U that lifted a requirement to comply with the general liquidity ratio (N5).

The capital base of a bank is calculated on the basis of RAR and defined in CBR regulations as the aggregate amount of its main capital (including, *inter alia*, its statutory charter capital, paid-in capital and certain reserve and other internal funds, as well as certain amounts of profit) and additional capital (including, *inter alia*, revaluation surpluses, subordinated loans and certain preferred shares) decreased by certain mandatory reserves and other amounts.

3. Capital requirements

In accordance with recent amendments to the Banking Law, as of January 1, 2007, the own funds must be no less than the Rouble equivalent of EUR 5 million. However, the base capital of existing banks may be lower than EUR 5 million provided that such capital levels do not fall below the capital base of such banks as at January 1, 2007.

The CBR sets minimum equity (charter capital) requirements for banks. Under CBR Directive No. 1755-U of December 11, 2006, the Rouble equivalent of the minimum capital requirement is set each quarter by the CBR based on the euro exchange rate. Those banks whose charter capital exceeds their capital base are required to adjust their capital base (or, if impossible, their charter capital) accordingly. The procedure for reduction of banks' charter capital to adjust the amount of their capital base is established by CBR Directive No. 1260-U of March 24, 2003, as amended.

4. Reporting requirements

Banks must regularly submit their balance sheets to the CBR, together with financial statements showing their financial position. Financial statements must be disclosed to the public by the Bank on a quarterly and yearly basis. Annual financial statements must be publicized only after completion of the audit by an independent auditor. They must also inform the CBR when extending loans exceeding 5 per cent. of the bank’s capital.

Banking groups and consolidated groups (i.e., alliances of commercial and governmental entities in which one bank, directly or indirectly, controls decisions of the governing bodies of the other commercial and governmental entities and non-lending organizations within such alliances) must regularly submit consolidated financial statements to the CBR.

The CBR may, at any time, conduct full or selective checks of a bank’s financial reports, and may inspect all its accounting books and records. In addition, annual audits of banks must be carried out under Russian auditing standards applicable to banks by a licensed auditing company.

5. Reserve requirements

Pursuant to the CBR Law, the Board of Directors of the CBR may establish compulsory reserve requirements for banks in order to ensure their financial stability. Compulsory reserves must be deposited with the CBR and such deposits do not bear interest. If a bank fails to comply with the compulsory reserve requirements, the CBR may impose a fine on the bank and directly debit the bank’s correspondent account with the CBR in respect of the insufficient reserve amounts.

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

Starting from July 2004, the mandatory reserves are calculated by banks in accordance with the CBR Regulation No. 255-P of March 29, 2004 (the “Reserves Regulation”), which changed the method for calculating reserves but not the amounts set by the Board of Directors of the CBR. The Reserves Regulation requires prompt reporting by banks to the CBR and its regional units after the end of each calendar month with a calculation of reserves and, if necessary, prompt posting of additional reserves. The CBR and its regional units have the right to conduct unscheduled audits of credit organization to check compliance with the reserves rules. The Reserves Regulation no longer requires creation of reserves for certain long-term borrowings; however, it requires posting of reserves for short-term obligations to non-resident banks. In addition, credit organizations with good reserves and credit history will be offered a new mechanism that would allow posting of reserves in accordance with certain calculated averages.

Amounts deposited with the CBR in compliance with the compulsory reserve requirements are not subject to arrest or other legal process pursuant to the bank's obligations. If a bank's banking license is revoked, such amounts must be included in the pool of assets available for distribution among the bank's creditors in accordance with Russian legislation.

6. Provisioning

On March 26, 2004, the CBR issued Regulation "On the Procedure for Making Provisions for Possible Losses on Loans, Loan and Similar Indebtedness by Credit Organizations" No. 254-P (as amended) (the "Loan Provisions Regulation"), which among other things establishes:

- an extended list of loans, loan-related debts and debts equated to loan-related debts that are subject to loss provisioning;
- five quality classification categories that replace the four risk groups under the old regulations;
- a new provision to assess loan-related credit risk on a permanent basis;
- new framework requirements for internal documents of a credit organization with respect to the classification of loans and provisioning procedures;
- a new range of rates of allocations to reserves that enable credit organizations to make more accurate assessments of loan-related losses;
- that the principal approach to the assessment of the quality of loans and the determination of the provision amount should be based on professional judgment. Professional judgment must be based on an unbiased complex analysis of the borrower's activities, including its financial condition, the quality of the loan servicing by the borrower and all information on other aspects of the borrower's activities available to the credit organization;
- a recommended list of sources of information that may be used by a credit organization to analyze the borrower's financial condition both as at the date when such loan is extended and during the whole period when such loan remains on the balance sheet;
- a new list of loans that are subject to priority control with respect to the accuracy of assessment thereof and the determination of provisions to be established in accordance with internal controls;
- framework requirements for establishing provisioning procedures with respect to a portfolio or portfolios of similar loans; and
- a simplified procedure for writing off bad debts, especially minor debts, and similar loans joined in a portfolio, to the extent of the existing provisions.

The CBR has also established rules concerning creation of provisions for possible losses, other than loan losses, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward and other transactions. CBR Regulation No. 283-P of March 20, 2006 requires banks to rank such assets and operations into five quality categories 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 for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each quality category indicated above, respectively: (i) 0 per cent.; (ii) 1 per cent. to 20 per cent.; (iii) 21 per cent. to 50 per cent.; (iv) 51 per cent. to 100 per cent.; and (v) 100 per cent.. Banks must report to the CBR on the amounts of non-loan impairment provisions created monthly within ten days following the reporting month. The CBR and its regional units are responsible for monitoring compliance with these rules.

Mandatory provisions must also created for operations with residents of off-shore areas in an amount of up to the higher of (a) 100 per cent. of the amount held on the bank's balance sheet accounts and (b) the average daily turnover with residents of off-shore zones during the last month.

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

7. Regulation of Currency Exposure

In its Instruction No. 124-1 dated 15 July 2005 (which replaced the CBR Instruction No. 41 of 22 May, 1996), the CBR established rules regarding exposure of banks to foreign currency and precious metals (collectively, "currency exposure"), as well as controls over such exposure. Currency exposure is calculated with respect to net amounts of balance sheet positions, spot market positions, forward positions, option positions and positions under guarantees and balancing positions in Roubles. Open currency position is calculated as the sum of all these net amounts. Such exposure is calculated for each currency and each precious metal, and then recalculated into roubles in accordance with the official exchange rates and CBR's prices for precious metals.

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

8. Accounting practices

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

Starting from January 1, 2004, all credit organizations in Russia are required to prepare their accounting reports in accordance with IFRS and submit to CBR in addition to those prepared in accordance with the Russian Accounting Regulations. The Banking Law requires that an independent auditor audit a credit organization's annual financial statements.

9. Subordinated debt

The concept of subordinated debt is set out in the Bank Insolvency Law and Regulation of the CBR No. 215-P "On the Method of Determination of Own Funds (Capital) by Credit Organizations", dated February 10, 2003 (the "Own Funds Regulation"). In accordance with the Bank Insolvency Law and the Own Funds Regulation, a subordinated loan shall satisfy the following criteria:

(i) the term of the subordinated loan is not less than five years;

(ii) the subordinated loan agreement provides for the impossibility of (a) prepayment of the loan (in full or in part) and interest on the loan and (b) early termination of the loan and/or amendments to the loan agreement without the prior consent of the CBR;

(iii) the terms and conditions on which a subordinated loan is granted, including the interest rate and terms of its adjustment, at the moment of entry into (introduction of amendments) to the agreement do not materially differ from the market terms for extending similar loans;

(iv) the subordinated loan agreement provides that upon the borrower's bankruptcy and/or liquidation, the creditors' claims under the subordinated loan may be satisfied upon full satisfaction of claims of all the other creditors of the borrower.

Pursuant to the Own Funds Regulation, a subordinated credit (loan) may be included in the sources of additional capital if the loan agreement provides for the following possibilities:

(a) prepayment under the credit (loan) agreement at the discretion of the borrower not earlier than 5 years after the date of inclusion of the subordinated credit (loan) in the sources of net worth of the borrower (including instances where the loan agreement simultaneously provides for the possibility of interest rate adjustment in case of non-prepayment by the borrower and establishes parameters for the interest rate adjustment) and/or

(b) prepayment under the credit (loan) agreement only in case of introduction of amendments to Russian legislation having "material adverse effect on the terms of the agreement for the parties to the agreement" after the date of entry into the relevant loan agreement.

Pursuant to the Own Funds Regulation, the CBR refuses to grant its consent for the inclusion of funds received under a credit (loan) agreement in the additional capital of the borrower if (i) the credit (loan) is secured and (ii) an individual is a party to the credit (loan) agreement.

A loan that satisfies all of the above criteria may be qualified as a subordinated loan, and pursuant to the Own Funds Regulation, shall be accounted for by the credit organizations as additional capital. Additional capital and principal capital constitute the own funds of the credit organization. Additional capital may not exceed 100 per cent. of principal capital, subject to principal capital not being negative. Aggregate amount of subordinated loans of the credit organization may not exceed 50 per cent. of the principal capital.

The Own Funds Regulation provides that the amount of the subordinated loan may be included in the calculation of the bank's own funds on the date following the approval of the subordinated loan by the local office of the CBR. Such approval is granted only after the borrower receives proceeds of the loan, subject to the confirmation by the local office of the CBR that the subordinated loan agreement meets all requirements of the Own Funds Regulation.

Although the Civil Code does not define a concept of debt subordination, the Bank Insolvency Law recognizes statutory subordination of creditors under subordinated debt arrangements in the event of a bank's insolvency. Pursuant to Article 50.36(6) of the Bank Insolvency Law, in such event, the claims of the subordinated creditors are ranked behind claims of all unsubordinated creditors listed in the creditors' register.

Specific Regulations Relating to the Bank

The Bank was established as an open joint stock company in accordance with Resolution No. 105-RM of the Mayor of the City of Moscow "On the Establishment of the Moscow Municipal Bank", dated March 2, 1995 ("Resolution 105-RM"), by way of reorganization of Open Joint Stock Company "Mosraschetbank". Under Resolution 105-RM, the Committee for the Management of Property and the Property Fund of the City of Moscow were required to acquire 51 per cent. of the shares of the Bank. Resolution 105-RM also approved the amended Charter and the organizational structure of the Bank.

In accordance with Resolution No. 610-RM of the Mayor of Moscow "On the Additional Measures for Improvement of the System of Placement and Performance of City Contracts", dated July 3, 2001, the Bank should be used as a financial consultant and as an agent for loans made from the City of Moscow budget and for special purpose financings of the City of Moscow. In 1998, the City of

Moscow introduced the Muscovite Social Card program. Under the regulations implementing this program, the Bank was designated as the authorized bank to open and maintain accounts of customers enrolled into the program.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with a Common Code of 029918325. The International Securities Identification Number ("**ISIN**") for the Notes is XS0299183250.

2. It is expected that the listing of the Notes on the Official List of the UK Listing Authority and admission of the Notes to trading on the Gilt-Edged and Fixed Interest Market of the London Stock Exchange will be granted on or about May 11, 2007 subject to the issue of the Notes and the execution of the Subordinated Loan Agreement. 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 Subordinated Loan Agreement and the other documents to be entered into by the Bank in relation to the issue of the Notes have been approved and authorized by resolutions at meetings of the Management Board of the Bank dated April 20, 2007.

4. The Subordinated 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 authorized by resolution at a meeting of the Board of Directors of the Issuer dated May 4, 2007.

5. There has been no significant change in the financial or trading position of the Bank or the Bank and its subsidiaries taken as a whole (the "Group") which has occurred since December 31, 2006 and there has been no material adverse change in the prospects of the Bank or the Group since December 31, 2006.

6. There has been no significant change in the financial or trading position of the Issuer which has occurred since December 31, 2006 and no material adverse change in the financial position or prospects of the Issuer since December 31, 2006. The Issuer has no subsidiaries.

7. Save for the fees payable to the Managers, 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. The Bank has obtained all necessary consents, approvals and authorizations in Russia in connection with its entry into, and the performance of its obligations under, the Subordinated Loan Agreement.

9. The Issuer has obtained all necessary consents, approvals and authorizations in connection with the Subordinated 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, authorizations 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 Subordinated 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 either the Issuer or the Bank is aware) during the previous twelve months in relation to the Bank and the Issuer, which may have, or have had in the recent past, significant effects on the Issuer's or the Bank's and/or the Group'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 consolidated balance sheet and consolidated statements of income, cash flows and changes in equity of the Bank as of and for the years ended December 31, 2006 and 2005 were audited without qualification or disclaimer by BDO Unicon. The business address of BDO Unicon is 125/1, Warshavskoye shosse, Moscow, Russia, 117545.

14. Since the date of incorporation, the Issuer has not commenced operations other than with respect to the issue and sale of the U.S.$250,000,000 8 per cent. Loan Participation Notes due 2009, the U.S.$300,000,000 7.375 per cent. Loan Participation Notes due 2010, the U.S.$500,000,000 7.335 per cent. Loan Participation Notes due 2013 and the U.S.$300,000,000 7.5 per cent. Subordinated Loan Participation Notes due 2015. The financial statements of the Issuer for the years ended December 31, 2006, December 31, 2005 and December 31, 2004 were audited without qualification or disclaimer by Ernst & Young S.A. The business address of Ernst & Young S.A. is 7, Parc d'Activité Syrdall, L-5365 Münsbach, Luxembourg.

15. 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 and Transfer Agent in London during usual business hours on any weekday (Saturdays and public holidays excepted) for as long as the Notes are outstanding:

    (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 the Bank;

    (d) the audited consolidated financial statements, including the audit report thereon, of the Bank in respect of the financial years ended December 31, 2006, and 2005 and the audited financial statements, including the audit report thereon, of the Issuer in respect of the financial year ended December 31, 2006;

    (e) the Subordinated 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, acting through its New York office, will act as Registrar in relation to the Notes. A register of the Notes shall also be kept at the registered office of the Issuer. In case of inconsistency between the register kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer shall prevail.

17. The loan to value ratio of the Notes is 100 per cent.

18. BNY Corporate Trustee Services Limited 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 the 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, BNY Corporate Trustee Services Limited 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 the 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 the Bank) appointed a new trustee, the trustee shall have the power of appointing new trustee(s).

19. Neither the Issuer or the Bank have entered into any material contracts outside the ordinary course of their businesses which could result in them being under an obligation or entitlement that is material to their ability to make payments under the Subordinated Loan Agreement or the Notes, as the case may be.

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BDO Unicon
Auditors and Consultants

Closed joint-stock company

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Independent Auditors' Report

To the Shareholders and the Board of Directors of Joint Stock Commercial Bank – Bank of Moscow (Open Joint Stock Company)

We have audited the accompanying consolidated financial statements of the Group of Joint Stock Commercial Bank –Bank of Moscow (Open Joint Stock Company), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group of Joint Stock Commercial Bank – Bank of Moscow (Open Joint Stock Company) as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Elena Kopanyova
Deputy General Director
FCCA

27 March 2007
BDO Unicon Inc.
125, Warshavskoye shosse, Moscow, Russian Federation

(in thousands of Russian Roubles)

	Notes	2006	2005
Assets			
Cash and cash equivalents	5	43 652 648	19 917 291
Mandatory cash balances with central banks		6 299 853	4 173 467
Financial assets at fair value through profit or loss	6	37 161 141	29 776 069
Due from other banks	7	29 268 411	13 866 124
Loans to customers	8	256 042 074	163 248 173
Financial assets available for sale	9	423 127	6 149 849
Investments in associates and non-consolidated subsidiaries	10	740 826	200 363
Goodwill	31	583 385	-
Other assets	11	1 470 493	914 626
Tax assets	23	37 474	415 915
Premises and equipment, and intangible assets	12	6 579 363	7 107 556
Total assets		**382 258 795**	**245 769 433**
Liabilities			
Due to other banks	13	38 015 274	21 153 375
Customer accounts	14	259 501 118	168 524 857
Debt securities issued	15	50 645 407	29 076 284
Other liabilities	16	1 298 680	2 565 889
Tax liabilities	23	828 963	745 289
Total liabilities		**350 289 442**	**222 065 694**
Equity			
Share capital	18	14 786 839	14 226 839
Share premium	18	2 346 400	-
Treasury shares	18	(11 483)	(11 483)
Fair value reserve for financial assets available for sale		549	2 035
Revaluation reserve for premises and equipment		358 183	646 596
Accumulated exchange differences		(64 005)	(15 475)
Retained earnings		14 130 359	8 632 145
Equity attributable to the shareholders of the parent bank		**31 546 842**	**23 480 657**
Minority interest	17	**422 511**	**223 082**
Total equity		**31 969 353**	**23 703 739**
Total liabilities and equity		**382 258 795**	**245 769 433**

Yu. G. Maksutov — Financial Director

L. N. Davydova — Chief Accountant

27 March 2007

(in thousands of Russian Roubles)

	Notes	2006	2005
Interest income	19	27 614 770	17 864 061
Interest expense	19	(13 533 691)	(8 405 072)
Net interest income		**14 081 079**	**9 458 989**
Provisions for impairment of due from other banks and loans to customers	7, 8	(1 345 906)	(645 336)
Net interest income after provision for impairment of due from other banks and loans to customers		**12 735 173**	**8 813 653**
Gains less losses arising from financial assets at fair value through profit or loss and available for sale		139 817	48 260
Gains less losses from dealing in foreign currency		1 675 088	612 006
Foreign exchange translation gains less losses		(781 031)	(147 794)
Fee and commission income	20	3 829 792	2 483 090
Fee and commission expense	20	(695 164)	(450 264)
Dividends received		18 294	30 435
Provision for impairment of financial assets available for sale	9	3 916	80 968
Provision for impairment of other assets	11	12 160	(11 535)
Provision for impairment of cash and cash equivalents	5	-	7 901
Net income		**16 938 045**	**11 466 720**
General and administrative expenses	21	(9 339 044)	(6 381 538)
Contributions to the Deposit Insurance Fund		(410 543)	(287 000)
Other operating income less expenses	22	417 341	533 785
Monetary loss		-	(881)
Operating income		**7 605 799**	**5 331 086**
Share in net income/(net loss) of associates	10	11 731	(9 252)
Net share in other movements in the associates' equity on shares issued	10	-	112
Net share in other movements in equity of non-consolidated subsidiaries		(5 262)	(8 854)
Net (loss)/gain on acquisition and sale of subsidiaries and associates	31	16 332	(90 878)
Profit before taxation		**7 628 600**	**5 222 214**
Income tax expense	23	(1 851 076)	(1 197 345)
Net profit		**5 777 524**	**4 024 869**
Net profit attributable to the shareholders of the parent bank		5 623 602	4 010 287
Net profit attributable to minority interest	17	153 922	14 582
Basic earnings per share (EPS) (RUR per share)	**24**	**46.92**	**34.13**

The notes set out on pages 9 to 66 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	2006	2005
Cash flows from operating activities		
Interest received	26 070 727	17 622 603
Interest paid	(12 618 527)	(8 155 153)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	578 885	656 118
Gains less losses from dealing in foreign currency and precious metals	1 673 941	483 158
Fees and commissions received	3 829 792	2 481 840
Fees and commissions paid	(694 816)	(449 976)
General and administrative expenses paid, other operating income received less expenses, and contributions to the Deposit Insurance Fund	(8 715 492)	(5 470 878)
Income tax paid	(1 219 370)	(1 452 606)
Cash flows from operating activities before changes in operating assets and liabilities	**8 905 140**	**5 715 106**
Net (increase)/decrease in operating assets		
Mandatory cash balances with central banks	(2 126 386)	(1 112 621)
Financial assets at fair value through profit or loss and available for sale	(1 069 690)	(7 715 615)
Due from other banks	(15 586 502)	1 306 552
Loans to customers	(94 475 960)	(70 615 647)
Investments in associates, non-consolidated subsidiaries and other assets	(579 329)	(353 471)
Net increase/(decrease) in operating liabilities		
Due to other banks	14 115 495	13 797 870
Customer accounts	88 661 983	45 601 992
Debt securities issued	3 807 330	(1 805 532)
Other liabilities	(785 078)	2 046 430
Net cash flows from operating activities	**867 003**	**(13 134 936)**
Cash flows from investing activities		
Acquisition of subsidiaries and associates	(27 017)	(102 432)
Disposal of subsidiaries and associates	12 512	19 011
Purchase of premises and equipment	(1 031 933)	(675 979)
Proceeds from sale of premises and equipment	127 736	152 329
Dividends received	17 215	29 166
Net cash flows from investing activities	**(901 487)**	**(577 905)**
Cash flows from financing activities		
Issue of ordinary shares	2 906 400	-
Purchase of treasury shares	-	(11 483)
Eurobonds issued by the Bank	18 415 126	16 931 866
Subordinated loan received	2 627 590	-
Dividends paid (Note 25)	(161 963)	(93 112)
Net cash flows from financing activities	**23 787 153**	**16 827 271**
Effect of exchange rate changes on cash and cash equivalents	(17 524)	(22 784)
Changes in cash and cash equivalents on acquisition of subsidiaries	212	428 842
Net change in cash and cash equivalents	**23 735 357**	**3 520 488**
Cash and cash equivalents at the beginning of the year (Note 5)	19 917 291	16 396 803
Cash and cash equivalents at the end of the year (Note 5)	**43 652 648**	**19 917 291**

The notes set out on pages 9 to 66 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

		Equity attributable to the shareholders of the parent bank							Minority interest	Total equity
	Note	Share capital	Share premium	Treasury shares	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated exchange differences	Retained earnings		
Balance as at 31 December 2005		**14 226 839**	**-**	**(11 483)**	**2 035**	**646 596**	**(15 475)**	**8 632 145**	**223 082**	**23 703 739**
Share issue										
- nominal value		560 000	-	-	-	-	-	-	-	560 000
- share premium		-	2 346 400	-	-	-	-	-	-	2 346 400
Revaluation at fair value of financial assets available for sale		-	-	-	549	-	-	-	-	549
Realised gain on revaluation at fair value of financial assets available for sale charged to the consolidated statement of income		-	-	-	(2 035)	-	-	-	-	(2 035)
Depreciation of revaluation reserve for premises and equipment		-	-	-	-	(1 975)	-	1 975	-	-
Revaluation write off due to disposal of premises and equipment less deferred taxation		-	-	-	-	(286 438)	-	-	-	(286 438)
Exchange differences arising from translation of investments in foreign subsidiary banks		-	-	-	-	-	(48 530)	-	1 159	(47 371)
Dividends declared for the year 2005	17, 25	-	-	-	-	-	-	(127 363)	(34 607)	(161 970)
Net profit for the year 2006		-	-	-	-	-	-	5 623 602	153 922	5 777 524
Change in minority interest on acquisition of subsidiaries	17	-	-	-	-	-	-	-	78 955	78 955
Balance as at 31 December 2006		**14 786 839**	**2 346 400**	**(11 483)**	**549**	**358 183**	**(64 005)**	**14 130 359**	**422 511**	**31 969 353**

The notes set out on pages 9 to 66 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

		Equity attributable to the shareholders of the parent bank						Minority interest	Total equity
	Note	**Share capital**	**Treasury shares**	**Fair value reserve for financial assets available for sale**	**Revaluation reserve for premises and equipment**	**Accumulated exchange differences**	**Retained earnings**		
Balance as at 31 December 2004		**14 226 839**	**-**	**(154 196)**	**637 532**	**(16 232)**	**4 705 592**	**73 692**	**19 473 227**
Purchase of treasury shares	18	-	(11 483)	-	-	-	-	-	(11 483)
Revaluation at fair value of financial assets available for sale		-	-	2 833	-	-	-	-	2 833
Realised gain on revaluation at fair value of financial assets available for sale charged to the consolidated statement of income		-	-	153 398	-	-	-	-	153 398
Restatement of premises and equipment due to hyperinflation		-	-	-	17 518	-	-	-	17 518
Depreciation of revaluation reserve for premises and equipment		-	-	-	(8 454)	-	8 454	-	-
Exchange differences arising from translation of investments in foreign subsidiary banks		-	-	-	-	757	-	-	757
Dividends declared for the year 2004	25	-	-	-	-	-	(92 678)	-	(92 678)
Effect of hyperinflation		-	-	-	-	-	818	-	818
Net profit for the year 2005		-	-	-	-	-	4 010 287	14 582	4 024 869
Change in minority interest on acquisition of subsidiaries	17	-	-	-	-	-	-	134 460	134 460
Change in minority interest on disposal of subsidiaries		-	-	-	-	-	20	-	20
Change in minority interest due to share issue by a subsidiary bank	17	-	-	-	-	-	(348)	348	-
Balance as at 31 December 2005		**14 226 839**	**(11 483)**	**2 035**	**646 596**	**(15 475)**	**8 632 145**	**223 082**	**23 703 739**

The notes set out on pages 9 to 66 are an integral part of these consolidated financial statements.

1. Principal Activities of the Group

These consolidated financial statements comprise the financial statements of Joint-Stock Commercial Bank – Bank of Moscow (open joint stock company) (hereinafter the «Bank» or the «Bank of Moscow») and its subsidiaries. The Bank and its subsidiaries are jointly referred to as the «Group» or «Group of the Bank of Moscow». The list of subsidiaries and associates included in these consolidated financial statements is disclosed in Note 3.

The Bank of Moscow is a joint stock commercial bank registered in the Russian Federation. The Bank of Moscow was set up in March 1995 through reorganisation of Moscow Settlement Bank registered in the Russian Federation in 1994.

The Bank operates under General Banking License No. 2748 issued by the Central Bank of the Russian Federation (hereinafter the Central Bank of RF or the Bank of Russia) on 14 October 2004. The Bank also holds licenses of the professional securities market participant and a license for trading in precious metals.

The principal activities of the Bank and its subsidiaries are corporate and retail banking services, brokerage transactions and investment services on the territory of the Russian Federation and abroad.

Provision of services to individuals makes up a considerable portion of the Bank's operations. The Bank is the third largest Russian bank by the volume of customer accounts attracted from individuals and is second best by the number of private clients.

The Bank's principal shareholder is the Government of the City of Moscow. The share of the Government of the City of Moscow and its controlled entities in the Bank's share capital as at 31 December 2006 constitutes 59.96% (2005: 62.17%).

The Bank is registered at the following address: 8/15 Rozhdestvenka Str., Moscow, Russian Federation.

As at 31 December 2006, the Bank had 309 divisions on the territory of the Russian Federation and 5 subsidiary banks: in the Russian Federation (Moscow) – OJSC Mosvodokanalbank, Group's interest of 50.1%; in the Republic of Belarus (Minsk) – Foreign Bank Moscow-Minsk, Group's interest of 100.0%; in the Republic of Latvia (Riga) – JSC Latvian Businessbank (AS Latvijas Biznesa Banka), Group's interest of 99.87%; in the Republic of Estonia (Tallinn) – Estonian Credit Bank (Eesti Krediidipank), Group's interest of 65.67%; in the Republic of Ukraine (Kiev) – BM Bank LLC, Group's interest of 100.0%.

The Bank's head office is located in Moscow. Over 80% of the Bank's operations are concentrated in the head office. The Bank's 101 branches and sub-branches are located in all administrative districts of Moscow and in large towns of Moscow region. The Bank is the financial agent of the Government of the City of Moscow for investment programs and is the authorised dealer for bonds issues of the City of Moscow. The Bank is an active participant of a number of Moscow financial and industrial programs. It provides services to most municipal and commercial organisations, which participate in the implementation of Moscow Government programs.

As at 31 December 2006, the Bank of Moscow regional network comprised 51 branches and 157 sub-branches located on the territory of the Russian Federation (as at 31 December 2005: 43 branches and 104 sub-branches). The subsidiary bank – Foreign Bank Moscow-Minsk – has 5 branches and 9 sub-branches located on the territory of the Republic of Belarus (as at 31 December 2005: 3 branches and 3 sub-branches). The subsidiary bank – JSC Latvian Businessbank (AS Latvijas Biznesa Banka) has 1 sub-brunch located on the territory of the Republic of Latvia (as at 31 December 2005: 1 sub-branch). Estonian Credit Bank (Eesti Krediidipank) has 8 branches and 6 sub-branches located on the territory of the Republic of Estonia (as at 31 December 2005: 8 branches and 6 sub-branches).

On 27 October 2005, the international rating agency Moody's Investors Service issued the long- and short-term foreign currency deposit ratings of the Bank of Moscow at the level "Baa2/Prime-2", correspondingly. The ratings outlook was assessed as «stable». Moody's reconfirmed Bank's rating on 6 December 2006.

On 1 August 2006 the international rating agency Fitch Ratings upgraded the Bank's long-term credit rating from «BBB-» to "BBB"; other Bank's ratings were confirmed at the following levels: short-term credit rating – "F3", support rating – "2", the ratings outlook - as "stable".

In 2006 the average number of the Group employees was 8 974 (2005: 6 415).

2. Operating Environment of the Group

General

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. Though since 2002 the Russian economy has been recognised to be the market economy and a number of main reforms aimed at establishment of banking, judicial, tax and legislative systems have been implemented the business and legislative framework do not possess the same level of stability as in the countries with more developed economy.

(in thousands of Russian Roubles)

In 2004 the Bank joined the Deposit Insurance System. The activities of the Deposit Insurance System are provided for by federal laws and regulations. It is managed by the state corporation Deposit Insurance Agency. The limit of coverage of the Bank's liabilities to private customers is up to RUR 190 thousand (from April 2007 – up to RUR 400 thousand) per each depositor in the event of bankruptcy or withdrawal of the license for banking operations by the Central Bank of Russia.

Currently, the economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include:

- relatively high inflation rates during a number of years;
- low level of liquidity on capital markets.

Inflation

Russia continues to experience relatively high but decreasing levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended	Inflation for the period
31 December 2006	9.0%
31 December 2005	10.9%
31 December 2004	11.7%
31 December 2003	12.0%
31 December 2002	15.1%

Currency transactions and currency control

Foreign currencies, in particular the US dollar and EUR, play a significant role in measuring economic parameters of many business transactions in Russia.

The table below shows the exchange rates of RUR relative to USD and EUR:

Year ended	USD	EUR
31 December 2006	26.3311	34.6965
31 December 2005	28.7825	34.1850
31 December 2004	27.7487	37.8104
31 December 2003	29.4545	36.8240
31 December 2002	31.7844	33.1098

The Central Bank of Russia has introduced currency control regulations designed to promote the commercial utilisation of the Russian Rouble, however, certain steps are taken to make the Russian Rouble fully convertible.

In 2006 Russia lifted restrictions that were previously in force on the conversion of Roubles into hard currencies and mandatory requirements for conversion of hard currency revenue to Roubles as well as restrictions on capital transactions abroad. At the same time, the Central Bank of Russia takes strict measures aimed at counteracting the legalisation of criminally derived incomes and the financing of black economy and terrorism.

Financial market transactions

Economic conditions in the Russian Federation continue to limit the volume of activity in the financial markets. Market quotations may not reflect the values of financial instruments, which would be determined in an active market on transactions at an arm's-length basis between knowledgeable and willing counterparties. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

Russia's investment attractiveness and reduced macroeconomic risks and inflationary expectations were confirmed by the investment ratings awarded to the Russian Federation by the follow world rating agencies: Moody's (25 May 2006: award of "A2" rating with stable outlook), Fitch Ratings (17 August 2006: award of «BBB+» rating with stable outlook), Standard & Poor's (4 September 2006: award of "BBB+" rating with stable outlook). In the year 2006 amendments in the legislation of Russian Federation were introduced giving equal rights to residents and non-residents as regards acquisition of Russian banks' shares. Permission of the Central Bank of Russia for the acquisition of shares is required only if investments are over

20% of the capital of credit organizations. If the amount of investments is over 1% of the capital of a credit organization the Central Bank of Russia should be notified of the transaction made.

Signing of a protocol on the completion of negotiations with the USA on Russia's entry into the World Trade Organization (WTO) was an important event of 2006 affecting all sectors of the economy. The protocol includes a number of significant aspects for the national banking system of Russia, namely: prohibition on opening of branches of foreign financial institutions in Russia is confirmed and a quota on the share of non-residents is set at the rate of 50% of the total capital of the banking system of Russia.

The accompanying consolidated financial statements reflect the Group management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future economic development of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the Government and other factors including regulatory and political developments, which are beyond the Group's control. The Group's management cannot predict the impact of the above factors on the financial position of the Bank and the Group. The accompanying consolidated financial statements do not include the adjustments associated with this risk.

3. Basis of Presentation

General principles

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) including all previously adopted standards and interpretations of the International Accounting Standards Board. The Group maintains its accounting records in accordance with the applicable legislation of the Russian Federation and of the countries where its subsidiary companies and banks are domiciled. These consolidated financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS. The Group subsidiary companies and banks domiciled outside of the Russian Federation independently prepare their financial statements in accordance with IFRS, which are subsequently consolidated into the Group's consolidated financial statements. Accounting policies of the subsidiaries were adjusted where necessary in order to comply with accounting policies of the Group.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on the information available at the date of these consolidated financial statements. Actual results may differ from those estimates and assumptions.

The most material are estimates used to determine a provision for impairment of financial assets, useful lives of premises and equipment and the amount of off-balance sheet risks and contingent liabilities.

Reporting currency

The Group conducts the major part of its operations in the Russian Roubles. As the Russian Rouble is the national currency of the Russian Federation, it was selected as reporting currency. All amounts in these consolidated financial statements are stated in thousands of Russian Roubles (unless otherwise stated).

Foreign subsidiary companies and banks are considered to be business units of the Group conducting overseas operations, which are an integral part of the Group's business. Therefore, the reporting currency of the Group (Russian Roubles) is used as reporting currency of the above banks, regardless of the fact that it is not the currency of the countries in which the said subsidiary companies and banks operate.

International Financial Reporting Standards applied

In 2006 the Group applied current International Financial Reporting Standards, including all previously adopted standards and interpretations issued by SIC and IFRIC.

Where necessary, corresponding figures have been adjusted to conform to changes in the presentation of the current year.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

IFRSs and IFRIC interpretations not yet effective

The Group has not applied the following IFRSs and Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that have been issued but are not yet effective:

IFRS 7 "Financial Instruments: Disclosures" (effective from 1 January 2007);

Amendment to IAS 1 "Presentation of Financial Statements" – "Capital Disclosures" (effective from 1 January 2007);

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006, i.e. from 1 January 2007);

IFRIC 8 "Scope of IFRS 2» (effective for annual periods beginning on or after 1 May 2006, i.e. from 1 January 2007);

IFRIC 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006, i.e. from 1 January 2007);

IFRIC 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006, i.e. from 1 January 2007);

IFRIC 11 "IFRS 2: Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007, i.e. from 1 January 2007);

IFRIC 12 "Service Concession Arrangements" (effective for annual periods beginning on 1 January 2009).

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application, except for new disclosures under IFRS 7, which will allow consolidated financial statement users to assess the significance of financial instrument transactions for the Group, the nature and extent of risks arising from financial instruments as well as objectives, policies and procedures used by the Group for equity management.

The Group is currently assessing the impact which IFRS 7 and the amendments to IAS 1 will have on disclosures in its consolidated financial statements.

Subsidiaries

Subsidiary undertakings (including special purpose entities, SPE) are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies.

The existence and effect of potential voting rights (stock options) that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Acquisition of subsidiaries

The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the date of acquisition, when the business combination of the companies is made by one transaction; and the date of each share purchase if the business combination of the companies occurs in stages by successive share purchases. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the date of acquisition, irrespective of the extent of any minority interest.

The excess of the cost of the acquisition over the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of the acquisition is less than the Group's share in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Minority interest

Minority interest is the share of the subsidiary that is not owned by the Group. Minority interest at the reporting date is minority's portion of the net fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of the acquisition and post-acquisition changes in the equity of the subsidiary. Minority interest is recorded within equity.

(in thousands of Russian Roubles)

The companies included in the Group's consolidated financial statements are set out below:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
Foreign Bank Moscow-Minsk	Republic of Belarus	Banking services	100.00	2000
BM Bank LLC	Republic of Ukraine	Banking services	100.00	2005
CJSC Imagine	Russia	Financial services	100.00	1996
CJSC Altruist	Russia	Financial services	100.00	1996
CJSC Press Magnate	Russia	Publishing	100.00	1996
CJSC DOSSOM	Russia	Catering	100.00	2001
CJSC Vechernyaya Moskva	Russia	Publishing	100.00	1997
CJSC Bank of Moscow management company	Russia	Financial services	100.00	2002
CJSC Stroiportinvest	Russia	Financial services	100.00	2006
AS Latvijas Biznesa Banka	Republic of Latvia	Banking services	99.87	2002
LLC Selkhozstroi	Russia	Machine-building and equipment	99.00	2006
LLC PO Montazh	Russia	Machine-building and equipment	99.00	2006
AS Eesti Krediidipank	Republic of Estonia	Banking services	65.67	2005
AS Martinoza	Republic of Estonia	Real estate management	65.67	2005
AS Krediidipanga Liising	Republic of Estonia	Leasing	65.67	2005
CJSC Vechernyaya Moskva	Russia	Publishing	57.00	1997
CJSC Financial Assistant	Russia	Financial services	50.67	2006
OJSC Mosvodokanalbank	Russia	Banking services	50.10	1997
OJSC International Asset Management Company	Russia	Financial services	50.00	2003

Kuznetski Capital S.A. founded for special purposes (Eurobonds issue) and registered in Luxemburg was also included in these consolidated financial statements.

Where the companies do not have a significant influence on the consolidated financial statements of the Group they are not consolidated. These companies are reflected within investments in associates and non-consolidated subsidiaries and are accounted for by the equity method of accounting.

Following is a list of the companies, which were not included into consolidated financial statements:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
BM Holding LTD	Switzerland	Financial services	100,00	1998
Private security company Yaroslavna, LLC	Russia	Security	100,00	1999
CJSC Stolichnaya Neftyanaya Kompania	Russia	Production	75,00	2005
Editorial office of MK-Boulevard magazine, LLC	Russia	Publishing	50,00	2002

Transactions eliminated on consolidation

Transactions, balances and unrealised gains on transactions between participants of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Associates

Associates are entities over which the Group has from 20% to 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control. Investments in associates are accounted for under the equity method and are initially recognised at cost. Under this method, the Group's share of its associates' post-acquisition profits or losses is recognised in consolidated statement of income and its share in post-acquisition changes in net assets is recognised in equity. The cumulative post-acquisition movements of the Group's share in the associates are adjusted against the carrying amount of the investment. The Group's investment in associates includes goodwill (net of any accumulated impairment losses) identified on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it is obliged or made payments on behalf of the associate.

(in thousands of Russian Roubles)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, the accounting policies of the associates were adjusted to comply with the accounting policies of the Group.

Below is the list of the Group's associates:

Name	Location	Business activity	Percentage of ownership	Year of acquisition
City Center for Data Processing (EIRTS), LLC	Russia	Maintenance of software and hardware	49.50	2005
VM-Service, LLC	Russia	Logistics	48.50	2002
JSCB Russky Zemelny Bank	Russia	Banking services	31.00	1999
OJSC Moscow Insurance Company	Russia	Insurance	24.83	2006
CJSC Automated Banking Technologies	Russia	Software	20.02	2006
JSCB Russian National Commercial Bank	Russia	Banking services	20.00	1999

Effect of changes in the presentation format

Certain corresponding figures reported in the consolidated balance sheet as at 31 December 2005 and consolidated statement of income for the year then ended were reclassified to conform to the financial reporting format of 2006.

Amount	Before reclassification	After reclassification
Consolidated statement of income		
8 914	Other operating income less expenses, item "Net proceeds from factoring transactions"	Interest income, item "Loans to customers"
47 988	Other operating income less expenses, item "Income from fiduciary activities"	Commissions from fiduciary activities
17 519	Fee and commission income, item "Commissions on transactions with securities"	Commissions from fiduciary activities
Consolidated balance sheet		
25 709	Tax assets*	Other assets
2 169 669	Premises and equipment, and intangible assets**	Loans to customers

* Tax assets related to other taxes (other than income tax) were reclassified into other assets.

** In the previous years the Group reclassified loans in the amount of RUR 2 169 669 thousand issued to associates for construction of buildings to be used by the Group into premises and equipment (construction in progress). In 2006 the Group took a decision not to use these buildings. Thus the stated amount was reclassified back into loans to customers. Certain corresponding figures reported as at 31 December 2005 were reclassified to conform to the financial reporting format of the year 2006. The above reclassification did not affect the consolidated statement of income.

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents are assets, which can be converted into cash within a day and consist of cash on hand, precious metals, correspondent and current account balances of the Group. All short-term interbank placements are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents.

Gold and other precious metals are recorded at current CBR prices. Differences between the contractual prices of a certain transaction and the CBR prices at the date of the transaction are included in other operating income less expenses in the consolidated statement of income. Any gains or losses on assets and liabilities denominated in gold and other precious metals arising from a change in CBR prices are recognised as other operating income less expenses in the consolidated statement of income.

Cash and cash equivalents do not include mandatory cash balances held with central banks.

Mandatory cash balances with central banks

Mandatory cash balances with central banks represent mandatory reserve deposits with the CBR and central banks of other countries where the Group entities are residents. They are not available to finance the Group's day-to-day operations.

Financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans to customers;
- financial assets available for sale.

The Group determines the classification of its financial assets at initial recognition. Subsequent reclassifications are allowed only in cases stipulated by IFRS.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party; and
- the Group either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. If the transferee has no practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the transfer, the entity has retained control.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lowers of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets at fair value through profit or loss

Financial assets recorded at fair value through profit or loss include trading securities and derivative financial instruments, unless they are designated as hedges.

Trading securities represent securities acquired for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Group classifies securities as trading securities when it intends to sell them within a short period of time after purchase, i.e. within 12 months. Trading securities are not reclassified out of this category even when the Group's intentions subsequently change.

Trading securities are initially recognised at cost which includes transaction costs and subsequently remeasured at fair value. The fair value of trading securities is calculated either based on their market quotations or using various valuation procedures based on the assumption that these securities could be sold in future. If there is no reliable information about market quotations or there is reasonable assurance to suppose that closing Group's position may impact on market prices, the fair value is determined based on the market quotations at similar financial instruments circulated on different markets, or the management's valuation of probable trading securities income during the definite period of time based on the assumption that current market conditions are retained. In determining market value, all trading securities are valued at the last weighed average trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

All related realised and unrealised gains and losses are recorded within gains less losses arising from financial assets at fair value through profit or loss in the consolidated statement of income in the period in which they occur. Interest earned on trading securities is reflected in the consolidated statement of income as interest income. Received dividends are recorded within dividends received.

All purchases and sales of trading securities that require delivery within the time frame established by legislation or market convention («regular way» purchases and sales) are recognised at trade date, which is the date when the Group commits to purchase or sell the asset. Otherwise, such transactions are treated as financial derivatives until settlement.

Loans to customers, provision for loan impairment

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available for sale;
- those for which the holder may not recover substantially all of its initial investment, other than because of credit worthiness deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market interest rates on similar loans in effect at origination date.

Loans to customers are recorded when cash is advanced to borrowers.

If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

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

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts.

A provision for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount of the loan, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate on this loan.

Objective evidence that a loan is impaired includes observable data that comes to the attention of the Group about one or more of the following events:

- significant financial difficulty of the borrower;
- a breach of contract by the borrower, such as a default or delinquency on interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- available information indicating that there is a measurable decrease in the estimated future cash flows from loans since the initial recognition of those assets.

When a loan is uncollectible, it is written off against the related provision for loan impairment recorded in the consolidated balance sheet. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provisions for impairment of due from other banks and loans to customers in the consolidated statement of income. The decrease of the provision is credited to the provision for loan impairment in the consolidated statement of income.

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least ninety days). When a loan is placed on non-accrual status, accrued interest on these loans is not recognised in the consolidated statement of income. A non-accrual loan may be restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment in full within a period determined by loan agreement.

Due from other banks

The Group adopts accounting policies applicable to loans to customers and provision for loan impairment in respect of the Group's placements with other banks.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, due from other banks or loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are classified as investment securities which management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group's management determines the appropriate classification of financial assets at the time of purchase.

Financial assets available for sale are initially recognised at cost (which includes transaction costs) and are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Group's management on the basis of results of recent sales of similar financial assets to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies, including independent appraisal.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the consolidated statement of changes in equity. When financial assets available for sale are disposed of, the related accumulated unreleased gains and losses are included in the consolidated statement of income as gains less losses arising from financial assets at fair value through profit or loss and available for sale. Impairment of previously remeasured assets is reported on equity accounts within the revaluation reserve for financial assets available for sale which was set up earlier.

Impairment and recovery of previously impaired value of financial assets available for sale are reported in the consolidated statement of income. If there is an impairment of non-quoted financial assets available for sale, the provision is determined in the amount of an impairment loss (the amount by which the carrying amount of an asset exceeds its recoverable amount).

A financial asset available for sale is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably measured. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about one or more of the following events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- available information indicating that there is a measurable decrease in the estimated future cash flows from financial assets since the initial recognition of those assets.

Interest earned on financial assets available for sale is reflected in the consolidated statement of income as interest income. Dividends received are reflected as dividends received.

All regular way purchases and sales of financial assets available for sale are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as forward transactions until settlement.

Repurchase and reverse repurchase agreements and lending of securities

Sale and repurchase agreements ("repo" agreements) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are recorded in the consolidated balance sheet within financial assets at fair value through profit or loss or financial assets available for sale. The corresponding liability is presented within amounts due to other banks or customer accounts. Securities purchased under agreements to resell ("reverse repo" agreements) are recorded as due from other banks or loans to customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

Securities lent by the Group to counterparties continue to be recognised in the Group's consolidated financial statements as securities. Securities borrowed are not recorded in the Group's consolidated financial statements. When these securities are sold to third parties, the financial result from sale and purchase of such securities is recognised in the consolidated statement of income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded at fair value as financial liabilities.

Goodwill

Goodwill represents future economic benefits from assets that are not capable of being separately identified and recognised. Goodwill acquired in a business combination is recorded in the consolidated balance sheet as an asset at the date of purchase.

Goodwill acquired in a business combination is initially recognised at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment, as well as when there are indications of impairment. If such indications exist, the Group performs an impairment analysis to evaluate recoverability of the carrying amount of goodwill. Goodwill is written off when the carrying value of goodwill exceeds its recoverable amount.

The excess of the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition is recognised in the consolidated statement of income as income.

Premises and equipment

Premises and equipment are stated at acquisition cost adjusted for inflation or at revalued amounts, as indicated below, less accumulated depreciation and impairment provision, where required. At each reporting date the Group assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to the consolidated statement of income.

Premises and equipment of the acquired subsidiary are initially recorded in the consolidated balance sheet at the estimated fair value at the date of acquisition.

Premises of the Group are revalued. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. Revaluation reserve for premises and equipment shown within equity is credited directly to retained earnings when revaluation surplus is realised, that is when the related asset is written off or sold by the Group. When the asset is sold, the amount of this realised surplus is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's initial cost.

Premises were revalued to current market prices as at 31 December 2002. Valuation was made by a independent appraiser. Market value was used as a basis of appraisal.

Gains and losses on disposal of premises and equipment are determined based on their carrying amount and are recognised in the consolidated statement of income as general and administrative expenses. Repairs and maintenance are charged to the consolidated statement of income when the expense is incurred.

Construction in progress is carried at cost adjusted, where necessary, for inflation less impairment provision. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification. Depreciation of an asset begins when it is available for use and ceases when the asset is derecognized.

Depreciation

Depreciation of premises and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets using the following rates:

- Premises 1% – 5% per annum; and
- Computers and office equipment and other equipment 10% – 25% per annum.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets

Intangible assets include computer software, licences and other identifiable intangible assets acquired in a business combination.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 3 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end.

Intangible assets with indefinite useful lives are not amortised, but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenses that enhance or extend the performance of the software beyond its original specifications are recognised as capital expenditures and added to the original cost of the software. Costs of software development recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

Financial liabilities

In accordance with requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement” financial liabilities are classified either as financial liabilities at fair value through profit or loss or other financial liabilities depending on the situation. Group’s management determines the appropriate classification of financial liabilities upon initial recognition. Other financial liabilities are reflected at amortised cost.

Financial liabilities of acquired subsidiaries are initially recorded in the consolidated balance sheet at the estimated fair value at the date of acquisition without requirements in respect of estimation stipulated regulations of IAS 39.

Financial liabilities are classified as financial liabilities at fair value through profit or loss if acquired for the purpose of sale or settlement in the near term. Usually trade financial liabilities or short-term trade positions on securities are included in these financial liabilities. Derivative financial instruments with negative fair value are also classified as financial liabilities at fair value through profit or loss, except when they are designated as hedging instruments. Gains and losses arising from financial liabilities at fair value through profit or loss are reflected in the consolidated statement of income.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

Borrowings (due to other banks and customer accounts)

Borrowings, which include amounts due to other banks and customer accounts are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method, and the related expense is recorded as interest expense within the consolidated statement of income using the effective interest method.

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gains arising from early retirement of debt.

Debt securities issued

Debt securities issued include promissory notes, certificates of deposit and bonds issued by the Group. Debt securities issued are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities issued are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the life of the security using the effective interest method.

If the Group purchases its own debt securities issued, they are classified depending on the purpose of their acquisition. If the purpose is early repayment of debt, such debt securities are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gains arising from early retirement of debt.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards and swaps. Such financial instruments are held for trading and are initially recognised in accordance with the policy for initial recognition of financial instruments and are subsequently measured at fair value. Fair values are obtained from quoted market prices, discounted cash flow models, or the spot rate at the year-end, as appropriate. Derivatives are carried as financial assets when their fair value is positive and as financial liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of income as gains less losses from financial assets (liabilities) at fair value through profit or loss.

Changes in the fair value of derivative financial instruments are included in gains less losses from dealing in foreign currency and gains less losses arising from financial assets at fair value through profit or loss, depending on the nature of the instrument.

The Group does not enter into derivative instruments for hedging purposes.

Operating lease - the Group as lessee

Where the Group is the lessee, payments made under operating leases are charged by the Group to the consolidated statement of income on a straight-line basis over the period of the lease. Where the operating lease is terminated prior to its expiration date, any penalty payable to the lessor is recognised as expense in the period the operating lease was terminated.

Operating lease - the Group as lessor

The Group presents assets subject to operating leases in the consolidated balance sheet according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of income on a straight-line basis over the lease term as other operating income. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are added to the carrying amount of the leased asset.

Finance lease - the Group as lessee

The Group recognizes finance leases as assets and liabilities in the consolidated balance sheet at the date of commencement of the lease term at amounts equal to the fair value of the leased property. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The costs identified as directly attributable to activities performed by the lessee for a finance lease, are recognised as an asset under the lease.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Share capital

Contributions to share capital made before 1 January 2003 are recorded at cost adjusted for inflation and contributions to share capital made after 1 January 2003 are recorded at cost.

Share premium

Share premium represents the excess of contributions over the nominal value of the shares issued. Gains and losses arising from sale of own shares are recognized as share premium.

Treasury shares

Where the Bank or its subsidiaries purchase the Bank's share capital, the consideration paid including any attributable incremental external costs is deducted from equity as treasury shares until they are cancelled or disposed of. Where such shares are subsequently disposed of, any consideration received is included in the equity. Treasury shares are recognized at acquisition cost.

Dividends

Dividends are recognised in equity in the period in which they are declared.

Dividends declared after the balance sheet date are disclosed in the notes to the consolidated financial statements within events after the balance sheet date. Net profit of the reporting year reflected in the statutory financial statements is the basis for payment of dividends and other appropriations.

Payments of dividends are limited by retained earnings determined in accordance with legislation of the Russian Federation.

Contingencies

Contingent liabilities are not recognised in the consolidated balance sheet but are disclosed in consolidated financial statements unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated balance sheet but disclosed when an inflow of economic benefits is probable.

Credit related commitments

In the normal course of business the Group enters into credit related commitments, including letter of credits, guarantees and undrawn credit lines. Specific provisions are recorded by the Group against credit related commitments when losses are considered probable. Credit lines used subjects to additional factors are not included in credit related commitments.

Taxation

Income tax expense is recorded in the consolidated financial statements in accordance with the applicable legislation of the Russian Federation and of other countries where the Group subsidiaries operate. The income tax charge in the consolidated statement of income comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted at the consolidated balance sheet date.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns.

Deferred income tax is calculated, using the balance sheet liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for consolidated financial statements. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted in this period or are substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are netted separately for each entity of the Group.

Deferred tax related to fair value re-measurement of financial assets available for sale, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the consolidated statement of income, when the respective financial assets are sold.

Deferred tax assets and liabilities arise in respect of temporary differences on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Russia and other counties where the Group's subsidiaries operate also have various operating taxes, that are assessed on the Group's activities. These taxes are included in the consolidated statement of income as general and administrative expenses.

Income and expense recognition

Interest income and expense are recorded in the consolidated statement of income for all interest instruments on an accrual basis using the effective interest method based on the actual purchase price. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, early repayment). The calculation includes all commission and fees paid or received by the parties of the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Interest income includes coupons earned on fixed-income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions and other income are credited to income when the related transactions are completed. Commissions and fees arising from negotiating a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the consolidated statement of income. Investment portfolio and other management and advisory service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied to services related to property management, financial planning and custody services that are continuously provided over an extended period of time. Non-interest expenses are recognised at the time the products are received or the service is provided. Accrued interest and expense, including accrued coupon and accrued discount, are recorded within the carrying amounts of the related assets and liabilities.

Foreign currency translation

Foreign currency transactions are accounted for at the official exchange rate of CBR in effect at the transaction date. Exchange difference arising from foreign currency transactions is reported in the consolidated statement of income at the exchange rate current at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into the Russian Roubles at the CBR official exchange rate ruling at the consolidated balance sheet date. Foreign exchange gains and losses resulting from debt securities and other monetary financial assets carried at fair value are included within foreign exchange translation gains less losses. Translation differences on non-monetary items, such as equities classified as financial assets at fair value through profit or loss or financial assets available for sale, are reported as part of the fair value gain or loss. Therefore, translation difference on equity securities recorded within financial assets available for sale is included in the fair value reserve for financial assets available for sale within Group equity.

Balances of foreign subsidiaries are restated into Russian Roubles at the official exchange rate of CBR at the reporting date. Statements of income and cash flows are restated into Russian Roubles at the average exchange rate of appropriate currency for the reporting period. Translation differences arising on restatement of net investments in foreign entities into Russian Roubles are shown within Group equity. When a foreign entity is sold, the related translation difference is recognised as part of income or expense from the disposal of this entity in the consolidated statement of income.

As at 31 December 2006, the official exchange rates applied for restatement of account balances denominated in foreign currencies were:

- RUR 26.3311 = USD 1 (as at 31 December 2005 : RUR 28.7825);
- RUR 34.6965 = EUR 1 (as at 31 December 2005: RUR 34.1850);
- RUR 12.2906 = BYR 1000 (as at 31 December 2005: RUR 13.3634);
- RUR 49.6684 = LVL 1 (as at 31 December 2005: RUR 48.8045);
- RUR 22.1301 = EEK 10 (as at 31 December 2005: RUR 21.7251);
- RUR 52.1987 = UAH 10 (as at 31 December 2005: RUR 56.7232).

At present, the Russian Rouble is not a convertible currency in most countries outside of the Russian Federation.

Fiduciary activities

Assets held by the Group in its own name, but for the account of third parties under depository, agency, trust management and other similar agreements are not reported in the Group's consolidated balance sheet. Commissions received from such operations are shown within fee and commission income in the consolidated statement of income.

(in thousands of Russian Roubles)

Accounting for the effects of hyperinflation

Effective from 1 January 2003, the Russian Federation no longer meets the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies". So, beginning from 1 January 2003, the Group has ceased applying IAS 29 to reporting periods and recognises the cumulative impact of hyperinflation indexing through 31 December 2002 on non-monetary elements of the consolidated financial statements. Monetary items and results of operations for subsequent reporting periods are reported at actual, nominal amounts.

Before the year 2006 the only Group entity which operated under hyperinflationary economy was Foreign Bank Moscow-Minsk (Minsk, Republic of Belarus). In the year 2006 the official inflation rate in the Republic of Belarus was 6.6% decreasing permanently during the last five years. Accordingly, in the year 2006 Belarus is not considered a hyperinflationary economy. Therefore, adjustments and reclassifications made before for the purposes of IFRS presentation include the restatement, in accordance with IAS 29 for changes in the purchasing power of the Belarus Rouble as at 31 December 2005. The restatement for changes in the purchasing power of the Belarus Rouble in accordance with IAS 29 has not been made since 1 January 2006.

The restatement was calculated using the conversion factors derived from the Belarus Consumer Price Index («CPI»). The conversion factors for the five years ended 31 December 2006 are the following:

Year	Conversion factor
2002	1.35
2003	1.25
2004	1.14
2005	1.06
2006	1.00

Provisions

Provisions are recorded in the consolidated financial statements when the Group has an obligation (legal or arising from the existing business practice) incurred prior to the reporting date, 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 amount of the obligation can be made. If the amount of such an obligation is significant, the provision will be determined by discounting the expected future cash flows with the use of a pre-tax discount rate which reflects current market assessments of the time value of money and, where applicable, inherent risks in this obligation.

Staff costs

Salaries and bonuses to employees are recognised in the consolidated financial statements on an accrual basis.

Social funds costs

The Group pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are recorded on an accrual basis. UST comprises contributions to the Russian Federation state pension, social insurance, and obligatory medical insurance funds in respect of the Group's employees. The Group subsidiaries, which operate on the territory of other countries, make the respective contributions in accordance with the local legislation. The Group does not have pension arrangements separate from the state pension system of the Russian Federation or alternative pension plans for its employees.

Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing either products or services (business segment), or in providing products and services within particular economic environment (geographical segment). In the consolidated financial statements, segments with a majority of revenue earned from sales to external customers and whose revenue, net profit or assets are ten percent or more of all the segments are reported separately.

The Group's major activity is banking business. The impact of the Group's other companies (non-banks) on the structure of the Group's assets, liabilities and profits is insignificant.

The Group's banking business can be divided into three core segments: treasury, corporate and retail business. Each segment is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

(in thousands of Russian Roubles)

Over 95% of the Group's banking business is concentrated in the Russian Federation, where the Bank of Moscow, the Group's parent company, is situated. The remaining business is conducted in Latvia, Estonia, Belarus and Ukraine.

5. Cash and Cash Equivalents

	2006	**2005**
Cash on hand	14 102 971	8 847 974
Precious metals	102 175	120 187
Cash balances with the central banks (other than mandatory reserve deposits)	23 769 489	5 829 663
Correspondent accounts with other banks:		
- the Russian Federation;	1 619 411	1 596 289
- other countries	4 058 602	3 523 178
Total cash and cash equivalents	**43 652 648**	**19 917 291**

(in thousands of Russian Roubles)

Movements in the provision for impairment of cash and cash equivalents are as follows:

	2006	2005
Provision for impairment of cash and cash equivalents as at 1 January	**-**	**7 901**
Recovery of provision for impairment of cash and cash equivalents during the year	-	(7 901)
Provision for impairment of cash and cash equivalents as at 31 December	**-**	**-**

Geographical analysis and analysis of cash and cash equivalents by currency structure, maturities and analysis of interest rates are disclosed in Note 27.

6. Financial Assets at Fair Value through Profit or Loss

	2006	2005
Rouble-denominated securities		
Corporate bonds	13 189 150	4 827 848
Russian Federation bonds (OFZ)	11 258 120	7 473 856
Equity securities	4 533 361	2 453 950
Bonds of RF subjects and local authorities	1 966 544	4 182 342
Corporate promissory notes	505 383	1 074 256
Bonds of the Central Bank of Russia	10	-
	31 452 568	**20 012 252**
US dollar denominated securities		
Federal currency bonds (OVGVZ)	2 275 699	3 070 641
Eurobonds of the Russian Federation	1 024 243	4 750 550
Corporate eurobonds	784 966	842 847
Equity securities	247 287	69 489
	4 332 195	**8 733 527**
Other currency denominated securities		
Bonds of foreign governments	1 209 404	923 333
Corporate bonds	126 345	75 283
Equity securities	28 063	29 722
	1 363 812	**1 028 338**
Derivative financial instruments	12 566	1 952
Total financial assets at fair value through profit or loss	**37 161 141**	**29 776 069**

OFZ are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2006, OFZ in the Group's portfolio have maturity dates from 10 September 2008 to 29 August 2018, coupon rates ranging from 6.0% to 10.0% per annum in the year 2006 and yield to maturity from 5.8% to 6.48% per annum, depending on the type of bond issue.

Bonds of the Central Bank of Russia are Rouble-denominated non-coupon bearing securities issued by the CBR. As at 31 December 2006, CBR bonds have the CBR offer to buy-out on 15 June 2007 and yield to offer of 0.85%.

Corporate bonds are represented by Rouble denominated interest-bearing securities issued by large Russian companies and quoted on the MICEX, and bonds of large Ukraine entities and Latvian credit institutions. As at 31 December 2006, these bonds in the Group's portfolio have maturities from 18 January 2007 to 15 June 2018, coupon rates ranging from 6.67% to 14.84% per annum in the year 2006 and yield to maturity ranging from 6.08% to 15.18% per annum, depending on the issue.

Eurobonds of the Russian Federation are US dollar denominated securities issued by the Ministry of Finance and quoted on international markets. As at 31 December 2006, eurobonds in the Group's portfolio have maturity dates from 26 June 2007 to 31 March 2030, coupon rates ranging from 5.0% to 11.0% per annum and yield to maturity ranging from 5.5% to 6.4% per annum, depending on the type of bond issue.

(in thousands of Russian Roubles)

Bonds of RF subjects and local authorities represent Rouble-denominated interest-bearing securities quoted on the MICEX. As at 31 December 2006, these bonds in the Group's portfolio have maturities from 21 April 2007 to 24 June 2015, coupon rates ranging from 8.0% to 12.0% per annum and yield to maturity ranging from 1.55% to 8.07 % per annum, depending on the issue.

OVGVZ are US dollar denominated interest-bearing securities guaranteed by the Ministry of Finance of the Russian Federation. These securities have annual coupon of 3.0%. As at 31 December 2006, OVGVZ in the Group's portfolio have maturity date on 14 May 2008 and annual yield to maturity of 5.66%.

Equity securities are represented by shares of large Russian companies quoted on the MICEX and Russian Trade System (RTS), and deposit receipt on shares of large Russian entities quoted on the London and New York stock exchanges.

Bonds of foreign governments are represented by bonds of Germany, Belarus, the Netherlands, Latvia and Ukraine.

Corporate promissory notes are Rouble-denominated notes of large Russian banks and construction holding OJSC Glavmosstroy. As at 31 December 2006, promissory notes in the Group's portfolio have maturities from 16 January 2007 to 30 January 2010 and yield to maturity ranging from 4.5% to 8.2% per annum, depending on the issue.

Corporate eurobonds are represented by interest-bearing securities denominated in USD, issued by large Russian companies and quoted on international markets. As at 31 December 2006, corporate eurobonds in the Group's portfolio have maturity dates from 24 October 2009 to 15 June 2011, coupon rates ranging from 7.97% to 10.0% per annum in the year 2006 and yield to maturity ranging from 6.44% to 10.23% per annum, depending on the issue.

Financial assets at fair value through profit or loss comprise securities provided as collateral under sale and repurchase agreements (REPO). As at 31 December 2006, the fair value of these securities amounts to RUR 318 456 thousand , adequate liabilities recorded in customer accounts in Note 14 (as at 31 December 2005: RUR 4 475 732 thousand, adequate liabilities recorded in due to other banks in Note 13).

Geographical analysis and analysis of financial assets at fair value through profit or loss by currency structure, maturities and analysis of interest rates are disclosed in Note 27.

7. Due from Other Banks

	2006	2005
Current loans and deposits with other banks (other than with the Central Bank of Russia)	23 426 616	12 805 243
Reverse repo agreements with other banks	5 848 524	874 704
Overdue placements with other banks	2 549	2 633
Deposits with the Central Bank of Russia	-	198 765
Less: provision for impairment of due from other banks	(9 278)	(15 221)
Total due from other banks	**29 268 411**	**13 866 124**

As at 31 December 2006, securities acquired under reverse repo agreements comprise corporate shares with the fair value of RUR 1 105 908 thousand (2005: RUR 841 364 thousand), corporate bonds with the fair value of RUR 2 915 348 thousand (2005: RUR 63 363 thousand), municipal bonds with the fair value of RUR 501 968 thousand (2005: none) and debt securities of the Ministry of Finance with the fair value of RUR 1 912 269 thousand (2005: none).

Movements in the provision for impairment of due from other banks for the year are as follows:

	2006	2005
Provision for impairment of due from other banks as at 1 January	**15 221**	**70 878**
Recovery of provision for impairment of due from other banks during the year	(5 943)	(55 657)
Provision for impairment of due from other banks as at 31 December	**9 278**	**15 221**

As at 31 December 2006, the Group had deposits and current account balances over RUR 100 000 thousand with 18 banks. Total amount of balances on current accounts and deposits with these banks equalled RUR 22 716 626 thousand or 78% of the aggregate amount of due from other banks.

(in thousands of Russian Roubles)

As at 31 December 2005, the Group had deposits and current account balances over RUR 100 000 thousand with 15 banks. Total amount of balances on current accounts and deposits with these banks equalled RUR 11 167 987 thousand or 81% of the aggregate amount of due from other banks.

Geographical analysis and analysis of due from other banks by currency structure, maturities and interest rates are disclosed in Note 27. The Group provided a number of loans to related parties. The relevant information on related party transactions is disclosed in Note 30.

8. Loans to Customers

	2006	2005
Current loans	244 849 502	163 470 985
Reverse repo agreements with clients	12 966 465	1 253 931
Overdue loans	1 562 515	537 778
Total loans to customers (gross)	**259 378 482**	**165 262 694**
Less: provision for loan impairment	(3 336 408)	(2 014 521)
Total loans to customers	**256 042 074**	**163 248 173**

As at 31 December 2006, securities acquired under reverse repo agreements comprise corporate shares with the fair value of RUR 17 166 248 thousand (2005: RUR 1 389 963 thousand), corporate bonds with the fair value of RUR 3 885 194 thousand (2005: RUR 15 141 thousand), municipal bonds with the fair value of RUR 1 789 147 thousand (2005: RUR 60 246 thousand) and debt securities of the Russian Ministry of Finance with the fair value of RUR 448 584 thousand (2005: none).

Movements in the provision for loan impairment for the year are as follows:

	2006	2005
Provision for loan impairment as at 1 January	**2 014 521**	**1 294 880**
Provision for loan impairment	1 351 849	700 993
Increase in the provision for loan impairment on acquisition of the subsidiary	-	18 801
Exchange rate changes	297	-
Loans to customers written off during the year as uncollectible	(30 259)	(153)
Provision for loan impairment as at 31 December	**3 336 408**	**2 014 521**

Structure of the Group's loan portfolio by type of ownership are as follows:

	2006		2005	
Type of ownership	**Amount**	**%**	**Amount**	**%**
Loans to non-state entities and organisations	208 697 170	80.5	135 152 742	81.8
Loans to individuals	36 576 979	14.1	15 072 756	9.2
Loans to enterprises in federal ownership	6 544 842	2.5	6 832 992	4.1
Loans to RF subjects	5 400 775	2.1	3 779 120	2.3
Loans to enterprises owned by the Government of the City of Moscow	1 966 989	0.7	4 211 388	2.5
Loans to enterprises in regional (municipal) ownership (other than the Government of the City of Moscow)	191 727	0.1	213 696	0.1
Total loans to customers (gross)	**259 378 482**	**100.0**	**165 262 694**	**100.0**

(in thousands of Russian Roubles)

Economic sector concentrations within the Group's loan portfolio are as follows:

	2006		2005	
	Amount	**%**	**Amount**	**%**
Financial and other services	46 809 867	18.0	32 452 778	19.6
Construction	43 081 197	16.6	30 515 252	18.5
Manufacturing	42 835 070	16.5	30 761 965	18.6
Individuals	36 578 656	14.1	15 072 756	9.1
Trade	34 607 624	13.3	22 558 858	13.7
Fuel and energy sector	19 770 017	7.6	10 475 613	6.3
Transport and communications	8 276 820	3.2	5 479 130	3.3
Metallurgy	7 682 954	3.0	3 356 617	2.0
State agencies	5 400 775	2.1	3 779 119	2.3
Science	4 474 737	1.7	4 189 213	2.5
Food	3 858 138	1.5	2 154 824	1.3
Agriculture and fishing	427 347	0.2	461 778	0.4
Other	5 575 280	2.2	4 004 791	2.4
Total loans to customers (gross)	**259 378 482**	**100.0**	**165 262 694**	**100.0**

As at 31 December 2006, the Group granted loans to ten major borrowers with the aggregated amount equal to RUR 47 193 626 thousand or 18.2 % of the gross loan portfolio (2005: RUR 27 863 608 thousand or 17.1 % of the gross loan portfolio). Provision for the above loans amounted to RUR 277 987 thousand (2005: RUR 168 968 thousand).

The Group accepts as a collateral against commercial loans to customers quoted and unquoted securities and other items of property. The information on this collateral is presented in the table below. The Group is allowed to sell and transfer the collateral unless it contradicts the contractual provisions.

	2006	2005
Guarantees	186 432 040	115 287 866
Property	181 970 146	52 903 346
Securities	100 653 251	127 961 465
Collateral received	**469 055 437**	**296 152 677**

Geographical, currency, maturity and interest rate analyses of loans to customers are disclosed in Note 27. The Group has provided a number of loans to related parties. The relevant information on loans of related parties are given in Note 30.

9. Financial Assets Available for Sale

	2006	2005
Equity securities	318 983	408 733
Corporate debt securities	100 806	5 755 551
Corporate eurobonds	13 857	-
Less: provision for impairment of financial assets available for sale	(10 519)	(14 435)
Total financial assets available for sale	**423 127**	**6 149 849**

Equity securities mainly represent shares and equity holdings of Moscow enterprises: OJSC Pushkinskaya Ploshchad Polygraphic Company, as well as shares of regional commercial banks JSCB Zarechiye and JSCB Bank of Khakasia.

As at 31 December 2006, corporate debt securities represent bonds issued by Ukrainian companies.

As at 31 December 2005, corporate debt securities represent CLN issued by Barclays Bank PLC for securitization of a syndicated loan in the amount of USD 7.5 billion provided to state-owned company OJSC Rosneftegaz against 49% of OJSC Rosneft shares pledged as collateral. As at 31 December 2005 the above debt securities were sold under sales and repurchase agreement. CLN were redeemed on 24 July 2006. Monthly coupon rate is LIBOR+1.55% per annum.

USD-denominated corporate eurobonds are issued by JSC Vympel-Communications. Corporate eurobonds have maturity date on 11 February 2010, coupon rate of 8% and yield to maturity of 8.15%.

(in thousands of Russian Roubles)

Movements in the provision for impairment of financial assets available for sale are as follows:

	2006	2005
Provision for impairment of financial assets available for sale as at 1 January	**14 435**	**95 404**
Recovery of provision for impairment of financial assets available for sale during the year	(3 916)	(80 968)
Decrease in provision for impairment on sale of subsidiary	-	(1)
Provision for impairment of financial assets available for sale as at 31 December	**10 519**	**14 435**

Geographical analysis, analysis of financial assets available for sale by currency and maturity, as well as analysis of interest rates are disclosed in Note 27.

10. Investments in Associates and Non-Consolidated Subsidiaries

	2006	2005
Investments in associates	722 895	179 946
Investments in non-consolidated subsidiaries	17 931	20 417
Total investments in associates and non-consolidated subsidiaries	**740 826**	**200 363**

Movements in the carrying value of investments in associates during the year are as follows:

	2006	2005
Carrying value as at 1 January	**179 946**	**898 825**
Share in net profit/(loss) of the associates	11 731	(9 252)
Net share in other changes in associates' equity due to share issue	-	112
Transfer from the financial assets available for sale	13 497	-
Fair value of the increase in the share of the associates	11 326	35 021
Acquisition/(disposal) of associates and their reclassification as subsidiaries	506 395	(744 760)
Carrying value as at 31 December	**722 895**	**179 946**

Below is the list of investments in associates:

	2006		**2005**	
Company	**Amount of investment**	**% of control**	**Amount of investment**	**% of control**
OJSC Moscow Insurance Company *	506 395	24.8	-	-
JSCB Russian National Commercial Bank	133 850	20.0	117 370	20.0
JSCB Russky Zemelny Bank	57 887	31.0	62 576	31.0
CJSC Automated Banking Technologies *	24 763	20.0	-	-
City Centre for Data Processing (EIRTS), LLC	-	49.5	-	49.5
VM-Service, LLC	-	48.5	-	48.5
Total investments in associates	**722 895**		**179 946**	

* In the year 2006 the Group acquired control over CJSC Financial Assistant and these companies became associates in the reporting year. Information on acquisition of subsidiaries and associates is disclosed in Note 31.

(in thousands of Russian Roubles)

Below is the list of investments in non-consolidated subsidiaries:

	2006		2005	
Company	**Amount of investment**	**% of control**	**Amount of investment**	**% of control**
Yaroslavna, LLC *	14 952	75.3	8 049	50.0
Editorial office of MK-Boulevard magazine, LLC	1 753	50.0	9 229	50.0
BM Holding LTD	1 226	100.0	3 129	100.0
CJSC Stolichnaya Neftyanaya Kompania **	-	75.0	-	100.0
CJSC Investlesprom **	-	-	10	100.0
Total investments in non-consolidated subsidiaries	**17 931**		**20 417**	

* The Group's interest in the company's share capital increased by 25.3 % after the Group acquired control over CJSC Financial Assistant in 2006. Information on acquisition of subsidiaries is disclosed in Note 31.

** During the year 2006 investments in share capitals of these companies were sold. Information on disposal of subsidiaries is disclosed in Note 31.

Financial statements of the above subsidiaries were not included into the Groups' consolidated financial statements, as they would not have a material effect on the consolidated financial statements (less than 0.1% from total assets and net profit of the Group both for the year 2006 and the year 2005).

11. Other Assets

	2006	2005
Receivables and prepayments	730 262	419 396
Prepaid expenses	454 770	429 382
Plastic cards receivables	119 951	169
Premises and equipment transferred to the Group as loan repayments	112 492	-
Tax demand (other than income tax)	19 177	25 709
Other	35 657	53 946
Less: provision for impairment of other assets	(1 816)	(13 976)
Total other assets	**1 470 493**	**914 626**

Movements in the provision for impairment of other assets are as follows:

	2006	2005
Provision for impairment of other assets as at 1 January	**13 976**	**3 122**
Change in the provision for impairment of other assets on disposal of a subsidiary	-	(681)
Provision /(recovery of provision) for impairment of other assets	(12 160)	11 535
Provision for impairment of other assets as at 31 December	**1 816**	**13 976**

Geographical analysis, analysis of other assets by currency and maturity are disclosed in Note 27.

.

(in thousands of Russian Roubles)

12. Premises and Equipment, and Intangible Assets

	Premises	Computers and office equipment and other equipment	Capital investments	Intangible assets	Total
Net book value as at 31 December 2005	**4 923 290**	**1 738 164**	**352 235**	**93 867**	**7 107 556**
Carrying amount					
Balance as at 31 December 2005	5 052 173	2 894 398	352 235	184 207	8 483 013
Additions	111 717	333 915	551 190	37 447	1 034 269
Transfers	8 146	358 694	(366 840)	-	-
Disposals	(742 643)	(481 365)	(52 777)	(42)	(1 276 827)
Effect of hyperinflation and exchange rate changes	(4 246)	(2 910)	(7 164)	117	(14 203)
Total carrying amount as at 31 December 2006	**4 425 147**	**3 102 732**	**476 644**	**221 729**	**8 226 252**
Accumulated depreciation					
Balance as at 31 December 2005	128 883	1 156 234	-	90 340	1 375 457
Depreciation charge	132 150	353 398	-	47 085	532 633
Disposals	(33 299)	(226 100)	-	-	(259 399)
Effect of hyperinflation and exchange rate changes	(393)	(1 469)	-	60	(1 802)
Total accumulated depreciation as at 31 December 2006	**227 341**	**1 282 063**	**-**	**137 485**	**1 646 889**
Net book value as at 31 December 2006	**4 197 806**	**1 820 669**	**476 644**	**84 244**	**6 579 363**

In the year 2006 due to complete renovation of the Bank's office premises the old building located at 8/15 Rozhdestvenka str., bld. 1, 2 were demolished. This transaction in the total amount of RUR 545 526 thousand is recorded within disposal of premises.

(in thousands of Russian Roubles)

	Premises	Computers and office equipment and other equipment	Capital investments	Intangible assets	Total
Net book value as at 31 December 2004	**4 511 603**	**1 329 847**	**727 205**	**91 068**	**6 659 723**
Carrying amount					
Balance as at 31 December 2004	4 643 826	2 104 240	727 205	157 609	7 632 880
Additions	4 403	686 634	-	29 437	720 474
Additions on acquisition of subsidiaries	364 014	120 418	781	-	485 213
Transfers	126 209	249 120	(375 246)	(83)	-
Disposals	(76 582)	(261 575)	-	(1 316)	(339 473)
Effect of hyperinflation and exchange rate changes	(9 697)	(4 439)	(505)	(1 440)	(16 081)
Total carrying amount as at 31 December 2005	**5 052 173**	**2 894 398**	**352 235**	**184 207**	**8 483 013**
Accumulated depreciation					
Balance as at 31 December 2004	132 223	774 393	-	66 541	973 157
Depreciation charge	11 010	398 089	-	25 923	435 022
Additions on acquisition of subsidiaries	22 020	62 687	-	-	84 707
Transfers	(31 806)	31 758	-	48	-
Disposals	(3 862)	(109 048)	-	(1 310)	(114 220)
Effect of hyperinflation and exchange rate changes	(702)	(1 645)	-	(862)	(3 209)
Total accumulated depreciation as at 31 December 2005	**128 883**	**1 156 234**	**-**	**90 340**	**1 375 457**
Net book value as at 31 December 2005	**4 923 290**	**1 738 164**	**352 235**	**93 867**	**7 107 556**

(in thousands of Russian Roubles)

Premises comprise buildings and structures. The Group's premises were appraised by an independent appraiser as at 31 December 2002. The net book value of premises as at 31 December 2006 includes the amount of RUR 371 114 thousand (2005: RUR 637 532 thousand), which is a revaluation surplus of the Group's premises. Deferred tax liability arising from this revaluation was computed and posted to revaluation reserve of premises and equipment of Group's equity.

As at 31 December 2006, premises and equipment include property received by the Group under finance lease contract in the total amount of RUR 1 130 092 thousand (2005: RUR 1 094 124 thousand). After expiry of the lease term the right of ownership is transferred to the Group.

Construction in progress mainly comprises investments in construction and renovation of premises. As soon as the work is completed, the assets are categorised within premises and equipment as appropriate.

13. Due to Other Banks

	2006	**2005**
Syndicated loans of foreign banks	30 939 043	5 266 220
Term deposits and loans of other banks	3 441 342	5 641 637
Subordinated loan	2 638 969	-
Correspondent accounts of other banks	995 920	1 127 586
Repo agreements with other banks	-	9 117 932
Total due to other banks	**38 015 274**	**21 153 375**

As at 31 December 2006, the Group raised fund of five banks (2005: four banks), each over 5% of the total due to other banks, making up RUR 15 754 734 thousand or 41.4 % of the total amount owed to other banks (2004: RUR 17 048 577 thousand or 80.6 %).

The Group raised syndicated loans from foreign banks:

Description	**Interest rate**	**Payment schedule**	**Date of origination**	**Maturity date**	**Nominal value, USD'000**	**Carrying amount, RUR'000**
I	LIBOR+1.6%	every half year	25.05.2005	25.05.2007	200 000	5 266 220
II	LIBOR+0.4%	every half year	16.02.2006	16.02.2007	75 000	1 974 833
III	LIBOR+0.7%	every half year	11.05.2006	11.05.2009	400 000	10 532 440
IV	LIBOR+0.5%	every half year	03.11.2006	03.11.2008	500 000	13 165 550
Total syndicated loans					**1 175 000**	**30 939 043**

As at 31 December 2006, the Group raised a subordinated loan from ABN Amro Bank in the amount of USD 100 000 thousand (or RUR 2 627 590 thousand) maturing on 21 December 2016 (2005: none). Interest rate for the period up to 21 December 2011 is LIBOR +2.65 %, interest rate for the period up to 21 December 2016 is LIBOR + 4.15%.

As at 31 December 2005, securities sold under repo agreements include the 5th tranche of OVGVZ government bonds with the fair value of RUR 2 365 606 thousand and eurobonds of RF Government maturing in 2007 with the fair value of RUR 2 110 126 thousand. As at 31 December 2005, these securities were reflected in the consolidated balance sheet as financial assets at fair value through profit or loss.

(in thousands of Russian Roubles)

14. Customer Accounts

	2006	2005
Federal and regional budgets and funds		
— Current/settlement accounts	15 579 724	16 013 074
— Term deposits	65 006 000	30 271 692
State-owned organisations		
— Current/settlement accounts	12 884 876	9 822 843
— Term deposits	410 976	742 433
Other legal entities		
— Current/settlement accounts	61 878 203	30 243 719
— Term deposits	17 285 102	11 366 130
Individuals		
— Current/demand accounts	17 960 402	11 976 858
— Term deposits	68 495 835	58 088 108
Total customer accounts	**259 501 118**	**168 524 857**

According to the Russian Civil Code, the Bank is obliged to repay deposits to individual depositors at short notice. If a fixed-term deposit is withdrawn by the depositor ahead of term, interest is payable at the rate applied to demand deposits.

As at 31 December 2006, customer accounts in the amount of RUR 108 831 126 thousand (42%) represented funds of ten major customers of the Group (2005: RUR 66 091 717 thousand or 39%).

As at 31 December 2006, funds of other legal entities included RUR 314 910 thousand received from sale of securities under repo agreements corporate bonds with fair value of RUR 233 738 thousand and bonds of RF subjects with fair value of RUR 84 718 thousand. As at 31 December 2006, these securities were recorded in the consolidated balance sheet as financial assets at fair value through profit or loss.

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 27. The related party disclosures are given in Note 30.

15. Debt Securities Issued

	2006	2005
Eurobonds	40 972 444	24 737 343
Promissory notes	9 518 971	4 309 080
Bonds	144 932	-
Certificates of deposit	9 060	29 861
Total debt securities issued	**50 645 407**	**29 076 284**

As at 31 December 2006, bonds issued represent interest-bearing securities with nominal value of EEK 10 thousand. These bonds have maturity from 26 September 2007 to 20 February 2008 and coupon rate from 3.1 % to 3.8 % p.a. depending on the issue.

(in thousands of Russian Roubles)

As at 31 December 2006, eurobonds comprised:

Description	Interest rate	Date of issue	Maturity date	Nominal value, '000	Carrying amount, RUR'000	Market price,%
I tranche	8 %, every half year	28.09.2004	28.09.2009	$250 000	6 720 977	104.95
II tranche	7.375 %, every half year	26.05.2005	26.11.2010	$300 000	7 957 266	104.438
III tranche, subordinated	7.5 %, every half year during the first 5 years, then the rate equals US Treasury plus 4.567%	25.11.2005	25.11.2015	$300 000	7 959 884	103.65
IV tranche	7.335%, every half year	13.05.2006	13.05.2013	$500 000	13 296 265	105.5
Total foreign currency eurobonds				**$1 350 000**	**35 934 392**	
V tranche	7.25%, every half year	25.11.2006	25.11.2009	RUR 5 000 000	5 038 052	-
Total eurobonds					**40 972 444**	

As at 31 December 2005 eurobonds comprised:

Description	Interest rate	Date of issue	Maturity date	Nominal value, USD'000	Carrying amount, RUR'000	Market price,%
I tranche	8 %, every half year	28.09.2004	28.09.2009	250 000	7 338 322	104.25
II tranche	7.375 %, every half year	26.05.2005	26.11.2010	300 000	8 698 079	103.15
III tranche, subordinated	7.5 %, every half year during the first 5 years, then the rate equals US Treasury plus 4.567%	25.11.2005	25.11.2015	300 000	8 700 942	-
Total eurobonds				**850 000**	**24 737 343**	

Geographical, currency, maturity and interest rate analyses of debt securities issued are disclosed in Note 27.

16. Other Liabilities

	2006	2005
Accounts payable	644 164	2 178 455
Settlements with employees	427 777	322 342
Plastic cards payables	128 562	-
Settlements on conversion operations	-	5 018
Other	98 177	60 074
Total other liabilities	**1 298 680**	**2 565 889**

As at 31 December 2006, settlements with employees included accrued bonus to the employees in the total amount of RUR 418 568 thousand for the year 2006 (2005: RUR 301 000 thousand).

As at 31 December 2005, accounts payable include net position of the Group in the amount of RUR 863 475 thousand on transactions with Barclays Bank PLC on acquisition and subsequent sale of securities under REPO agreement and also included liabilities on acquisition of securities under the forward contract with OJCS Moscow Insurance Company in the amount of RUR 661 890 thousand.

Geographical, currency, maturity and interest rate analyses of other liabilities are disclosed in Note 27.

(in thousands of Russian Roubles)

17. Minority Interest

Movements in minority interest of the Group are as follows:

	2006	2005
Minority interest as at 1 January	**223 082**	**73 692**
Share in net profit	153 922	14 582
Dividends declared	(34 607)	-
Acquisition of subsidiaries	78 955	134 460
Increase in capital of subsidiaries	-	348
Exchange difference	1 159	-
Minority interest as at 31 December	**422 511**	**223 082**

In the year 2006 the Group's subsidiary AS Eesti Krediidipank declared dividends for the year 2005 in the amount of RUR 82 014 thousand. The Group reflected changes in minority interest in the amount of RUR 34 607 thousand.

18. Share Capital

Authorised, issued and fully paid share capital comprises:

	2006		2005	
	Number of shares	**Nominal value, RUR'000**	**Number of shares**	**Nominal value, RUR'000**
Ordinary shares	123 100 932	12 310 093	117 500 932	11 750 093
Adjustment of share capital till 31 December 2002 under IFRS 29	-	2 476 746	-	2 476 746
Total share capital	**123 100 932**	**14 786 839**	**117 500 932**	**14 226 839**

The nominal value of each ordinary share is 100 roubles. Each share gives the right of one vote.

The principal shareholder of the Bank of Moscow is Moscow Government. As at 31 December 2006, Moscow Government owns 46.46% of issued and paid-in share capital (2005: 48.68%), 13.48% (2005: 13.48%) of the share capital are owned by OJSC Moscow Insurance Company controlled by Moscow Government. The Bank's other shareholders own stakes not exceeding 5% of the share capital.

On 18 August 2006 CBR registered placement of the 10th issue of the Bank's shares. 5 600 000 ordinary voting shares with the nominal value of 100 roubles were placed at price of 519 roubles per share totalling RUR 2 906 400 thousand, including share premium of RUR 2 346 400 thousand. JP Morgan International Finance Ltd. bought out 48% of shares of the 10th issue. The share of Moscow Government and the entities controlled by it amounted to 59.96% of the Bank's capital after the issue.

In the year 2005 OJSC International Asset Management Company bought out 21 510 shares of the Bank in the total amount of RUR 11 483 thousand.

19. Interest Income and Expense

	2006	2005
Interest income		
Loans to customers	22 494 627	14 136 613
Financial assets at fair value through profit or loss and available for sale	3 022 328	2 688 756
Due from other banks	2 097 815	1 038 692
Total interest income	**27 614 770**	**17 864 061**
Interest expense		
Current accounts and term deposits of customers	9 402 922	6 232 881
Debt securities issued	2 569 453	1 561 267
Term deposits of banks	1 561 316	610 924
Total interest expense	**13 533 691**	**8 405 072**
Net interest income	**14 081 079**	**9 458 989**

(in thousands of Russian Roubles)

20. Fee and Commission Income and Expense

	2006	2005
Fee and commission income		
Commission on settlement and cash transactions	1 781 783	1 300 813
Commission on operations with plastic cards	986 741	595 221
Commission on transactions with securities	283 373	127 387
Commission on guarantees issued	199 833	167 463
Commission on cash collection	173 552	158 228
Commissions from fiduciary activities	167 861	65 507
Other	236 649	68 471
Total fee and commission income	**3 829 792**	**2 483 090**
Fee and commission expense		
Commission on cash collection	288 820	235 316
Commission on operations with plastic cards	249 625	181 112
Commission on settlement and cash transactions	87 448	24 211
Commission on transactions with securities	26 989	3 761
Commission on guarantees received	1 712	4 530
Other	40 570	1 334
Total fee and commission expense	**695 164**	**450 264**
Net fee and commission income	**3 134 628**	**2 032 826**

21. General and Administrative Expenses

	Note	2006	2005
Staff costs		4 616 184	3 367 342
Rent		1 143 607	492 359
Professional services (security, communications and other)		890 487	573 687
Taxes other than income tax		719 341	472 734
Amortisation and depreciation	12	532 633	435 022
Administrative expenses		410 147	395 915
Advertising and marketing		368 862	276 160
Expenses related to premises and equipment		273 030	72 924
Charity		38 639	73 161
Other		346 114	222 234
Total general and administrative expenses		**9 339 044**	**6 381 538**

Staff costs include remuneration to employees and unified social tax.

22. Other Operating Income Less Expenses

	2006	2005
Fines and penalties received and paid	188 516	76 784
Proceeds from property lease	104 043	130 227
Net income from sale of goods, work and services by non-banks	73 498	247 953
Net profit/(loss) from dealing in precious metals	(1 147)	18 946
Other	52 431	59 875
Total other operating income less expenses	**417 341**	**533 785**

(in thousands of Russian Roubles)

23. Income Tax

Income tax expense comprises the following:

	2006	2005
Current tax expense	1 829 691	1 102 796
Deferred taxation movement	(148 206)	94 549
Except for deferred taxation charged directly to equity	169 591	-
Total income tax expense	**1 851 076**	**1 197 345**

Each entity of the Group must file individual tax returns.

The current tax rate for profits applicable to the major portion of the profits earned by the Bank of Moscow and its Russian resident subsidiaries in the year 2006 is 24% (2005: 24%). The effective tax rate for profits for Latvian residents is 15% (2004: 15%), for Ukrainian residents – 25% (2005: 25%) and for Belarus residents is 32.8% (2005: 32.8%).

In the year 2006 the tax rate for received coupon income on state securities was: 15% on coupon income of OFZ and OVGVZ issued in 1999; 0% on OVGVZ coupon income of 5-7 tranches; 24% on coupon income of Russian Government Eurobonds. The tax rate for received coupon income on state securities for RF subjects was 15%, for coupon income on securities of local authorities was 9% in the year 2006.

Current tax expense of the Bank and its subsidiaries located on the territory of the Russian Federation was computed based on the amount of profits calculated under Russian federal accounting regulations and adjusted for compliance with the Russian tax legislation. Accordingly, current tax expense of the subsidiary banks located on the territory of Latvia, Estonia, Belarus and Ukraine was determined in accordance with the local tax legislation.

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2006	2005
IFRS profit before taxation	**7 628 600**	**5 222 214**
Theoretical tax charge at the rate of 24% (2005: 24%)	1 830 864	1 253 331
Tax effect of non-taxable income and of non-deductible expenses	139 946	153 607
Income on government securities taxed at different rates	(108 893)	(182 942)
Adjustments for foreign subsidiary banks' profits taxed at different rates	(10 841)	(26 651)
Income tax expense for the year	**1 851 076**	**1 197 345**

Differences between IFRS and statutory taxation regulations of the Russian Federation and other countries where the Group's entities are registered give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%, except for coupon income on state securities that is taxed at the rate of 15%.

	2006	Change	2005
Tax effect of deductible temporary differences			
Premises and equipment	166 437	(39 822)	206 259
Revaluation of other assets at fair value	56 767	56 767	-
Provision for loan impairment	39 551	(19 001)	58 552
Deferred tax assets of subsidiary banks	24 750	11 134	13 616
Revaluation of financial assets and liabilities at fair value through profit or loss	2 166	(1 132)	3 298
Total deferred tax assets (gross)	**289 671**	**7 946**	**281 725**
Tax effect of taxable temporary differences			
Provision for impairment of other assets	(73 205)	(57 097)	(16 108)
Revaluation of financial assets and liabilities at fair value through profit or loss	(266 415)	(142 331)	(124 084)
Premises and equipment	(487 828)	339 688	(827 516)
Total deferred tax liabilities (gross)	**(827 448)**	**140 260**	**(967 708)**
Net deferred tax liabilities	**(537 777)**	**148 206**	**(685 983)**

Comparative information for the year 2005 is provided below:

	2005	Change	2004
Tax effect of deductible temporary differences			
Premises and equipment	206 259	(13 231)	219 490
Provision for loan impairment	58 552	(18 312)	76 864
Deferred tax assets of subsidiary banks	13 616	13 616	-
Revaluation of financial assets at fair value through profit or loss	3 298	(56 518)	59 816
Total deferred tax assets (gross)	**281 725**	**(74 445)**	**356 170**
Tax effect of taxable temporary differences			
Provision for impairment of other assets	(16 108)	(16 108)	-
Revaluation of financial assets at fair value through profit or loss	(124 084)	(1 208)	(122 876)
Premises and equipment	(827 516)	(2 788)	(824 728)
Total deferred tax liabilities (gross)	**(967 708)**	**(20 104)**	**(947 604)**
Net deferred tax liabilities	**(685 983)**	**(94 549)**	**(591 434)**

Change in tax assets and liabilities of the Group for the reporting year is set out below:

	2006	Change	2005
Current tax assets	12 724	(389 575)	402 299
Deferred tax assets	24 750	11 134	13 616
Total tax assets	**37 474**	**(378 441)**	**415 915**
Current tax liabilities	(266 436)	(220 746)	(45 690)
Deferred tax liabilities	(562 527)	137 072	(699 599)
Total tax liabilities	**(828 963)**	**(83 674)**	**(745 289)**

Considering the existing structure of the Group, current tax assets and tax losses of different entities cannot be offset against current tax liabilities and taxable profit. Therefore, the Group does not offset deferred tax assets of one entity against the deferred tax liability of another entity.

24. Earnings per Share

Basic earnings per share are calculated by dividing the profit by the weighted average number of ordinary shares during the year less average number of ordinary shares bought out by the Group from its shareholders.

The Group has no ordinary shares diluted basic earnings per share. Thus, the diluted earnings per share are equal to basic earnings per share.

	2006	2005
Net profit attributable to shareholders of the parent bank (in thousands of roubles)	**5 623 602**	**4 010 287**
Weighted average number of ordinary shares in issue (in thousands)	119 855	117 490
Basic earnings per share (RUR per share)	**46.92**	**34.13**

25. Dividends

	2006	2005
Dividends payable as at 1 January	19	453
Dividends for the year 2005 declared during the year	161 970	-

(in thousands of Russian Roubles)

Dividends for the year 2004 declared during the year	-	92 678
Dividends paid during the year	(161 963)	(93 112)
Dividends payable as at 31 December	**26**	**19**
Dividends per share, declared during the year	**1.08**	**0.79**

Dividends declared for the year 2005 include dividends attributable on the shareholders of the parent bank in the amount RUR 127 363 thousand and on minority interest in the amount RUR 34 607 thousand. Dividends paid during the year 2006 attributable on the shareholders of the parent bank are totalled RUR 127 356 thousand, on minority interest – RUR 34 607 thousand.

26. Segment Reporting

The Group uses information on business segments as its primary format for reporting segment information. Over 95% of the Group's banking business is concentrated on the territory of the Russian Federation at the location of the parent company of the Group – the Bank of Moscow. Based on this, the Group considers unreasonable to segment this business by geographic principle.

The Group's main business segments are as follows:

Treasury business – this business segment includes trading in financial instruments, transactions with securities and derivatives, including REPO deals, foreign currency transactions, raising and origination of loans on interbank loan markets, interest rate arbitrage on SWAP transactions. Besides, treasury function includes the Group's short-term asset management and the Group's open positions in foreign currencies, i.e. currency risk management.

Corporate business – this business segment includes services associated with servicing settlement and current accounts of legal entities, acceptance of deposits from corporate clients, extension of credit lines in the form of overdrafts, issuance of loans and other types of financing, rendering of investment banking services, trade financing of corporate clients, rendering of structured financing, merging and acquisition consulting services.

Retail business – this segment covers rendering of banking services to individuals - opening and maintaining accounts, acceptance of deposits from individuals, fiduciary services, accumulation of investments, servicing debit and credit cards, consumer and mortgage lending.

The Group transactions not included in the above business segments are disclosed separately.

Transactions between business segments are based on commercial terms. In the ordinary course of business the Group's financial resources are reallocated between business segments. As a result, intersegment allocations are reflected within assets/liabilities of a business segment and the cost of reallocated financial resources is included in the business segment income/expenses.

(in thousands of Russian Roubles)

Segment information on business segments of the Group for the year ended 31 December 2006 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	1 580 657	27 967 879	14 102 889	1 223	-	43 652 648
Financial assets at fair value through profit or loss and available for sale	23 006 953	14 016 952	-	137 236	-	37 161 141
Due from other banks	24 405 211	-	-	-	-	24 405 211
Other assets	-	-	119 951	83 504	1 267 038	1 470 493
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	**48 992 821**	**41 984 831**	**14 222 840**	**221 963**	**1 267 038**	**106 689 493**
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	-	3 273 885	3 025 968	-	-	6 299 853
Financial assets available for sale	4 755 177	106 720	1 303	-	-	4 863 200
Due from other banks	-	114 663	-	195 651	112 813	423 127
Loans to customers	-	220 424 283	35 210 406	407 385	-	256 042 074
Goodwill	-	-	-	-	583 385	583 385
Tax assets	-	-	-	3 923	33 551	37 474
Investments in associates and non-consolidated subsidiaries	-	-	-	548 360	192 466	740 826
Premises and equipment, and intangible assets	-	-	-	91 500	6 487 863	6 579 363
Total assets maturing in more than 1 month and part of assets with no stated maturity	**4 755 177**	**223 919 551**	**38 237 677**	**1 246 819**	**7 410 078**	**275 569 302**
Total assets	**53 747 998**	**265 904 382**	**52 460 517**	**1 468 782**	**8 677 116**	**382 258 795**

(in thousands of Russian Roubles)

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	2 488 129	-	373 142	-	-	2 861 271
Customer accounts	-	90 342 803	17 960 402	-	-	108 303 205
Other liabilities	-	-	128 562	129 311	-	257 873
Total liabilities on demand, maturing in less than one month and part of liabilities with no stated maturity	**2 488 129**	**90 342 803**	**18 462 106**	**129 311**	**-**	**111 422 349**
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	596 504	34 557 499	-	-	-	35 154 003
Customer accounts	-	82 700 515	68 495 835	1 563	-	151 197 913
Debt securities issued	2 354 133	46 695 378	-	1 595 896	-	50 645 407
Other liabilities	-	-	-	-	1 040 807	1 040 807
Tax liabilities	-	-	-	3 236	825 727	828 963
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	**2 950 637**	**163 953 392**	**68 495 835**	**1 600 695**	**1 866 534**	**238 867 093**
Total liabilities	**5 438 766**	**254 296 195**	**86 957 941**	**1 730 006**	**1 866 534**	**350 289 442**
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**(46 504 692)**	**48 357 972**	**4 239 266**	**(92 652)**	**(1 267 038)**	**4 732 856**
(Transferred)/received funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity to/from other business segments	**46 504 692**	**(28 042 586)**	**(18 462 106)**	**-**	**-**	**-**
Surplus/(deficit) of funds maturing in more than 1 month and part of liabilities with no stated maturity	**(1 804 540)**	**(59 966 159)**	**30 258 158**	**353 876**	**(5 543 544)**	**(36 702 209)**
(Transferred)/received funds maturing in more than 1 month and part of liabilities with no stated maturity to/from other business segments	**-**	**16 296 542**	**(16 035 318)**	**(261 224)**	**-**	**-**
Equity financing	1 804 540	23 354 231	**-**	**-**	6 810 582	31 969 353
Net uncovered deficit/unallocated surplus on financing	**-**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian Roubles)

Segment information on business segments of the Group for the year ended 31 December 2005 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	1 513 180	9 554 817	8 847 891	1 403	-	19 917 291
Financial assets at fair value through profit or loss and available for sale	26 822 550	2 912 448	-	41 071	-	29 776 069
Due from other banks	12 537 285	-	-	-	-	12 537 285
Other assets	-	-	169	44 604	869 853	914 626
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	**40 873 015**	**12 467 265**	**8 848 060**	**87 078**	**869 853**	**63 145 271**
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	2 488	2 433 897	1 734 224	-	2 858	4 173 467
Financial assets available for sale	938 655	388 759	1 425	-	-	1 328 839
Due from other banks	-	5 755 551	-	278 501	115 797	6 149 849
Loans to customers	-	148 764 599	14 467 966	15 608	-	163 248 173
Tax assets	-	-	-	5 773	410 142	415 915
Investments in associates and non-consolidated subsidiaries	-	-	-	10 309	190 054	200 363
Premises and equipment, and intangible assets	-	-	-	141 219	6 966 337	7 107 556
Total assets maturing in more than 1 month and part of assets with no stated maturity	**941 143**	**157 342 806**	**16 203 615**	**451 410**	**7 685 188**	**182 624 162**
Total assets	**41 814 158**	**169 810 071**	**25 051 675**	**538 488**	**8 555 041**	**245 769 433**

(in thousands of Russian Roubles)

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	11 349 237	-	561 114	-	-	11 910 351
Customer accounts	-	56 079 636	11 976 858	-	-	68 056 494
Other liabilities	5 018	-	-	21 352	-	26 370
Total liabilities on demand, maturing in less than one month and part of liabilities with no stated maturity	**11 354 255**	**56 079 636**	**12 537 972**	**21 352**	**-**	**79 993 215**
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	601 028	8 641 996	-	-	-	9 243 024
Customer accounts	-	42 259 891	58 088 108	120 364	-	100 468 363
Debt securities issued	71 096	28 886 461	-	118 727	-	29 076 284
Other liabilities	-	-	-	-	2 539 519	2 539 519
Tax liabilities	-	-	-	17 258	728 031	745 289
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	**672 124**	**79 788 348**	**58 088 108**	**256 349**	**3 267 550**	**142 072 479**
Total liabilities	**12 026 379**	**135 867 984**	**70 626 080**	**277 701**	**3 267 550**	**222 065 694**
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**(29 518 760)**	**43 612 371**	**3 689 912**	**(65 726)**	**(869 853)**	**16 847 944**
(Transferred)/received funds on demand, maturing in less than 1 month and part of liabilities with no stated maturity to/from other business segments	**29 518 760**	**(16 980 788)**	**(12 537 972)**	**-**	**-**	**-**
Surplus/(deficit) of funds maturing in more than 1 month and part of liabilities with no stated maturity	**(269 019)**	**(77 554 458)**	**41 884 493**	**(195 061)**	**(4 417 638)**	**(40 551 683)**
(Transferred)/received funds maturing in more than 1 month and part of liabilities with no stated maturity to/from other business segments	**-**	**33 036 433**	**(33 036 433)**	**-**	**-**	**-**
Equity financing	**269 019**	**17 886 442**	**-**	**260 787**	**5 287 491**	**23 703 739**
Net uncovered deficit/unallocated surplus on financing	**-**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian Roubles)

The table below shows a breakdown of consolidated statement of income of the Group by business segments for the year ended 31 December 2006:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Interest income	4 322 732	19 006 954	4 276 850	8 234	-	27 614 770
Interest expense	(457 505)	(7 971 373)	(5 097 730)	(7 083)	-	(13 533 691)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	133 860	-	-	5 957	-	139 817
Gains less losses from dealing in foreign currency	671 845	-	225 266	(3 054)	-	894 057
Net operating result on banking assets and liabilities	**4 670 932**	**11 035 581**	**(595 614)**	**4 054**	**-**	**15 114 953**
Income/(expense) on re-allocation of funds on demand, maturing in less than one month and part with no stated maturity	(2 660 674)	1 575 731	1 084 943	-	-	-
Income/(expense) on re-allocation of funds maturing in more than one month and part with no stated maturity	-	(3 385 226)	3 349 124	36 102	-	-
Net operating result on banking assets and liabilities after intersegment re-allocations	**2 010 258**	**9 226 086**	**3 838 453**	**40 156**	**-**	**15 114 953**
Fee and commission income	283 373	1 662 745	1 799 582	84 092	-	3 829 792
Fee and commission expense	(26 989)	(412 922)	(255 229)	(24)	-	(695 164)
Provisions for impairment of due from other banks and loans to customers	5 943	(582 108)	(768 956)	(785)	-	(1 345 906)
General and administrative expenses	(350 458)	(2 891 276)	(3 211 571)	(200 824)	(2 684 917)	(9 339 046)
Other income/(expense)	-	-	(410 543)	100 257	374 255	63 969
Profit before taxation	**1 922 127**	**7 002 525**	**991 736**	**22 872**	**(2 310 662)**	**7 628 598**
Income tax expense	-	-	-	(26 934)	(1 824 142)	(1 851 076)
Profit after taxation	**1 922 127**	**7 002 525**	**991 736**	**(4 062)**	**(4 134 804)**	**5 777 522**
Minority interest	-	-	-	-	(153 921)	(153 921)
Net profit	**1 922 127**	**7 002 525**	**991 736**	**(4 062)**	**(4 288 725)**	**5 623 601**

(in thousands of Russian Roubles)

The table below shows a breakdown of consolidated statement of income of the Group by business segments for the year ended 31 December 2005:

	Treasury business	Corporate business	Retail business	Non-banking organisations	Non-allocated	Total
Interest income	3 719 376	12 434 958	1 700 863	8 864	-	17 864 061
Interest expense	(610 924)	(3 389 174)	(4 370 467)	(34 507)	-	(8 405 072)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	30 494	-	-	17 766	-	48 260
Gains less losses from dealing in foreign currency	287 952	-	174 754	1 506	-	464 212
Net operating result on banking assets and liabilities	**3 426 898**	**9 045 784**	**(2 494 850)**	**(6 371)**	**-**	**9 971 461**
Income/(expense) on re-allocation of funds on demand, maturing in less than one month and part with no stated maturity	(1 652 225)	1 303 903	348 322	-	-	-
Income/(expense) on re-allocation of funds maturing in more than one month and part with no stated maturity	-	(4 745 769)	4 745 769	-	-	-
Net operating result on banking assets and liabilities after intersegment re-allocations	**1 774 673**	**5 603 918**	**2 599 241**	**(6 371)**	**-**	**9 971 461**
Fee and commission income	127 387	1 094 581	1 243 603	17 519	-	2 483 090
Fee and commission expense	(3 761)	(272 444)	(173 928)	(131)	-	(450 264)
Provisions for impairment of due from other banks and loans to customers	55 657	(242 676)	(455 628)	(2 689)	-	(645 336)
General and administrative expenses	(408 980)	(1 952 008)	(2 279 063)	(213 655)	(1 527 832)	(6 381 538)
Other income/(expense)	-	-	(287 000)	332 678	199 123	244 801
Profit before taxation	**1 544 976**	**4 231 371**	**647 225**	**127 351**	**(1 328 709)**	**5 222 214**
Income tax expense	-	-	-	(26 669)	(1 170 676)	(1 197 345)
Profit after taxation	**1 544 976**	**4 231 371**	**647 225**	**100 682**	**(2 499 385)**	**4 024 869**
Minority interest	-	-	-	-	(14 582)	(14 582)
Net profit	**1 544 976**	**4 231 371**	**647 225**	**100 682**	**(2 513 967)**	**4 010 287**

27. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational and legal risks.

The main risk management activity is to identify, measure and control the above-mentioned risks, take management decisions to avoid or minimise risks (hedging, reallocation, diversification, etc.).

The Group implemented a three-level risk management system. At the first level, business units exercise preliminary and operational control over the established limits in the course of transactions. At the second level, back office controls compliance of business units with the established limits. At the third level, preliminary and subsequent risk control is exercised independently by specialised divisions, which are charged with risk control functions.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

In accordance with strategic tasks in the management area a comprehensive system for management of all types of risks is functioning and developing within the Group. Further efforts will be aimed at development of the existing risk management methods and instruments, as well as systematisation and integration of risk assessment and management methods with regard for international standards.

Credit risk. Credit risk is the risk of financial losses caused by inability of the Group's borrower or counterparty to meet their liabilities.

The following methods of control and management are applied to manage credit risk.

Risk assessment. The risk by each credit product is assessed on the basis of internal bank ratings. The level of risk for individual borrowers is assessed with the use of scoring methods. To assess credit risk exposure on loans to legal entities the following instruments are used.

Limits on transactions for provision of credit products. The limiting system comprises:

- scope limits, which limit credit risk concentration by division, type of products, region, industry, etc.;
- scope limits for separate counterparties;
- limits by each credit product, calculated in accordance with own methods of credit risk assessment;
- risk limits, which set up maximum admissible risk of separate divisions' portfolios;
- maturity limits depending on risk level by product, type and other terms of lending;
- limits of personified lending authority.

Limit values are updated on a regular basis in accordance with current level of credit risk and macro- and microeconomic situation. Compliance of authorised persons and management bodies with set limits is monitored daily.

Monitoring of credit risk of operating products is conducted regularly and is aimed at detection of risk-increasing factors in order to further neutralise them and reduce concentration.

The Group developed the policy and procedures related to credit risk management. These include requirements for setting of and complying with the limits on loan portfolio concentration and provide for establishment of the Credit Committee to monitor credit risk exposure of the Group.

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

Credit risk on off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in managing contingent obligations as it does for balance sheet financial instruments based on procedures of authorisation of deals, risk control limits and monitoring of the financial position of counterparty.

The policy of the credit risk management is reviewed and approved by the Board.

Market risks. Market risks are the risks of potential losses due to decreases in the value of securities portfolio and other traded assets as a result of adverse movements in market parameters (prices, interest and currency exchange rates). The following methods of control and management are applied to market risks.

Market risk assessment is performed using two main methods: statistical probability method and method of historical modelling. These methods allow to calculate the amount of potential gains or losses of the portfolio over a specified time horizon and level of reliability.

At the same time, stress-testing of portfolios is carried out allowing (under different scenarios) to evaluate stability and maximum financial loss for market instrument portfolios.

The market risk *limiting system* is similar to the credit risk limiting system, but it has a number of peculiarities consisting in the use of special limits applicable only to this type of risk (stop-loss limits, etc.).

Market risk *monitoring* encompasses revaluing all open positions at market prices in order to identify present value of portfolios and changes in estimates of expected potential losses.

Hedging implies additional transactions with financial instruments with similar characteristics for guaranteed limitation of losses.

Market risks may be reduced without decrease in the expected yield by means of portfolio *diversification*, mainly, diversification into different market instruments and segments.

The Group manages market risks by increasing or decreasing its position within the limits set by the Group management. These limits mitigate possible effect of changes in the market financial indicators on the Group's income and value of sensitive assets and liabilities.

The procedures of market risk management, as well as the tariff policy of the Group, are reviewed and approved by the Financial Committee.

Interest rate risk is determined by the level of changes in interest rates on interest margin and net interest income. Interest margins may increase or decrease as a result of such changes, depending on different structure of interest-bearing assets and liabilities.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The management of the Group sets limits on the level of acceptable mismatch of interest rate re-pricing terms, which are monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The table below summarises the Group's exposure to interest rate risks for the year ended 31 December 2006. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

(in thousands of Russian Roubles)

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ interest-free	Total
Assets						
Cash and cash equivalents	5 678 013	-	-	-	37 974 635	43 652 648
Mandatory cash balances with central banks	-	-	-	-	6 299 853	6 299 853
Financial assets at fair value through profit or loss	2 530 436	2 653 793	6 077 008	21 091 193	4 808 711	37 161 141
Due from other banks	24 146 154	948 414	4 145 333	28 510	-	29 268 411
Loans to customers	25 052 947	66 735 164	74 373 859	89 880 104	-	256 042 074
Financial assets available for sale	6 332	24 632	69 842	13 857	308 464	423 127
Investments in associates and non-consolidated subsidiaries	-	-	-	-	740 826	740 826
Goodwill	-	-	-	-	583 385	583 385
Other assets	-	-	-	-	1 470 493	1 470 493
Tax assets	-	-	-	-	37 474	37 474
Premises and equipment, and intangible assets	-	-	-	-	6 579 363	6 579 363
Total assets	**57 413 882**	**70 362 003**	**84 666 042**	**111 013 664**	**58 803 204**	**382 258 795**
Liabilities						
Due to other banks	2 215 134	31 852 672	244 492	3 702 976	-	38 015 274
Customer accounts	85 328 089	36 430 469	96 673 710	10 147 519	30 921 331	259 501 118
Debt securities issued	3 661 632	5 550 466	401 231	41 032 078	-	50 645 407
Other liabilities	-	-	-	-	1 298 680	1 298 680
Tax liabilities	-	-	-	-	828 963	828 963
Total liabilities	**91 204 855**	**73 833 607**	**97 319 433**	**54 882 573**	**33 048 974**	**350 289 442**
Net interest rate gap as at 31 December 2006	**(33 790 973)**	**(3 471 604)**	**(12 653 391)**	**56 131 091**	**25 754 230**	**31 969 353**
Cumulative interest rate gap as at 31 December 2006	**(33 790 973)**	**(37 262 577)**	**(49 915 968)**	**6 215 123**	**31 969 353**	

(in thousands of Russian Roubles)

General analysis of interest rate risk of the Group for the year ended 31 December 2005 is provided below:

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ interest-free	Total
Assets						
Cash and cash equivalents	5 239 654	-	-	-	14 677 637	19 917 291
Mandatory cash balances with central banks	-	-	-	-	4 173 467	4 173 467
Financial assets at fair value through profit or loss	390 795	243 613	2 718 071	23 870 429	2 553 161	29 776 069
Due from other banks	12 960 111	836 220	46 025	23 768	-	13 866 124
Loans to customers	16 979 151	48 611 471	51 346 914	46 310 637		163 248 173
Financial assets available for sale	5 755 551	-	-	-	394 298	6 149 849
Investments in associates and non-consolidated subsidiaries	-	-	-	-	200 363	200 363
Other assets	-	-	-	-	914 626	914 626
Tax assets	-	-	-	-	415 915	415 915
Premises and equipment, and intangible assets	-	-	-	-	7 107 556	7 107 556
Total assets	**41 325 262**	**49 691 304**	**54 111 010**	**70 204 834**	**30 437 023**	**245 769 433**
Liabilities						
Due to other banks	14 464 921	6 540 615	73 444	74 395	-	21 153 375
Customer accounts	50 227 539	38 688 229	38 203 914	27 131 530	14 273 645	168 524 857
Debt securities issued	1 393 982	1 766 693	866 703	25 048 906	-	29 076 284
Other liabilities	-	-	-	-	2 565 889	2 565 889
Tax liabilities	-	-	-	-	745 289	745 289
Total liabilities	**66 086 442**	**46 995 537**	**39 144 061**	**52 254 831**	**17 584 823**	**222 065 694**
Net interest rate gap as at 31 December 2005	**(24 761 180)**	**2 695 767**	**14 966 949**	**17 950 003**	**12 852 200**	**23 703 739**
Cumulative interest rate gap as at 31 December 2005	**(24 761 180)**	**(22 065 413)**	**(7 098 464)**	**10 851 539**	**23 703 739**	

(in thousands of Russian Roubles)

The table below shows analysis of average effective interest rates by currency for main monetary financial instruments. The analysis was prepared on the basis of weighted average interest rates at the end of the year.

	USD		EUR		RUR	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Assets						
Due from other banks	8.59%	4.71%	4.68%	2.35%	6.47%	6.51%
Loans to customers	9.41%	10.06%	8.99%	9.37%	12.45%	11.59%
Financial assets at fair value through profit or loss	5.99%	5.40%	-	-	8.38%	8.02%
Financial assets available for sale	8.00%	6.00%	-	-	-	-
Liabilities						
Due to other banks	6.40%	5.46%	4.05%	5.20%	4.47%	4.04%
Customer accounts	6.06%	5.37%	5.75%	4.83%	5.27%	4.51%
Debt securities issued	7.62%	7.60%	4.58%	5.64%	6.44%	6.41%

(in thousands of Russian Roubles)

Geographical concentration of the Group's assets and liabilities as at 31 December 2006 is set out below.

	Russia	**OECD**	**Other**	**Total**
Assets				
Cash and cash equivalents	38 972 360	3 439 561	1 240 727	43 652 648
Mandatory cash balances with central banks	6 064 951	-	234 902	6 299 853
Financial assets at fair value through profit or loss	35 896 904	548 389	715 848	37 161 141
Due from other banks	17 182 239	10 510 448	1 575 724	29 268 411
Loans to customers	225 734 150	243 624	30 064 300	256 042 074
Financial assets available for sale	294 208	1 689	127 230	423 127
Investments in associates and non-consolidated subsidiaries	740 826	-	-	740 826
Goodwill	583 385	-	-	583 385
Other assets	1 159 062	-	311 431	1 470 493
Tax assets	12 656	-	24 818	37 474
Premises and equipment, and intangible assets	5 870 347	-	709 016	6 579 363
Total assets	**332 511 088**	**14 743 711**	**35 003 996**	**382 258 795**
Liabilities				
Due to other banks	2 018 087	30 459 113	5 538 074	38 015 274
Customer accounts	246 792 002	1 917 425	10 791 691	259 501 118
Debt securities issued	9 528 031	40 972 444	144 932	50 645 407
Other liabilities	750 473	51 258	496 949	1 298 680
Tax liabilities	827 387	-	1 576	828 963
Total liabilities	**259 915 980**	**73 400 240**	**16 973 222**	**350 289 442**
Net balance sheet position as at 31 December 2006	**72 595 108**	**(58 656 529)**	**18 030 774**	**31 969 353**

(in thousands of Russian Roubles)

Geographical concentration of the Group's assets and liabilities as at 31 December 2005 is set out below

	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	15 876 810	3 523 178	517 303	19 917 291
Mandatory cash balances with central banks	4 089 104	-	84 363	4 173 467
Financial assets at fair value through profit or loss	28 753 198	539 143	483 728	29 776 069
Due from other banks	5 992 745	5 171 086	2 702 293	13 866 124
Loans to customers	144 389 761	3 317 308	15 541 104	163 248 173
Financial assets available for sale	6 149 849	-	-	6 149 849
Investments in associates and non-consolidated subsidiaries	200 363	-	-	200 363
Other assets	815 308	4 994	94 324	914 626
Tax assets	395 491	-	20 424	415 915
Premises and equipment, and intangible assets	6 445 244	-	662 312	7 107 556
Total assets	**213 107 873**	**12 555 709**	**20 105 851**	**245 769 433**
Liabilities				
Due to other banks	1 627 214	18 513 843	1 012 318	21 153 375
Customer accounts	158 095 898	1 182 350	9 246 609	168 524 857
Debt securities issued	4 306 144	24 737 343	32 797	29 076 284
Other liabilities	2 263 467	20 010	282 412	2 565 889
Tax liabilities	743 391	-	1 898	745 289
Total liabilities	**167 036 114**	**44 453 546**	**10 576 034**	**222 065 694**
Net balance sheet position as at 31 December 2005	**46 071 759**	**(31 897 837)**	**9 529 817**	**23 703 739**

Currency risk. The Group holds assets and liabilities denominated in several foreign currencies. The Group takes on exposure to effects of foreign currency exchange rates volatility on its financial position and cash flows. The Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. For banks conducting their activities on the territory of the Russian Federation, the amount of open currency position is subject to regulations of the CBR and should not be more than 20% of the Bank's equity for all foreign currencies and 10% of equity for any of the foreign currencies.

(in thousands of Russian Roubles)

In the table below the analysis of Group's position on currency as at 31 December 2006 is presented. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	39 433 002	2 322 669	902 548	994 429	43 652 648
Mandatory cash balances with central banks	6 064 951	-	-	234 902	6 299 853
Financial assets at fair value through profit or loss	31 452 568	4 332 195	553 505	822 873	37 161 141
Due from other banks	16 320 982	10 506 853	2 035 107	405 469	29 268 411
Loans to customers	169 731 188	75 583 283	9 459 856	1 267 747	256 042 074
Financial assets available for sale	308 414	13 857	-	100 856	423 127
Investments in associates and non-consolidated subsidiaries	740 826	-	-	-	740 826
Goodwill	583 385	-	-	-	583 385
Other assets	1 136 152	37 084	90 241	207 016	1 470 493
Tax assets	12 656	-	-	24 818	37 474
Premises and equipment, and intangible assets	5 870 347	-	-	709 016	6 579 363
Total assets	**271 654 471**	**92 795 941**	**13 041 257**	**4 767 126**	**382 258 795**
Liabilities					
Due to other banks	1 015 309	35 434 599	1 201 826	363 540	38 015 274
Customer accounts	227 486 168	21 394 855	6 526 157	4 093 938	259 501 118
Debt securities issued	12 333 031	38 099 347	68 097	144 932	50 645 407
Other liabilities	239 773	851 341	65 090	142 476	1 298 680
Tax liabilities	827 387	-	-	1 576	828 963
Total liabilities	**241 901 668**	**95 780 142**	**7 861 170**	**4 746 462**	**350 289 442**
Net balance sheet position as at 31 December 2006	**29 752 803**	**(2 984 201)**	**5 180 087**	**20 664**	**31 969 353**

(in thousands of Russian Roubles)

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

	RUR	USD	EUR	Other	Total
Assets					
Cash and cash equivalents	15 947 035	2 428 145	555 780	986 331	19 917 291
Mandatory cash balances with central banks	4 089 104	-	-	84 363	4 173 467
Financial assets at fair value through profit or loss	20 012 252	8 733 527	561 203	469 087	29 776 069
Due from other banks	6 492 952	5 478 316	1 395 125	499 731	13 866 124
Loans to customers	114 792 819	43 375 050	4 343 847	736 457	163 248 173
Financial assets available for sale	394 103	5 755 551	-	195	6 149 849
Investments in associates and non-consolidated subsidiaries	200 363	-	-	-	200 363
Other assets	815 308	16 463	29 527	53 328	914 626
Tax assets	395 491	-	-	20 424	415 915
Premises and equipment, and intangible assets	6 445 244	-	-	662 312	7 107 556
Total assets	**169 584 671**	**65 787 052**	**6 885 482**	**3 512 228**	**245 769 433**
Liabilities					
Due to other banks	1 290 673	19 275 919	428 299	158 484	21 153 375
Customer accounts	135 231 889	26 453 748	4 052 231	2 786 989	168 524 857
Debt securities issued	3 023 911	25 868 113	184 260	-	29 076 284
Other liabilities	2 336 039	94 632	33 773	101 445	2 565 889
Tax liabilities	743 391	-	-	1 898	745 289
Total liabilities	**142 625 903**	**71 692 412**	**4 698 563**	**3 048 816**	**222 065 694**
Net balance sheet position as at 31 December 2005	**26 958 768**	**(5 905 360)**	**2 186 919**	**463 412**	**23 703 739**

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to risk via daily calls from customers on its available cash resources from current accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Group does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

The Group developed liquidity management tools with the objective of maintaining the availability of funds to meet its liabilities as they come due. The liquidity management policy of the Group is reviewed and approved by the Financial Committee.

Liquidity is managed based on the following main principles:

- *substantiated assessment and forecasting* of liquidity crisis,
- *pro-active approach* to prevention/successful overcoming of possible crisis,
- *methods of effective liquidity management*,
- *methods of effective control* over functioning of liquidity management system and preparation of internal and external reports.

To maintain objective reflection of actual situation the Group implemented a system of mandatory segregation of rights and responsibilities between the bodies comprising the liquidity management system, which:

- take strategic decisions;
- manage liquidity;
- analyse and control the process.

To manage *quick liquidity* the Group applies the principle of anticipatory receipt and use in calculations of the information about its calendar transactions, customer deposits/write-offs on the basis of forecast and insider information. Quick liquidity is monitored and managed using the automated payment accounting system.

To manage *current and medium-term liquidity* the Group uses cash-flow calendar, which helps to assess liquidity and impact on liquidity of large transactions and arrangements carried out to obtain the desirable values.

Statistical analysis of quick, current and long-term liquidity is carried out by calculating economic ratios required by the Central Bank of Russia. In case of significant (exceeding 20%) changes in values of ratios for the last 3 months, especially for the last month of the period, reasons (or movements in assets and liabilities), which gave rise to material changes in these ratios are analysed.

The Group envisaged measures to be taken in case of insufficient liquidity and failure to cover gap using traditional sources. Depending on the complexity of the situation and general condition of the financial system the Group can act as follows:

- sell part of assets in descending its liquidity;
- enter into REPO transactions with the Central Bank of Russia;
- restrict growth of assets in certain types of business;
- change rates and tariffs;
- work purposefully with major clients and counterparties to make long-term placements.

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(in thousands of Russian Roubles)

The table below shows the assets and liabilities as at 31 December 2006 by their remaining contractual maturity.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	43 652 648	-	-	-	-	43 652 648
Mandatory cash balances with central banks		-	-	-	6 299 853	6 299 853
Financial assets at fair value through profit or loss	37 161 141	-	-	-	-	37 161 141
Due from other banks	24 146 154	948 414	4 145 333	28 510	-	29 268 411
Loans to customers	24 875 481	66 747 780	74 411 260	90 007 553	-	256 042 074
Financial assets available for sale	6 332	24 632	69 842	13 857	308 464	423 127
Investments in associates and non-consolidated subsidiaries	-	-	-	-	740 826	740 826
Goodwill	-	-	-	-	583 385	583 385
Other assets	1 351 183	16 350	298	102 662	-	1 470 493
Tax assets	-	-	-	-	37 474	37 474
Premises and equipment, and intangible assets	-	-	-	-	6 579 363	6 579 363
Total assets	**131 192 939**	**67 737 176**	**78 626 733**	**90 152 582**	**14 549 365**	**382 258 795**
Liabilities						
Due to other banks	2 215 084	8 154 682	244 542	27 400 966	-	38 015 274
Customer accounts	115 921 112	36 555 435	96 798 626	10 225 945	-	259 501 118
Debt securities issued	3 661 632	5 550 466	401 231	41 032 078	-	50 645 407
Other liabilities	930 407	151 953	8 305	208 015	-	1 298 680
Tax liabilities	-	-	-	-	828 963	828 963
Total liabilities	**122 728 235**	**50 412 536**	**97 452 704**	**78 867 004**	**828 963**	**350 289 442**
Net liquidity gap as at 31 December 2006	**8 464 704**	**17 324 640**	**(18 825 971)**	**11 285 578**	**13 720 402**	**31 969 353**
Cumulative liquidity gap as at 31 December 2006	**8 464 704**	**25 789 344**	**6 963 373**	**18 248 951**	**31 969 353**	

(in thousands of Russian Roubles)

The table below shows the assets and liabilities as at 31 December 2005 by their remaining contractual maturity.

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	19 917 291	-	-	-	-	19 917 291
Mandatory cash balances with central banks	-	-	-	-	4 173 467	4 173 467
Financial assets at fair value through profit or loss	29 776 069	-	-	-	-	29 776 069
Due from other banks	12 960 111	836 220	46 025	23 768	-	13 866 124
Loans to customers	16 979 151	48 611 471	51 346 914	46 310 637	-	163 248 173
Financial assets available for sale	-	-	-	-	6 149 849	6 149 849
Investments in associates and non-consolidated subsidiaries	-	-	-	-	200 363	200 363
Other assets	914 626	-	-	-	-	914 626
Tax assets	-	-	-	-	415 915	415 915
Premises and equipment, and intangible assets	-	-	-	-	7 107 556	7 107 556
Total assets	**80 547 248**	**49 447 691**	**51 392 939**	**46 334 405**	**18 047 150**	**245 769 433**
Liabilities						
Due to other banks	6 694 595	784 115	7 843 770	5 830 895	-	21 153 375
Customer accounts	64 501 184	38 688 229	38 203 914	27 131 530	-	168 524 857
Debt securities issued	1 393 982	1 766 693	866 703	25 048 906	-	29 076 284
Other liabilities	2 537 457	28 432	-	-	-	2 565 889
Tax liabilities	-	-	-	-	745 289	745 289
Total liabilities	**75 127 218**	**41 267 469**	**46 914 387**	**58 011 331**	**745 289**	**222 065 694**
Net liquidity gap as at 31 December 2005	**5 420 030**	**8 180 222**	**4 478 552**	**(11 676 926)**	**17 301 861**	**23 703 739**
Cumulative liquidity gap as at 31 December 2005	**5 420 030**	**13 600 252**	**18 078 804**	**6 401 878**	**23 703 739**	

Operational risk. The Group implemented fundamental measures for operational risk management, which imply regulation of performed transactions and business processes and availability of internal control system. These measures are supported by the respective risk assessment methodology based on world experience. The methodology of operational risk assessment was developed and approved. For information support of risk assessment the Bank has introduced special software and maintains database of losses resulted from realisation of operational risks. The following management methods and instruments are applied to operational risks:

Standardisation and development of technologies. Clear and unambiguous description of performed transactions technology and decision-making procedure within the internal regulatory framework and its timely actualisation is one of the main factors for decreasing the level of operational risk and it also forms the basis for timely detection and effective control of risks. Operational risks are also mitigated by implementing the information technologies allowing to decrease the level of manual transactions.

Limitation of authority. The Group implemented a multilevel system of limits on authorities of responsible persons and collective bodies, identified responsibility and interchangeability of employees in all segments of work.

Control. There is a system of procedures aimed at prevention or detection of departures from laws, regulations and standards of professional activities, settlement of conflict of interests, provision of adequate level of reliability relevant to the nature and scope of transactions performed.

Risk insurance. Certain types of loss arising from realisation of operational risks are covered by insurance, thus transferring possible loss to insurance organisations.

Provisions by main types of risk are made to form sources to cover possible losses. Provision rates and procedures are defined on the basis of the approved regulations.

Based on the results of regular risk analysis the Group prepares management reports for its management. These reports not only provide assessment of risk level but also offer arrangements to limit and diversify risks.

28. Contingent Liabilities and Derivative Financial Instruments

Insurance. The insurance market in the Russian Federation is still in the phase of development, so many forms of insurance protection applied in other countries are not available in the Russian Federation, yet. The Group has not obtained full insurance coverage for premises and equipment, against discontinuance of operations or third party liability with respect to property or ecological damage arsing due to malfunction of banking equipment or in connection with the main operations of the Group.

However, the Group has obtained insurance coverage for the most significant property items: premises, motor vehicles, ATM and other items against damage due to accidents and unlawful actions of third parties.

Legal proceedings. The management of the Group is not aware of any significant legal proceedings in respect of the Group either current, pending or suspended. As at 31 December 2006, the Group did not set up provisions for possible losses on litigation.

Taxation legislation. The tax system of the Russian Federation is characterised by a large number of taxes and frequently changed regulations that may have the retroactive effect and often contain ambiguous and contradictory statements. Often, differing opinions exist among various regulatory bodies in respect of the same regulation. Accuracy of tax computations is subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts create tax risks in the Russian Federation, which are substantially more significant than typically found in other countries. Management believes that the Group fully reflected its tax liabilities in the consolidated financial statements based on interpretation of the current tax legislation by the Group management. However, the risk remains that relevant authorities could take differing positions with regard to issues allowing more than one interpretation and the effect of such risk may be material.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2006	2005

(in thousands of Russian Roubles)

Less than 1 year	173 019	79 154
Total operating lease commitments	**173 019**	**79 154**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivative financial instruments unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting. Credit related commitments of the Group are as follows:

	2006	**2005**
Commitments to extend credit	15 082 005	27 491 641
Guarantees issued	14 007 443	6 459 543
Letters of credit	5 328 946	2 413 392
Total credit related commitments	**34 418 394**	**36 364 576**

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

The total outstanding contractual amount of guarantees, letters of credit and undrawn credit lines does not necessarily represent future cash requirements as these financial instruments may expire or terminate without being funded.

The Group management estimates possibility of losses in connection with credit related commitments as immaterial. As at 31 December 2006 and 31 December 2005, the Group did not set up provisions for the related losses.

Deals with financial instruments maturing after the balance sheet date. The table below presents the analysis of contractual or agreed amounts and fair value of financial instruments. It reflects gross position before the netting of any counterparty position by type of instrument with a maturity date subsequent to 31 December 2006.

	Domestic contracts		**Foreign contracts**	
	Contract amount	**Unrealised profit / (loss)**	**Contract amount**	**Unrealised profit / (loss)**
Forward transactions				
Foreign currency				
- sale of foreign currency	399 375	4 409	-	-
- purchase of foreign currency	399 353	(4 386)	-	-
Securities				
- sale of securities	-	-	2 371 934	10 314
Spot transactions				
Foreign currency				
- sale of foreign currency	4 352 013	7 381	1 384 964	(2 896)
- purchase of foreign currency	3 167 875	(3 757)	-	-
Total	**8 318 616**	**3 647**	**3 756 898**	**7 418**

29. Fair Value of Financial Instruments

The estimated fair values of financial instruments are disclosed in accordance with IAS 32 "Financial Instruments: Disclosure and Presentation". Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

(in thousands of Russian Roubles)

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. In separate cases professional judgment was applied to interpret market data to determine the estimated fair value. The Group has used available market information in estimating the fair value of financial instruments; the market information may not fully reflect the value that could be realised in the current circumstances.

The fair value of financial assets and liabilities as compared with the corresponding carrying amount is presented below:

	2006		2005	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Due from other banks	29 268 411	29 268 411	13 866 124	13 866 124
Loans to customers	256 042 074	256 042 074	163 248 173	163 248 173
Investments in associates and non-consolidated subsidiaries	740 826	740 826	200 363	200 363
Financial liabilities				
Due to other banks	38 015 274	38 015 274	21 153 375	21 153 375
Customer accounts	259 501 118	259 501 118	168 524 857	168 524 857
Debt securities issued	50 645 407	50 645 407	29 076 284	29 076 284

Financial instruments carried at fair value. Cash and cash equivalents, financial assets at fair value through profit or loss and financial assets available for sale are carried in the consolidated balance sheet at their fair value (Notes 5, 6, 9). Some financial assets available for sale have no independent market quotations. The fair value of these assets was determined by the Group based on the results of recent sale of equity interests in the investees to unrelated third parties, analysis of other information, such as discounted cash flows and financial information about investees, as well as using other valuation methods.

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. In the opinion of the Group, the fair values of due from other banks as at 31 December 2006 and 31 December 2005 do not materially differ from respective carrying amounts (Note 7). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represent the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The Group believes that fair values of loans to customers as at 31 December 2006 and 31 December 2005 do not materially differ from respective carrying amounts (Note 8). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Customer accounts and due to other banks. The estimated fair value of borrowings with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The management believes that fair values of borrowings as at 31 December 2006 and 31 December 2005 do not materially differ from respective carrying amounts (Note 13, 14). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Debt securities issued. The fair value of debt securities issued is based on market quotations. The fair value of instruments without quoted market prices is determined using the discounted cash flows model, which is based on the current yield curve for the remaining maturity (Note 15).

30. Related Party Transactions

In the normal course of business the Group enters into banking transactions with its major shareholders, directors, subsidiaries, associates, companies in which the Group shareholders have significant interests and other related parties. These transactions include settlements, origination of loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions were priced predominantly at market rates.

The outstanding balances at the year end, asset-related transactions and income and expense items for the year with related parties are as follows:

(in thousands of Russian Roubles)

	Shareholders		Directors and key management personnel		Associates	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Financial assets at fair value through profit or loss						
Financial assets at fair value through profit or loss as at 1 January	107 910	2 552 270	-	-	1 415 792	-
Financial assets at fair value through profit or loss acquised during the year	5 941 578	16 139 910	-	-	1 248 426	-
Financial assets at fair value through profit or loss sold and repaied during the year	(5 765 302)	(18 584 270)	-	-	(218 614)	-
Financial assets at fair value through profit or loss as at 31 December	**284 186**	**107 910**	**-**	**-**	**2 445 604**	**-**
Due from other banks						
Due from other banks as at 1 January	-	-	-	-	554 391	798 713
Due from other banks placed during the year	-	-	-	-	2 632 815	1 580 332
Due from other banks repaid during the year	-	-	-	-	(2 642 206)	(1 824 654)
Due from other banks as at 31 December	**-**	**-**	**-**	**-**	**545 000**	**554 391**
Provisions for impairment of due from other banks						
Provision for impairment of due from other banks as at 1 January	-	-	-	-	5 000	7 987
Recovery of provision for impairment of due from other banks during the year	-	-	-	-	-	(2 987)
Provision for impairment of due from other banks as at 31 December	**-**	**-**	**-**	**-**	**5 000**	**5 000**
Due from other banks as at 1 January (less provision for impairment)	**-**	**-**	**-**	**-**	**549 391**	**790 726**
Due from other banks as at 31 December (less provision for impairment)	**-**	**-**	**-**	**-**	**540 000**	**549 391**
Loans to customers						
Loans to customers as at 1 January (gross)	131 134	-	206 312	90 996	4 080 254	3 602 907
Loans to customers issued during the year	-	131 134	178 441	179 417	8 765 586	5 713 943
Loans to customers repaid during the year	(131 134)	-	(139 467)	(64 101)	(6 875 911)	(5 236 596)
Loans to customers as at 31 December (gross)	**-**	**131 134**	**245 286**	**206 312**	**5 969 929**	**4 080 254**

(in thousands of Russian Roubles)

	Shareholders		Directors and key management personnel		Associates	
	2006	2005	2006	2005	2006	2005
Provisions for loan impairment						
Provision for loan impairment as at 1 January	-	-	-	-	80 979	77 195
Provision for loan impairment during the year	-	-	-	-	177 143	3 784
Provision for loan impairment as at 31 December	**-**	**-**	**-**	**-**	**258 122**	**80 979**
Loans to customers as at 1 January (less provision for impairment)	**-**	**131 134**	**206 312**	**90 996**	**3 999 275**	**3 525 712**
Loans to customers as at 31 December (less provision for impairment)	**-**	**-**	**245 286**	**206 312**	**5 711 807**	**3 999 275**
Interest received on loans to customers and due from other banks	**3 352**	**78**	**11 888**	**11 419**	**293 032**	**694 943**

The outstanding balances at the year end, liability-related transactions and income and expense items for the year with related parties are as follows:

	Shareholders		Directors and key management personnel		Associates	
	2006	2005	2006	2006	2005	2006
Due to other banks						
Due to other banks as at 1 January	-	-	-	-	15 068	14 628
Due to other banks received during the year	-	-	-	-	7 859 601	1 739 853
Due to other banks repaid during the year	-	-	-	-	(7 861 159)	(1 739 413)
Due to other banks as at 31 December	**-**	**-**	**-**	**-**	**13 510**	**15 068**
Customer accounts						
Customer accounts as at 1 January	44 868 851	29 928 672	327 694	223 832	8 595 702	9 142 872
Customer accounts received during the year	368 039 835	269 587 661	1 454 591	836 902	299 422 555	285 586 929
Customer accounts repaid during the year	(337 301 000)	(254 647 482)	(1 365 648)	(733 040)	(294 902 502)	(286 134 099)
Customer accounts as at 31 December	**75 607 686**	**44 868 851**	**416 637**	**327 694**	**13 115 755**	**8 595 702**
Interest expense on deposits	3 507 506	1 140 593	35 226	28 485	34 692	22 749
Fee and commission income for the year	-	-	-	-	398 175	203 292
Guarantees issued by the Group at the end of the year	-	-	-	-	1 392 235	341 707

(in thousands of Russian Roubles)

Guarantees received by the Group at the end of the year	-	-	-	-	-	52 591
Import letters of credit at the end of the year	-	-	-	-	222 688	96 327

Operations with the Moscow Government structures account for a substantial share of related party transactions.

Information on remuneration to members of the Board of Directors and Executive Board and their families is given below:

	2006	2005
Remuneration to members of the Board of Directors and their families	27 142	24 408
Payroll and other short-term payments to members of the Executive Board and their families	510 020	372 608

31. Acquisitions and Disposals

Acquisition of subsidiary banks

AS Eesti Krediidipank

On 24 October 2006 the Group acquired 5.85% in the share capital of AS Eesti Krediidipank. Thus, the Group's interest in the share capital of AS Eesti Krediidipank increased to 65.67%.

The fair value of net assets of AS Eesti Krediidipank and also the excess of the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition are shown in the table below:

	24 October 2006
Fair value of net assets of subsidiary	**519 687**
Fair value of acquired share in the net assets of associate	**30 817**
The excess of the Group's share in the net fair value of identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition	(16 225)
Consideration paid (gross)	**14 592**

The excess of the Group's share in the net fair values of identifiable assets, liabilities and contingent liabilities of AS Eesti Krediidipank over the cost of acquisition in the amount of RUR 16 225 thousand resulted from acquisition of the additional interest in AS Eesti Krediidipank was recorded within net result on acquisition and sale of subsidiaries and associates of the consolidated statement of income at the time of acquisition.

JSCB Russian National Commercial Bank

On 22 March 2006 the Group acquired 3.06% in the share capital of JSCB Russian National Commercial Bank. Thus, the Group's interest in the share capital of JSCB Russian National Commercial Bank increased to 23.06%.

The fair value of net assets of JSCB Russian National Commercial Bank and also goodwill arising on acquisition are shown in the table below:

	22 March 2006
Fair value of net assets of associate	**405 065**
Fair value of acquired share in the net assets of associate	**12 395**
Goodwill	-
Consideration paid (gross)	**12 395**

On 2 October 2006 the acquired shareholding was sold at a profit of RUR 105 thousand.

(in thousands of Russian Roubles)

Acquisition of subsidiaries

CJSC Stroiportinvest

On 28 December 2006 the Group acquired 100% in the share capital of CJSC Stroiportinvest.

The fair value of net assets of CJSC Stroiportinvest and also goodwill arising on acquisition are shown in the table below:

	28 December 2006
Fair value of net assets of associate	**(192 054)**
Fair value of acquired share in the net assets of associate	**(192 054)**
Goodwill	192 064
Consideration paid (gross)	**10**

LLC PO Montazh

On 28 December 2006 the Group acquired 99% in the share capital of LLC PO Montazh.

The fair value of net assets of LLC PO Montazh and also goodwill arising on acquisition are shown in the table below:

	28 December 2006
Fair value of net assets of associate	**(188 299)**
Fair value of acquired share in the net assets of associate	**(186 416)**
Goodwill	186 426
Consideration paid	**10**

LLC Selkhozstroi

On 28 December 2006 the Group acquired 99% in the share capital of LLC *Selkhozstroi.*

The fair value of net assets of LLC *Selkhozstroi* and also goodwill arising on acquisition are shown in the table below:

	28 December 2006
Fair value of net assets of associate	**(206 956)**
Fair value of acquired share in the net assets of associate	**(204 885)**
Goodwill	204 895
Consideration paid	**10**

CJSC Financial Assistant

Due to the acquisition of interest in share capitals of CJSC Stroiportinvest, LLC Selkhozstroi, LLC PO Montazh the Group established control over CJSC Financial Assistant. The Group's interest amounted to 50.67% in the share capital of the company.

Disposal of subsidiaries and associates

CJSC Stolichnaya Neftyanaya Kompania

During the year 2006 the Group sold 25% of its 100% interest in the share capital of CJSC Stolichnaya Neftyanaya Kompania available at the date of sale. The Group reported gain on disposal of its interest in the subsidiary in the amount of RUR 2 thousand within net result from acquisition and disposal of subsidiaries and associates.

CJSC Investlesprom

During the year 2006 the Group sold 100% of investments in the share capital of CJSC Investlesprom.

The Group did not obtain any profit from disposal of investments in the subsidiary. The proceeds received on 100% interest in the subsidiary corresponded to the fair value of net assets of the company at the date of sale and equalled RUR 10 thousand.

(in thousands of Russian Roubles)

32. Capital Adequacy

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of more than 10.0% of risk weighted assets.

As at 31 December 2006 and 31 December 2005, the Group's international risk based capital adequacy ratio exceeded the minimum ratio of 8.0% recommended by the Basle Accord of 1988:

	2006	2005
Core capital (Tier 1 capital)	31 263 598	22 858 984
Secondary capital (Tier 2 capital)	9 657 047	9 159 832
Total equity (capital)	**40 920 645**	**32 018 816**
Risk-weighted assets	**306 918 800**	**204 205 159**
Capital adequacy ratio	**13.3%**	**15.7%**
Core capital adequacy ratio	**10.2%**	**11.1%**
Minimum capital adequacy ratio	8.0%	8.0%

33. Fiduciary Activities

The Group commonly acts a trustee under trust management agreements and through Unit Investment Funds. The Group gets commission for management of customers' assets. The Group has no obligations on fixed payments to customers. Funds managed by the Group on behalf of its customers are excluded from the consolidated balance sheet, as they are not assets of the Group.

The Group manages the following assets at the reporting date:

	2006	2005
Net assets of Unit Investment Funds	7 641 254	1 647 272
Securities under trust management	2 900 597	1 951 496
Cash on bank accounts and other assets under trust management	260 451	24 643
Loans to customers	-	253 344
Total	**10 802 302**	**3 876 755**

34. Events after the Balance Sheet Date

On 22 January 2007 the Central Bank of Russian Federation registered additional issue of 6 900 000 ordinary nominal shares with par value of 100 roubles each in the total amount of RUR 690 000 thousand. The shares were placed at the following price: based on pre-emptive rights of shareholders - at RUR 928 per share, under open subscription - at RUR 1031 per share. 27 January 2007 is the date of the beginning of placement. The placement of securities based on pre-emptive rights actually competed on 12 March 2007. The issuer approved the results of execution of pre-emptive rights of shareholders on 15 March 2007. Securities actually placed on the basis of the pre-emptive right of shareholders accounted for 18.028% of the total number of additionally issued securities to be placed. Actually 1 243 925 shares were placed. The number of additionally issued shares to be placed among third parties under open subscription comprise 5 656 075 shares. The placement of shares under open subscription is to be competed no later than on 23 April 2007. Percentage of issued securities, which if remained unplaced results in the securities issue deemed unfulfilled, is not specified in the decision.

In its resolution No. 1032-PP of 27 December 2006 the Moscow Government expressed an intention to found OJSC Stolichnaya Strakhovaya Gruppa (insurance group) by consolidating the insurance business with other participants of the Group. The Group's subsidiary CJSC Financial Assistant declared its wish to participate in the foundation of a new insurance holding. The foundation of OJSC Stolichnaya Strakhovaya Gruppa may cause changes in the cost of net assets of the Group's associate OJSC Moscow Insurance Company. The process of the creation of insurance group probably starts in the year 2007. As information on the completion dates of the creation of OJSC Stolichnaya Strakhovaya Gruppa is not available, so it is considered impossible to assess the result from change in the cost of net assets of OJSC Moscow Insurance Company.

BDO Unicon
Auditors and Consultants

Closed joint-stock company

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Independent Auditors' Report

To the Shareholders and the Board of Directors of Joint Stock Commercial Bank - Bank of Moscow (Open Joint Stock Company)

We have audited the accompanying consolidated balance sheet of Joint Stock Commercial Bank - Bank of Moscow (open joint stock company) and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards approved by the International Accounting Standards Board.

Elena I. Kopanyova
FCCA
Deputy General Director

7 April 2006

(in thousands of Russian Roubles)

	Note	2005	2004
ASSETS			
Cash and cash equivalents	5	19 917 291	16 388 902
Mandatory cash balances with central banks		4 173 467	3 057 461
Financial assets at fair value through profit or loss	6	29 776 069	26 460 131
Due from other banks	7	13 866 124	11 696 225
Loans to customers	8	161 078 504	91 033 509
Financial assets available for sale	9	6 149 849	1 025 230
Investments in associates and non-consolidated subsidiaries	10	200 363	930 945
Other assets	11	888 917	490 242
Tax assets	23	441 624	208 218
Premises and equipment, and intangible assets	12	9 277 225	7 545 416
Total assets		**245 769 433**	**158 836 279**
LIABILITIES			
Due to other banks	13	21 153 375	7 193 340
Customer accounts	14	168 524 857	116 593 380
Debt securities issued	15	29 076 284	14 109 462
Other liabilities	16	2 565 889	829 245
Tax liabilities	23	745 289	637 625
Total liabilities		**222 065 694**	**139 363 052**
EQUITY			
Share capital	17	14 226 839	14 226 839
Treasury shares	17	(11 483)	-
Fair value reserve for financial assets available for sale		2 035	(154 196)
Revaluation reserve for premises and equipment		646 596	637 532
Accumulated exchange differences		(15 475)	(16 232)
Retained earnings		8 632 145	4 705 592
Shareholders' equity		**23 480 657**	**19 399 535**
Minority interest	18	**223 082**	**73 692**
Total equity		**23 703 739**	**19 473 227**
Total equity and liabilities		**245 769 433**	**158 836 279**

Yu. G. Maksutov
Financial Director

7 April 2006

Открытое акционерное общество акционерный коммерческий банк «Банк Москвы» ОГРН 1027700159497 Joint stock commercial bank - Bank of Moscow (open joint stock company) Банк Москвы МОСКВА

L. N. Davydova
Chief Accountant

The notes set out on pages 9 to 56 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Note	2005	2004
Interest income	19	17 855 147	11 422 093
Interest expense	19	(8 405 072)	(5 775 105)
Net interest income		**9 450 075**	**5 646 988**
Provision for loan impairment	7, 8	(645 336)	(513 933)
Net interest income after provision for loan impairment		**8 804 739**	**5 133 055**
Gains less losses arising from financial assets at fair value through profit or loss		48 260	1 230 813
Gains less losses from dealing in foreign currency		612 006	460 593
Foreign exchange translation gains less losses		(147 794)	(195 702)
Fee and commission income	20	2 435 102	1 792 767
Fee and commission expense	20	(450 264)	(399 844)
Dividends received		30 435	45 750
Provision for impairment of financial assets available for sale	9	80 968	(72 699)
Provision for impairment of other assets	11	(11 535)	1 577
Provision for impairment of cash and cash equivalents	5	7 901	(5 892)
Net income		**11 409 818**	**7 990 418**
General and administrative expenses	21	(6 381 538)	(4 775 679)
Contributions to the Deposit Insurance Fund		(287 000)	-
Other operating income less expenses	22	590 687	538 588
Monetary loss		(881)	(8 301)
Operating income		**5 331 086**	**3 745 026**
Share in net loss of associates	10	(9 252)	(20 980)
Net share in other movements in the associates' equity	10	112	-
Net share in other movements in equity of non-consolidated subsidiaries and other investments		(8 854)	-
Net (loss)/gain on acquisition and sale of subsidiaries and associates	31	(90 878)	290 584
Profit before taxation		**5 222 214**	**4 014 630**
Income tax expense	23	(1 197 345)	(886 101)
Net profit		**4 024 869**	**3 128 529**
Net profit attributable to minority interests	18	14 582	34 348
Net profit attributable to the shareholders of the parent bank		4 010 287	3 094 181
Basic EPS (RUR per share)	24	**34,13**	**38,14**

(in thousands of Russian Roubles)

	Note	2005	2004
Cash flows from operating activities			
Interest received		17 613 689	11 381 844
Interest paid		(8 155 153)	(5 522 276)
Fees and commissions received		2 433 852	1 792 767
Fees and commissions paid		(449 976)	(399 844)
Income received on operations with financial assets at fair value through profit or loss and available for sale		656 118	898 252
Income received from dealing in foreign currency and precious metals		483 158	272 539
General and administrative expenses paid, and other net operating income received		(5 413 976)	(4 419 758)
Income tax paid		(1 452 606)	(828 017)
Cash flows from operating activities before changes in operating assets and liabilities		**5 715 106**	**3 175 507**
Net (increase)/decrease in operating assets			
Mandatory cash balances with central banks		(1 112 621)	6 427 903
Financial assets at fair value through profit or loss and available for sale		(7 715 615)	(4 541 986)
Due from other banks		1 306 552	(9 939 796)
Loans to customers		(69 331 671)	(26 246 339)
Investments in associates, non-consolidated subsidiaries and other assets		(353 471)	740 541
Net increase/(decrease) in operating liabilities			
Due to other banks		13 797 870	(5 381 937)
Customer accounts		45 601 992	30 131 954
Debt securities issued		(1 805 532)	(457 590)
Other liabilities		2 046 430	422 976
Net cash flows from operating activities		**(11 850 960)**	**(5 668 767)**
Cash flows from investing activities			
Acquisition of subsidiaries	31	326 410	(13 655)
Disposal of subsidiaries	31	19 011	127 666
Purchase of premises and equipment		(1 959 955)	(1 884 351)
Proceeds from sale of premises, equipment and intangible assets		152 329	756 198
Dividends received		29 166	45 750
Net cash flows from investing activities		**(1 433 039)**	**(968 392)**
Cash flows from financing activities			
Eurobonds issued by the Bank		16 931 866	7 304 100
Dividends paid	25	(93 112)	(118 494)
Issue of ordinary shares		-	3 750 093
Own shares purchased from the shareholders	17	(11 483)	-
Net cash flows from financing activities		**16 827 271**	**10 935 699**
Effect of exchange rate changes on cash and cash equivalents		(22 784)	(434)
Net change in cash and cash equivalents		**3 520 488**	**4 298 106**
Cash and cash equivalents at the beginning of the year	5	16 396 803	12 098 697
Cash and cash equivalents at the end of the year	5	**19 917 291**	**16 396 803**

The notes set out on pages 9 to 56 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Note	Equity of shareholders of the parent bank						Minority interest	Total equity
		Share capital	**Treasury shares**	**Fair value reserve for financial assets available for sale**	**Revaluation reserve for premises and equipment**	**Accumulated exchange differences**	**Retained earnings**		
Balance as at 31 December 2003		**10 476 746**	**-**	**-**	**645 986**	**-**	**1 652 178**	**109 753**	**12 884 663**
Negative revaluation of financial assets available for sale		-	-	(154 196)	-	-	-	-	(154 196)
Depreciation of revaluation reserve for premises and equipment		-	-	-	(8 454)	-	8 454	-	-
Exchange differences arising from translation of investments in foreign subsidiary banks		-	-	-	-	(16 232)	-	-	(16 232)
Shares issued		3 750 093	-	-	-	-	-	-	3 750 093
Dividends declared for 2003	25	-	-	-	-	-	(118 937)	-	(118 937)
Net profit for 2004		-	-	-	-	-	3 094 181	34 348	3 128 529
Change in minority interest on acquisition of subsidiaries	18	-	-	-	-	-	-	90 327	90 327
Change in minority interest on disposal of subsidiaries	18	-	-	-	- -		69 716	(160 736)	(91 020)
Balance as at 31 December 2004		**14 226 839**	**-**	**(154 196)**	**637 532**	**(16 232)**	**4 705 592**	**73 692**	**19 473 227**

The notes set out on pages 9 to 56 are an integral part of these consolidated financial statements.

(in thousands of Russian Roubles)

	Note	Parent shareholders' equity						Minority interest	Total equity
		Share capital	Treasury shares	Fair value reserve for financial assets available for sale	Revaluation reserve for premises and equipment	Accumulated exchange differences	Retained earnings		
Balance as at 31 December 2004		**14 226 839**	**-**	**(154 196)**	**637 532**	**(16 232)**	**4 705 592**	**73 692**	**19 473 227**
Treasury shares	17	-	(11 483)	-	-	-	-	-	(11 483)
Revaluation of financial assets available for sale		-	-	2 833	-	-	-	-	2 833
Realised gain on revaluation of financial assets available for sale charged to the statement of income		-	-	153 398	-	-	-	-	153 398
Revaluation of premises and equipment due to hyperinflation		-	-	-	17 518	-	-	-	17 518
Depreciation of revaluation reserve for premises and equipment		-	-	-	(8 454)	-	8 454	-	-
Exchange differences arising from translation of investments in foreign subsidiary banks		-	-	-	-	757	-	-	757
Dividends declared for 2004	25	-	-	- -		-	(92 678)	-	(92 678)
Effect of hyperinflation		-	-	- -		-	818	-	818
Net profit for 2005		-	-	-	-	-	4 010 287	14 582	4 024 869
Change in minority interest on acquisition of subsidiaries	18	-	-	-	-	-	-	134 460	134 460
Change in minority interest on disposal of subsidiaries		-	-	-	-	-	20	-	20
Change in minority interest due to share issue by a subsidiary bank	18	-	-	-	-	-	(348)	348	-
Balance as at 31 December 2005		**14 226 839**	**(11 483)**	**2 035**	**646 596**	**(15 475)**	**8 632 145**	**223 082**	**23 703 739**

The notes set out on pages 9 to 56 are an integral part of these consolidated financial statements.

1. Principal Activities of the Group

These consolidated financial statements comprise the financial statements of Joint-Stock Commercial Bank – Bank of Moscow (open joint stock company) (hereinafter the "Bank" or "Bank of Moscow") and its subsidiaries. The Bank and its subsidiaries are jointly referred to as the "Group" or "Group of the Bank of Moscow". The full list of subsidiaries and associates included in these consolidated financial statements is disclosed in Note 3.

Bank of Moscow is a joint stock commercial bank registered in the Russian Federation. Bank of Moscow was set up in March 1995 through reorganisation of Moscow Settlements Bank registered in the Russian Federation in 1994.

The Bank operates under General Banking License No. 2748 issued by the Central Bank of Russia (CBR) on 14 October 2004. The Bank also holds licenses of the professional securities market participant and a license for trading in precious metals.

The principal activities of the Bank and its subsidiaries are corporate and retail banking services, brokerage transactions and investment services on the territory of the Russian Federation and abroad.

Provision of services to individuals makes up a considerable portion of the Bank's operations. The Bank is the third largest Russian bank by the volume of customer accounts attracted from individuals and is second best by the number of private clients.

The Bank's principal shareholder is the Government of the City of Moscow. As at 31 December 2005, the share of the Government of the City of Moscow and its controlled entities in the Bank's share capital constitutes 62.17% (as at 31 December 2004: 63.87%). Other shareholders of the Bank with shareholdings above 5% of the Bank's share capital are disclosed in Note 17.

The Bank is registered at the following address: 8/15 Rozhdestvenka Str., Moscow, the Russian Federation.

As at 31 December 2005, the Bank had 221 divisions on the territory of the Russian Federation and 5 subsidiary banks: in the Russian Federation (Moscow) - OJSC Mosvodokanalbank, Group's interest of 50.1%; in the Republic of Belarus (Minsk) – Foreign Bank Moscow-Minsk, Group's interest of 100%; in the Republic of Latvia (Riga) - JSC Latvian Businessbank (AS Latvijas Biznesa Banka), Group's interest of 99.81%; in the Republic of Estonia (Tallinn) - Estonian Credit Bank (Eesti Krediidipank), Group's interest of 59.82%; in the Republic of Ukraine (Kiev) – BM Bank LLC, Group's interest of 99.5%.

The Bank's head office is located in Moscow. Over 80% of the Bank's operations are concentrated in the head office. Seventy four Bank's branches and sub-branches are located in all administrative districts of Moscow and in large towns of Moscow region. The Bank is the financial agent of the Government of the City of Moscow for investment programs and is the authorised dealer for bonds issues of the City of Moscow. The Bank is an active participant of a number of Moscow financial and industrial programs. It provides services to most municipal and commercial organisations, which participate in the implementation of Moscow Government programs.

On 9 August 2005 the international rating agency Fitch Ratings upgraded the Bank's long-term credit rating from "BB+" to "BBB-", short-term credit rating from "B" to "F3" and support rating from "3" to "2". The ratings outlook was reconfirmed as "stable".

On 27 October 2005, the international rating agency Moody's Investors Service upgraded the long- and short-term foreign currency deposit ratings of the Bank of Moscow to 'Baa2/Prime-2'. The ratings outlook was assessed as "stable".

As at 31 December 2005, the Bank of Moscow regional network comprised 43 branches and 104 sub-branches located on the territory of the Russian Federation (as at 31 December 2004: 41 branches and 78 sub-branches). The subsidiary bank - Foreign Bank Moscow-Minsk - has three branches located on the territory of the Republic of Belarus.

2. Operating Environment of the Group

The Group operates primarily within the Russian Federation. Over the past decade the Russian Federation has undergone substantial political, economic and social changes. Though since 2002 the Russian economy has been recognised to be the market economy and a number of main reforms aimed at establishment of banking, judicial, tax and legislative systems have been implemented the business and legislative framework do not possess the same level of stability as in the countries with more developed economy.

In 2005 the Bank joined the Deposit Insurance System. The activities of the Deposit Insurance System are provided for by federal laws and regulations. It is managed by the state corporation Deposit Insurance Agency. The limit of coverage of the Bank's liabilities to private clients is up to RUR 100 thousand per each depositor in the event of bankruptcy or recall of the license for banking operations by the Central Bank of Russia.

(in thousands of Russian Roubles)

2. Operating Environment of the Group (continued)

Currently, the economy of the Russian Federation continues to display characteristics of an emerging market. These characteristics include:

- high inflation rates during a number of years;
- certain currency restrictions, which do not allow the national currency to become a liquid means of payment outside of the Russian Federation;
- low level of liquidity on capital markets.

Inflation

Russia continues to experience relatively high levels of inflation. The inflation indices for the last five years are given in the table below:

Year ended:	Inflation for the period
31 December 2005	10.9%
31 December 2004	11.7%
31 December 2003	12.0%
31 December 2002	15.1%
31 December 2001	18.8%

Currency transactions and currency control

Foreign currencies, in particular the US dollar, play a significant role in measuring economic parameters of many business transactions in Russia.

The table below shows the exchange rates of RUR relative to USD and EUR for the last five years:

Year ended:	RUR/USD	RUR/EUR
31 December 2005	28.7825	34.1850
31 December 2004	27.7487	37.8104
31 December 2003	29.4545	36.8240
31 December 2002	31.7844	33.1098
31 December 2001	30.14	26.49

The Central Bank of Russia introduced strict currency control regulations designed to promote the commercial utilisation of the Russian Rouble. Such regulations place restrictions on the conversion of Russian Roubles into hard currencies and establish mandatory requirements to sell 25% of hard currency earnings to Russian Roubles. The Central Bank of Russia announced its intention to repeal mandatory conversion of foreign currency sales into RUR in 2006.

Financial market transactions

Economic conditions in the Russian Federation continue to limit the volume of activity in the financial markets. Market quotations may not be reflective of the values of financial instruments, which would be determined in an efficient, active market between knowledgeable and willing buyers and sellers. Management has therefore used the best available information to adjust market quotations to reflect their best estimate of fair values, where considered necessary.

International recognition of Russia's investment attractiveness and reduced macroeconomic risks and inflationary expectations were confirmed by the investment ratings awarded to the Russian Federation by the world leading rating agencies: Standard & Poor's (30 January 2005: award of "BBB-" rating with stable outlook), Fitch Ratings (3 August 2005: award of "BBB" rating with stable forecast), Moody's (8 September 2005: award of "Baa3" rating with positive outlook; 25 October 2005: award of "Baa2" rating with stable outlook.). On 16 December 2005 Standard & Poor's awarded the "BBB" rating to Russia with stable outlook.

The accompanying consolidated financial statements reflect the Group management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of measures undertaken by the Government and other factors including regulatory and political developments, which are beyond the Group's control. The Group's management cannot predict the impact of the above factors on the financial position of the Bank and the Group. Therefore, the accompanying consolidated financial statements do not include the adjustments associated with this risk.

3. Basis of Presentation

General principles

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) including all previously adopted standards and interpretations of the International Accounting Standards Board. The Group maintains its accounting records in accordance with the applicable legislation of the Russian Federation and of the countries where its subsidiary banks are domiciled. These consolidated financial statements have been prepared on the basis of those accounting records and adjusted as necessary in order to comply, in all material respects, with IFRS. The Group subsidiary companies and banks domiciled outside of the Russian Federation independently prepare their financial statements in accordance with IFRS, which are subsequently consolidated into the Group's consolidated financial statements.

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on the information available at the date of these consolidated financial statements. Actual results may differ from those estimates and assumptions.

The most material are estimates used to determine a provision for impairment of financial assets, useful lives of premises and equipment and the amount of off-balance sheet risks and contingent liabilities.

Accounting policies of the subsidiaries were adjusted where necessary in order to comply with accounting policies of the Group.

Accounting convention

In 2005 the Group applied current International Financial Reporting Standards (IFRS), including all previously adopted standards and interpretations issued by SIC and IFRIC.

Where necessary, corresponding figures have been adjusted to conform to changes in the presentation of the current year.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

Reporting currency

The Group conducts the major part of its operations in the Russian Roubles. As the Russian Rouble is the national currency of the Russian Federation, it was selected as reporting currency. All amounts in these consolidated financial statements are stated in thousands of Russian Roubles (unless otherwise indicated).

Foreign subsidiary banks are viewed as business units conducting overseas operations which are an integral part of the Group's business. Therefore, the reporting currency of the Group (Russian Roubles) is used as reporting currency of the above banks, regardless of the fact that it is not the currency of the countries in which the said subsidiary banks operate.

Subsidiaries

Subsidiary undertakings (including special purpose entities, SPE) are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over financial and operating policies.

The existence and effect of potential voting rights (stock options) that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are removed from consolidation from the date that control ceases.

The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of net assets acquired at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the identifiable net assets of the acquired subsidiary is recorded as goodwill. If the cost of acquisition is less than the fair value of net identifiable assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Minority interest is the part of net results of operations and net assets of a subsidiary attributable to the interest which is not owned, directly or indirectly, by the Group. Minority interest in the consolidated balance sheet is recorded separately from the Group liabilities and shareholders' equity and is affected by the foreign currency translation adjustment, where necessary. Minority interest related to operational results of the current year is recorded as a separate line in the consolidated statement of income.

(in thousands of Russian Roubles)

3. Basis of Presentation (continued)

The companies included in the Group's consolidated financial statements are set out below:

Name	Location	Business activity	Percentage of ownership
1. Foreign Bank Moscow-Minsk	Republic of Belarus	Banking services	100.00
2. AS Latvijas Biznesa Banka	Republic of Latvia	Banking services	99.81
3. AS Eesti Krediidipank	Republic of Estonia	Banking services	59.82
4. BM Bank LLC	Republic of Ukraine	Banking services	99.50
5. OJSC Mosvodokanalbank	Russia	Banking services	50.10
6. CJSC Imagine	Russia	Financial services	100.00
7. CJSC Altruist	Russia	Financial services	100.00
8. CJSC Press Magnate	Russia	Publishing	100.00
9. CJSC DOSSOM	Russia	Catering	100.00
10. CJSC Vechernyaya Moskva	Russia	Publishing	100.00
11. CJSC Concern Vechernyaya Moskva	Russia	Publishing	50.00
12. OJSC International Management Company	Russia	Financial services	50.00
13. CJSC Bank of Moscow management company	Russia	Financial services	100.00
14. Kuznetski Capital S.A.	Luxembourg	Financial services	SPE
15. CJSC Financial Assistant *	Russia	Financial services	less 0.01
16. AS Martinoza	Republic of Estonia	Real estate management	59.71
17. AS Krediidipanga Liising	Republic of Estonia	Leasing	59.71

* Profit and losses of this company were included in the consolidated financial statements for the period from 1 January 2005 up to the date the Group ceased to control this entity.

Where the companies do not have a significant influence on the consolidated financial statements of the Group they are not consolidated. These companies are reflected within investments in associates and non-consolidated subsidiaries and are accounted for by the equity method of accounting.

Following is a list of the companies, which were not included into consolidated financial statements:

Name	Country of registration	Nature of business	Percentage of ownership
BM Holding LTD	Switzerland	Financial services	100.00
Yaroslavna, LLC	Russia	Security	100.00
CJSC Stolichnaya Neftyanaya Kompania	Russia	Production	100.00
CJSC Investlesprom	Russia	Production	100.00
Editorial office of MK-Boulevard magazine, LLC	Russia	Publishing	50.00

Transactions eliminated on consolidation

Transactions, balances and unrealised gains on transactions between subsidiary banks and companies of the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Associates

Associates are entities over which the Group has from 20% to 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting and are initially recorded at cost. Under this method, the Group's share of its associates' post-acquisition profits or losses is recognised in consolidated statement of income. The cumulative post-acquisition movements of the Group's share in the associates are adjusted against the carrying amount of the investment. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised profits on transactions between the Group and its associates are eliminated in proportion with the Group share in associates. Unrealised losses are also eliminated unless a transaction indicates impairment of transferred assets. Where necessary, the accounting policies of the associates were adjusted to comply with the accounting policies of the Group.

(in thousands of Russian Roubles)

3. Basis of Presentation (continued)

Below is the list of the Group's associates:

Name	Location	Business activity	Percentage of ownership
1. JSCB Russky Zemelny Bank	Russia	Banking services	31.0
2. JSCB Russian National Commercial Bank	Russia	Banking services	20.0

Effect of changes in presentation format

Certain corresponding figures reported in the consolidated balance sheet as at 31 December 2004 and consolidated statement of income for the year then ended were reclassified to conform to the financial reporting format of 2005.

Amount	Reported in the previous year	After reclassification
45 285	Gains less losses arising from trading securities	Dividends received
465	Other operating income less expenses	Dividends received
7 454 348	Premises and equipment	Premises and equipment, and intangible assets
91 068	Intangible assets	Premises and equipment, and intangible assets
208 218	Other assets	Tax assets
46 191	Other liabilities	Tax liabilities
591 434	Deferred tax liability	Tax liabilities
26 460 131	Trading securities	Financial assets at fair value through profit or loss
1 025 230	Securities available for sale	Financial assets available for sale

4. Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, precious metals, correspondent and current account balances of the Group. All short-term interbank placements, excluding overnight placements, are included in due from other banks. Amounts, which relate to funds of restricted nature, are excluded from cash and cash equivalents.

Cash and cash equivalents do not include mandatory cash balances held with CBR.

Gold and other precious metals are recorded at current CBR prices. Differences between the contractual prices of a certain transaction and the CBR prices at the date of the transaction are included in other operating income less expenses in the consolidated statement of income. Any gains or losses on assets and liabilities denominated in gold or other precious metals arising from a change in CBR prices are recognised as other operating income less expenses in the consolidated statement of income.

Mandatory cash balances with central banks

Mandatory cash balances with the central banks represent mandatory reserve deposits with the CBR and central banks in other countries where the Group entities are residents. They are not available to finance the Group's day-to-day operations.

Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans to customers; financial assets held to maturity; and financial assets available for sale. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include trading securities and derivative financial instruments, unless they are designated as hedges.

Trading securities represent securities acquired principally for the purpose of generating a profit from short-term fluctuations in price or trader's margin, or securities included in a portfolio where a pattern of short-term trading exists. The Group classifies securities as trading securities when it intends to sell them within a short period of time after purchase, i.e. within 12 months.

Trading securities are initially recognised at cost (which includes transaction costs) and subsequently remeasured at fair value. The fair value of securities is calculated either based on their market quotations or using various valuation procedures based on the assumption that these securities could be sold in future. In determining market value, all trading securities are valued at the last trade price if quoted on an exchange or, if traded over-the-counter, at the last bid price.

4. Summary of Significant Accounting Policies (continued)

All related realised and unrealised gains and losses are recorded within gains less losses arising from financial assets at fair value through profit or loss in the consolidated statement of income in the period in which they occur. Interest earned on trading securities is reflected in the consolidated statement of income as interest income. Received dividends are recorded within dividends received.

All purchases and sales of trading securities that require delivery within the time frame established by legislation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date when the Group commits to purchase or sell the asset. Otherwise, such transactions are treated as financial derivatives until settlement.

Derivative financial instruments including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate options, currency and interest rate swaps, as well as other derivative financial instruments are initially recorded in the consolidated balance sheet at cost (including transaction costs) and subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models, option price models, or the spot rate at the year-end, as appropriate. All financial derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Changes in the fair value of derivative financial instruments are included in gains less losses from dealing in foreign currency and gains less losses arising from financial assets at fair value through profit or loss, depending on the related transaction.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their risks and economic characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in the consolidated statement of income.

The Group does not enter into derivative instruments for hedging purposes.

Loans to customers, provision for loan impairment

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the entity upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credibility deterioration, which shall be classified as available for sale.

Loans to customers are initially recorded at cost, which is the fair value of the consideration given. Subsequently, they are carried at amortised cost less provision for loan impairment. Amortised cost is based on the fair value of cash consideration given to originate those loans determinable by reference to market interest rates on similar loans in effect at origination date.

Loans to customers are recorded when cash is advanced to borrowers.

Loans, which interest rates differ from market rates, are measured at their fair value at the date of origination. The fair value represents future interest payments and principal amount, discounted at market rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of assets at rates above market or losses on origination of assets at rates below market. Subsequently, the carrying amount of such loans is adjusted for amortisation of the gains/losses on origination and the related income is recorded within the consolidated statement of income using the effective interest method.

A provision for loan impairment is established if there is objective evidence that the Group will not be able to collect the amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount of the loan, calculated as the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate on this loan.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the provision for loan impairment in the consolidated statement of income.

The recovery of the provision is credited to the provision for loan impairment in the consolidated statement of income.

Loans are placed on non-accrual status when full payment of principal or interest is in doubt (a loan with principal and interest unpaid for at least ninety days). When a loan is placed on non-accrual status, accrued interest on these loans is not recognised in the consolidated statement of income. A non-accrual loan may be restored to accrual status when all principal and interest

4. Summary of Significant Accounting Policies (continued)

amounts contractually due are reasonably assured of repayment in full within a period determined by loan agreement.

Due from other banks

The Group adopts accounting policies applicable to loans to customers and provision for loan impairment in respect of the Group's funds placed with other banks.

Other credit related commitments

In the normal course of business the Group enters into other credit related commitments, including letters of credit and guarantees. Specific provisions are recorded by the Group against other credit related commitments when losses are considered probable.

Promissory notes purchased

Promissory notes purchased are included in financial assets at fair value through profit or loss, financial assets available for sale, due from other banks or in loans to customers, depending on their economic substance and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Financial assets available for sale

This category of financial assets includes investment securities which management intends to hold for an indefinite period of time, that may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group's management determines the appropriate classification of investment securities at the time of purchase.

Financial assets available for sale are initially recognised at cost (which includes transaction costs) and are subsequently remeasured to fair value based on quoted bid prices. Certain financial assets available for sale for which there is no available independent quotation have been fair valued by the Group's management on the basis of results of recent sales of similar financial assets to unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies, including independent appraisal.

Unrealised gains and losses arising from changes in the fair value of financial assets available for sale are recognised in the consolidated statement of changes in equity. When financial assets available for sale are disposed of, the related accumulated fair value adjustments are included in the consolidated statement of income as gains less losses from financial assets available for sale. Impairment and recovery of previously impaired value of financial assets available for sale are reported in the consolidated statement of income.

Interest income on financial assets available for sale is recognised as interest income in the consolidated statement of income.

A financial asset available for sale is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about one the following events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from financial assets since the initial recognition of those assets.

All regular way purchases and sales of financial assets available for sale are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. All other purchases and sales are recognised as forward transactions until settlement.

Sale and repurchase agreements, lending of securities

Sale and repurchase agreements (repos) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are recorded in consolidated balance sheet within financial assets at fair value through profit or loss or financial

4. Summary of Significant Accounting Policies (continued)

assets available for sale, depending on the related transaction. The funds received under these agreements are included in due to other banks or customer accounts. Securities purchased under agreements to resell (reverse repos) are recorded as due from other banks or loans to customers. The difference between the sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest rate method.

Securities lent by the Group to counterparties continue to be recognised in the Group's consolidated financial statements as securities. Securities received as a loan are not shown in the Group's consolidated financial statements. When these securities are sold to third parties, the financial result from sale and purchase of such securities is recognised in the consolidated statement of income within gains less losses arising from financial assets at fair value through profit or loss. The obligation to return the securities is recorded at fair value as a trading liability.

Goodwill

Goodwill represents future economic benefits from assets that are not capable of being separately identified and recognised. Goodwill arsing in a business combination is recorded in the consolidated balance sheet as an asset at the date of purchase.

Goodwill is valued at cost at the date of purchase. Goodwill is the difference between the cost of the acquisition and the acquiring enterprise's share of the fair values of the identifiable assets acquired less liabilities and contingent liabilities assumed. After initial recognition goodwill is carried at cost less accumulated impairment losses. Goodwill arising in a business combination is not amortised. The residual value of goodwill from prior acquisitions is tested for impairment in accordance with IFRS 36 "Impairment of Assets" after 1 January 2005.

Goodwill is tested annually for impairment, as well as when there are indications of impairment. If such indications exist, the Group performs an impairment analysis to evaluate recoverability of the carrying amount of goodwill. Goodwill is written off when the carrying value of goodwill exceeds its recoverable amount.

Negative goodwill or the excess of the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition is recognised in the consolidated statement of income as income.

Computer software

Acquired computer software and the related licenses are capitalised including costs incurred by the Group to install and bring it to use. Subsequently, these costs are amortised over the useful lives of assets (from three to five years).

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs that are directly associated with identifiable and unique software controlled by the Group and will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads.

Expenses that enhance or extend the performance of the software beyond its original specifications are recognised as capital expenditures and added to the original cost of the software. Costs of software development recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 3 years.

Premises and equipment

Premises and equipment are stated at acquisition cost restated by applying the relevant inflation conversion factors to the historical cost, or at revalued amounts, as indicated below, less accumulated depreciation and impairment provision, where required. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is recognised in the consolidated statement of income. The estimated recoverable amount is determined as higher of an asset's net realisable value and its value in use.

Premises and equipment of the acquired subsidiary are initially recorded in the consolidated balance sheet at the estimated fair value at the date of acquisition.

Premises of the Group are revalued on a regular basis. The frequency of revaluations depends on changes in the fair value of the assets subjected to revaluation. Revaluation reserve for premises and equipment shown within equity is credited directly to retained earnings when revaluation surplus is realised, that is when the related asset is written off or sold by the Group. When the asset is sold, the amount of this realised surplus is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's initial cost.

Premises were revalued to current market prices as at 31 December 2002. Revaluation was based on the results of the appraisal performed by a competent independent appraiser. Market value was used as a basis of appraisal.

Construction in progress is carried at cost adjusted, where necessary, for inflation less impairment provision. As soon as construction is completed, assets are reclassified as premises and equipment at their carrying value at the date of reclassification.

4. Summary of Significant Accounting Policies (continued)

Construction in progress is not depreciated until the asset is available for use.

Gains and losses on disposal of premises and equipment are determined by reference to their carrying amount. Repairs and maintenance are charged to the consolidated statement of income when the expense is incurred.

Depreciation

Depreciation is charged on a straight-line basis over the useful lives of the assets.

Asset category	Useful life
Buildings	100 years
Structures	20-50 years
Equipment	4-10 years
Leasehold improvements	over the lease term

Operating lease

Where the Group is the lessee, payments made under operating leases are charged by the Group to the consolidated statement of income on a straight-line basis over the period of the lease.

Where the operating lease is terminated prior to its expiration date, any penalty payable to the lessor is recognised as expense in the period the operating lease was terminated.

Borrowings (due to other banks and customer accounts)

Borrowings are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

Borrowings, which interest rates differ from market rates, are measured at their fair value at the date of origination. The fair value represents future interest payments and principal amount, discounted at market rates for similar loans. The difference between the fair value and the nominal value at origination is credited or charged to the consolidated statement of income as gains on origination of liabilities at rates below market or losses on origination of liabilities at rates above market. Subsequently, the carrying amount of such borrowings is adjusted for amortisation of the gains/losses on origination and the related expense is recorded as interest expense within the consolidated statement of income using the effective interest method.

If the Group purchases its own debt, it is removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gains arising from early retirement of debt.

Debt securities issued

Debt securities issued include promissory notes, deposit certificates and bonds issued by the Group. Debt securities issued are recognised initially at cost, being their issue proceeds (the fair value of consideration received) net of transaction costs incurred. Subsequently, debt securities issued are stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the consolidated statement of income over the life of the security using the effective interest method.

If the Group purchases its own debt securities issued, they are classified depending on the purpose of their acquisition. If the purpose is early repayment of debt, such debt securities are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised as gains arising from early retirement of debt.

Dividends

Dividends are recognised in equity in the period in which they are declared.

Dividends declared after the balance sheet date are disclosed in the notes to the consolidated financial statements within subsequent events. Net profit of the reporting year reflected in the statutory financial statements is the basis for payment of dividends and other appropriations.

4. Summary of Significant Accounting Policies (continued)

Treasury shares

Where the Group purchases the Group's equity share capital, the consideration paid including any attributable incremental external costs is deducted from equity as treasury shares until they are cancelled or disposed of. Where such shares are subsequently disposed, any consideration received is included in the equity.

Income tax

Income tax expense is recorded in the consolidated financial statements in accordance with the applicable legislation of the Russian Federation and of other countries where the Group subsidiaries operate. The income tax charge in the consolidated statement of income comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the estimated taxable profit for the year, using the tax rates enacted at the balance sheet date. Taxes, other than income tax, are recorded within general and administrative expenses.

Deferred income tax is calculated, using the balance sheet asset and liability method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts for consolidated financial statements. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted in this period or are substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are netted separately for each entity of the Group.

Deferred tax related to fair value re-measurement of financial assets available for sale, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the consolidated statement of income, when the respective financial assets are sold.

Deferred tax assets and liabilities arise in respect of temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Income and expense recognition

Interest income and expense are recognised in the consolidated statement of income for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupons earned on fixed-income securities and accrued discount and premium on promissory notes and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Commissions and other income are credited to income when the related transactions are completed. Commissions and fees arising from negotiating a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recorded on completion of the transaction in the consolidated statement of income. Investment portfolio and other management and advisory service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied to services related to property management, financial planning and custody services that are continuously provided over an extended period of time. Non-interest expenses are recognised at the time the products are received or the service is provided. Accrued interest and expense, including accrued coupon and discount, are recorded within the carrying amounts of the related assets and liabilities.

Foreign currency translation

Foreign currency transactions are accounted for at the official exchange rate of CBR in effect at the transaction date. Exchange difference arising from foreign currency transactions is reported in the consolidated statement of income at the exchange rate current at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into the Russian Roubles at the CBR official exchange rate ruling at the balance sheet date. Foreign exchange gains and losses resulting from debt securities and other monetary financial assets carried at fair value are included within foreign exchange translation gains less losses. Translation differences on non-monetary items, such as equities classified as financial assets at fair value through profit or loss or financial assets available for sale, are reported as part of the fair value gain or loss. Therefore, translation difference on equity securities recorded within financial assets available for sale is included in the fair value reserve for financial assets available for sale within Group equity.

(in thousands of Russian Roubles)

4. Summary of Significant Accounting Policies (continued)

Statements of income, cash flows and balance sheets of foreign entities are restated into Russian Roubles at the official exchange rate of CBR at the date of their preparation. Translation differences arising on restatement of net investments in foreign entities into Russian Roubles are shown within equity. When a foreign entity is sold, the related translation difference is recognised as part of income or expense from the disposal of this entity in the consolidated statement of income.

Goodwill and fair value adjustments arising on acquisition of a foreign entity are recognised as asset or liability of a foreign entity and are restated into Russian Roubles (RUR) at the official exchange rate of CBR current at the balance sheet date.

As at 31 December 2005, the official exchange rates applied for restatement of account balances denominated in foreign currencies were:

- RUR 28.7825 = USD 1 (as at 31 December 2004 : RUR 27.7487);
- RUR 34.1850 = EUR 1 (as at 31 December 2004: RUR 37.8104);
- RUR 13.3634 = BYR 1000 (as at 31 December 2004: RUR 12.5714);
- RUR 48.8045 = LVL 1 (as at 31 December 2004: RUR 54.1967);
- RUR 2.1913 = EEK 1 (as at 31 December 2004: RUR 2.4334);
- RUR 56.7232 = UAH 10.

Exchange restrictions and controls exist relating to converting Russian Roubles into other currencies. At present, the Russian Rouble is not a convertible currency in most countries outside of the Russian Federation.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Accounting for the effects of hyperinflation

Effective from 1 January 2003, international accounting and financial reporting bodies have determined that the Russian Federation no longer meets the criteria of IAS 29 "Financial Reporting in Hyperinflationary Economies". So, beginning from 1 January 2003, the Group has ceased applying IAS 29 to reporting periods and recognises the cumulative impact of hyperinflation indexing through 31 December 2002 on non-monetary elements of the financial statements. Monetary items and results of operations for subsequent reporting periods are reported at actual, nominal amounts.

The only Group entity which operates under hyperinflationary economy is Foreign Bank Moscow-Minsk (Minsk, Republic of Belarus). Republic of Belarus is considered to be a hyperinflationary economy. Therefore, adjustments and reclassifications made for the purposes of IFRS presentation include the restatement, in accordance with IAS 29, for changes in the purchasing power of the Belarus Rouble (BYR) as at 31 December 2005.

The restatement was calculated using the conversion factors derived from the Belarus Consumer Price Index ("CPI"). The conversion factors for the five years ended 31 December 2005 are the following:

Year	Conversion factor
2001	1.46
2002	1.35
2003	1.25
2004	1.14
2005	1.06

Non-monetary assets and liabilities are restated using the corresponding conversion factor as at 31 December 2005. Effect of inflation on net monetary position is reflected in the consolidated statement of income as monetary gain or loss.

Premises and equipment are restated by applying the respective conversion factors from the date of acquisition. Where indexation is applied, an assessment is made of the potential impairment in the carrying value of these assets and, where applicable, such assets are reduced to their recoverable amounts.

Components of share capital are restated by applying the respective conversion factors from the date of the transactions resulting in the movement in share capital

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(in thousands of Russian Roubles)

4. Summary of Significant Accounting Policies (continued)

Provisions

Provisions are recorded when the Group has an obligation (legal or arising from the existing business practice) incurred prior to the reporting date, 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 amount of the obligation can be made. If the amount of such an obligation is significant, the provision will be determined by discounting the expected future cash flows with the use of a pre-tax discount rate which reflects current market assessments of the time value of money and, where applicable, inherent risks in this obligation.

Staff costs

Salaries and bonuses to employees are recognised in the consolidated financial statements on an accrual basis.

Social funds costs

The Group pays unified social tax (UST) on the territory of the Russian Federation. UST contributions are recorded on an accrual basis. UST comprises contributions to the Russian Federation state pension, social insurance, obligatory medical insurance and employment funds in respect of employees of the Group. The Group subsidiaries, which operate on the territory of other countries, make the respective contributions in accordance with the local legislation. These expenses are recognised as incurred and included in staff costs. The Group does not have pension arrangements separate from the state pension system of the Russian Federation or alternative pension plans for its employees.

Segment reporting

A segment is a distinguishable component engaged in providing either products or services (business segment), or in providing products and services within particular economic environment (geographical segment). In the consolidated financial statements, segments with a majority of revenue earned from sales to external customers and whose revenue, net profit or assets are ten percent or more of all the segments are reported separately.

The Group's major activity is banking business represented by 96% of assets and 99% of liabilities. Therefore, the impact of the Group's other companies (non-banks) on the structure of the Group's assets, liabilities and profits is insignificant.

Historically, the Group's banking business can be divided into three core segments: treasury, corporate and retail business. Each segment is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

Over 88% of the Group's banking business is concentrated in the Russian Federation, where the Bank of Moscow, the Group's parent company, is situated. The remaining business is conducted in Latvia, Estonia, Belarus and Ukraine.

5. Cash and Cash Equivalents

	2005	**2004**
Cash on hand	8 847 974	6 021 090
Precious metals	120 187	58 896
Cash balances with the central banks (other than mandatory reserve deposits)	5 829 663	6 715 390
Correspondent accounts and overnight deposits with banks of		
— the Russian Federation	1 596 289	799 789
— other countries	3 523 178	2 801 638
Less: provision for impairment of cash and cash equivalents	-	(7 901)
Total cash and cash equivalents	**19 917 291**	**16 388 902**

Movements in the provision for impairment of cash and cash equivalents are as follows:

	2005	**2004**
Provision for impairment of cash and cash equivalents as at 1 January	**7 901**	**2 009**
Provision for/(recovery of) for impairment of cash and cash equivalents during the year	(7 901)	5 892
Provision for impairment of cash and cash equivalents as at 31 December	**-**	**7 901**

Geographical analysis and analysis of cash and cash equivalents by currency structure and maturities are disclosed in Note 27.

(in thousands of Russian Roubles)

6. Financial Assets at Fair Value through Profit or Loss

	2005	2004
Bonds of RF Government (OFZ)	7 473 856	8 587 298
Corporate bonds	4 903 131	1 290 026
Eurobonds of RF Government	4 750 550	1 023 458
Bonds of RF subjects and local authorities	4 182 342	6 864 463
Federal currency bonds (OVGVZ)	3 129 921	5 070 447
Equity securities	2 553 161	1 159 889
Bonds of foreign governments	998 713	301 255
Corporate promissory notes	939 596	572 884
Corporate eurobonds	842 847	1 590 411
Financial derivatives	1 952	-
Total financial assets at fair value through profit or loss	**29 776 069**	**26 460 131**

OFZ are Rouble-denominated government securities issued by the Ministry of Finance of the Russian Federation. As at 31 December 2005, OFZ in the Group's portfolio have maturity dates from 15 February 2006 to 2 November 2012, coupon rates ranging from 6.0% to 10.0% per annum in 2005 and yield to maturity from 2.0% to 6.7 % per annum, depending on the type of bond issue.

Corporate bonds are represented by Rouble denominated interest-bearing securities issued by large Russian companies and quoted on the MICEX, and bonds of Latvian credit institutions. As at 31 December 2005, these bonds in the Group's portfolio have maturities from 16 May 2006 to 20 September 2012, coupon rates ranging from 5.6% to 16.0 % per annum in 2005 and yield to maturity ranging from 5.4% to 13.2 % per annum, depending on the issue.

Eurobonds of RF Government are US dollar denominated securities issued by the Ministry of Finance and quoted on international markets. As at 31 December 2005, eurobonds in the Group's portfolio have maturity dates from 26 June 2007 to 31 March 2030, coupon rates ranging from 5.0% to 12.8 % per annum and yield to maturity ranging from 5.1% to 6.0% per annum, depending on the type of bond issue.

Bonds of RF subjects and local authorities represent Rouble-denominated interest-bearing securities quoted on the MICEX. As at 31 December 2005, these bonds in the Group's portfolio have maturities from 25 March 2006 to 21 July 2014, coupon rates ranging from 6.2% to 13.5 % per annum and yield to maturity ranging from 5.3% to 8.6 % per annum, depending on the issue.

OVGVZ are US dollar denominated interest-bearing securities guaranteed by the Ministry of Finance of the Russian Federation. These securities have annual coupon of 3.0%. As at 31 December 2005, OVGVZ in the Group's portfolio have maturities from 14 May 2008 to 14 May 2011 and annual yield to maturity of 5.4%.

Equity securities are represented by shares of large Russian companies quoted on the MICEX and RTS.

Bonds of foreign governments are represented by bonds of Germany, Belarus, the Netherlands, Latvia and Ukraine.

Corporate promissory notes are notes of large Russian banks quoted on the OTC market. As at 31 December 2005, promissory notes in the Group's portfolio have maturities from 16 January 2006 to 25 August 2006 and yield to maturity ranging from 6.0% to 6.8% per annum, depending on the issue.

Corporate eurobonds are represented by interest-bearing securities denominated in USD and EUR, issued by large Russian companies and quoted on international markets. As at 31 December 2005, corporate eurobonds in the Group's portfolio have maturity dates from 6 November 2007 to 23 September 2015, coupon rates ranging from 6.5% to 11 % per annum in 2005 and yield to maturity ranging from 6.2% to 7.2 % per annum, depending on the issue.

Financial assets at fair value through profit or loss comprise securities provided as collateral under sale and repurchase agreements (REPO). As at 31 December 2005, the fair value of these securities amounts to RUR 4 475 732 thousand (as at 31 December 2004: RUR 2 136 624 thousand). The relevant information on securities provided as collateral under REPO agreements is disclosed in Note 28.

Geographical analysis and analysis of financial assets at fair value through profit or loss by currency structure, maturities and analysis of interest rates are disclosed in Note 27. The relevant information on related party balances is disclosed in Note 30.

(in thousands of Russian Roubles)

7. Due from Other Banks

	2005	2004
Current loans and deposits with other banks (except CBR)	12 805 243	9 090 150
Deposits with CBR	198 765	1 510 352
Reverse repurchase agreements with other banks	874 704	1 163 968
Overdue placements with other banks	2 633	2 633
Less: provision for impairment of due from other banks	(15 221)	(70 878)
Total due from other banks	**13 866 124**	**11 696 225**

Movements in the provision for impairment of due from other banks are as follows:

	2005	2004
Provision for impairment of due from other banks as at 1 January	**70 878**	**20 212**
Provision (recovery of provision) for impairment of due from other banks during the year	(55 657)	50 666
Provision for impairment of due from other banks as at 31 December	**15 221**	**70 878**

As at 31 December 2005, the Group had deposits and current account balances over RUR 100 000 thousand with 15 banks. Total amount of balances on deposits and current accounts with these banks equalled RUR 11 167 987 thousand or 81% of the aggregate amount of due from other banks.

As at 31 December 2004, the Group had deposits and current account balances over RUR 100 000 thousand with 16 banks. Total amount of balances on deposits and current accounts with these banks equalled RUR 9 469 175 thousand or 81% of the aggregate amount of due from other banks.

Securities acquired under reverse repurchase agreements include Gazprom shares at fair value of RUR 841 364 thousand as at 31 December 2005 (2004: RUR 1 248 846 thousand), and bonds of TSUN LenSpetsSMU at fair value of RUR 63 363 thousand (2004: nil).

Geographical analysis and analysis of due from other banks by currency structure, maturities and interest rates are disclosed in Note 27. The Group provided a number of loans to related parties. The relevant information on related party balances is disclosed in Note 30.

8. Loans to Customers

	2005	2004
Current loans	162 555 247	92 022 504
Overdue loans	537 778	305 885
Less: provision for loan impairment	(2 014 521)	(1 294 880)
Total loans to customers	**161 078 504**	**91 033 509**

Movements in the provision for loan impairment as follows:

	2005	2004
Provision for loan impairment as at 1 January	**1 294 880**	**1 407 620**
Provision for loan impairment	700 993	463 267
Decrease in provision for loan impairment on sale of subsidiary	-	(176 425)
Increase in the provision for loan impairment on acquisition of the subsidiary	18 801	59 461
Loans to customers written off during the year as uncollectible	(153)	(459 043)
Provision for loan impairment as at 31 December	**2 014 521**	**1 294 880**

(in thousands of Russian Roubles)

8. Loans to Customers (continued)

Movements in the structure of the Group's loan portfolio by type of ownership are as follows:

	2005		2004	
Type of ownership	**Amount**	**%**	**Amount**	**%**
Loans to non-state entities and organisations	132 983 073	81.6	78 582 709	85.1
Loans to individuals	15 072 756	9.2	4 761 438	5.2
Loans to enterprises in federal ownership	6 832 992	4.2	3 210 604	3.5
Loans to enterprises owned by the Government of the City of Moscow	4 211 388	2.6	3 580 609	3.9
Loans to RF subjects	3 779 120	2.3	1 888 100	2.0
Loans to enterprises in regional (municipal) ownership (other than the Government of the City of Moscow)	213 696	0.1	304 929	0.3
Total loans to customers (gross)	**163 093 025**	**100.0**	**92 328 389**	**100.0**

Economic sector concentrations within the Group's loan portfolio are as follows:

	2005		2004	
	Amount	**%**	**Amount**	**%**
Industry	30 761 965	18.9	22 254 585	24.1
Construction	30 515 252	18.7	21 532 336	23.3
Financial and other services	30 283 109	18.6	14 411 774	15.6
Trade	22 558 858	13.8	9 361 376	10.1
Individuals	15 072 756	9.2	4 761 438	5.2
Fuel and energy sector	10 475 613	6.4	8 928 659	9.7
Transport and communications	5 479 130	3.4	321 579	0.3
Science and science services	4 189 213	2.6	1 498 110	1.6
State agencies	3 779 119	2.3	3 858 697	4.2
Metallurgy	3 356 617	2.1	656 052	0.7
Food industry	2 154 824	1.3	1 604 642	1.7
Agriculture and fishing	461 778	0.3	1 376 064	1.5
Other	4 004 791	2.4	1 763 077	2.0
Total loans to customers (gross)	**163 093 025**	**100.0**	**92 328 389**	**100.0**

The Group issued loans to 19 borrowers (2004: 26), whose loans, individually, are equal to or exceed 5% of the Group's equity. The total amount of these loans is RUR 44 026 787 thousand or 28 % of the total loan portfolio (2004: RUR 41 058 402 thousand or 44.5%, respectively).

Geographical analysis, analysis of loans to customers by currency and maturity, as well as analysis of interest rates are disclosed in Note 27.

The Group issued a number of loans to related parties. The relevant information on related party balances is disclosed in Note 30.

9. Financial Assets Available for Sale

	2005	2004
Debt securities of corporate issuers	5 755 551	-
Equity securities	408 733	1 120 634
Less: provision for impairment of financial assets available for sale	(14 435)	(95 404)
Total financial assets available for sale	**6 149 849**	**1 025 230**

Debt securities of corporate issuers represent CLN issued by Barclays Bank PLC for securitization of a syndicated loan in the amount of USD 7.5 bn provided to state-owned company OJSC Rosneftegaz against 49% of Rosneft shares pledged as collateral. The date of CLN maturity is 31 December 2006. Monthly coupon rate is LIBOR+1.55%. As at 31 December 2005, the above securities were pledged under a REPO agreement.

(in thousands of Russian Roubles)

9. Financial Assets Available for Sale (continued)

Equity securities represent shares and participating interests in the share capitals of Moscow enterprises: OJSC Pushkinskaya Ploshchad Polygraphic Company, OJSC Trade House Nautilus; as well as shares of regional commercial banks Zarechiye and Bank of Khakasia.

Movements in the provision for impairment of financial assets available for sale are as follows:

	2005	2004
Provision for impairment of financial assets available for sale as at 1 January	**95 404**	**22 705**
Provision for/(recovery of) for impairment of financial assets available for sale during the year	(80 968)	72 699
De-recognition of provision on disposal of subsidiary	(1)	-
Provision for impairment of financial assets available for sale as at 31 December	**14 435**	**95 404**

Geographical analysis, analysis of securities available for sale by currency and maturity, as well as analysis of interest rates are disclosed in Note 27.

10. Investments in Associates and Non-Consolidated Subsidiaries

	2005	2004
Investments in associates	179 946	898 825
Investments in non-consolidated subsidiaries	20 417	32 120
Total investments in associates and non-consolidated subsidiaries	**200 363**	**930 945**

Movements of investments in associates during the year are as follows:

	2005	2004
Carrying value as at 1 January	**898 825**	**1 287 116**
Share in net loss of the associates	(9 252)	(20 980)
Net share in changes in equity on shares issued	112	-
Fair value of the increase in the share of the associates	35 021	-
Disposal of associates and their reclassification as subsidiaries	(744 760)	(367 311)
Carrying value as at 31 December	**179 946**	**898 825**

Below is the structure of investments in associated companies:

	2005		2004	
Company	**Amount of investments**	**% of control**	**Amount of investments**	**% of control**
JSCB Russian National Commercial Bank	117 370	20.0	99 153	20.0
JSCB Russky Zemelny Bank	62 576	31.0	57 606	31.0
OJSC Moscow Insurance Company *	-	0.0	674 209	49.0
AS Eesti Krediidipank**	-	59.8	67 692	28.1
CJSC Automated Banking Technologies *	-	14.0	165	25.7
Total investments in associates	**179 946**		**898 825**	

* The companies ceased to be associates in the reporting period. The Group participated in these companies through CJSC Financial Assistant. The Group ceased to control CJSC Financial Assistant in 2005. Information on disposal of subsidiaries and associates is disclosed in Note 31.

** In 2005 AS Eesti Krediidipank was reclassified as a subsidiary. The Group's shareholding in this bank as at 31 December 2005 totalled 59.8 % (2004: 28.1%). Information on acquisition of subsidiaries is disclosed in Note 31.

(in thousands of Russian Roubles)

10. Investments in Associates and Non-Consolidated Subsidiaries (continued)

Below is the structure of investments in non-consolidated subsidiaries:

	2005		2004	
Company	**Amount of investments**	**% of control**	**Amount of investments**	**% of control**
Editorial office of MK-Boulevard magazine, LLC	9 229	50.0	17 000	50.0
Yaroslavna, LLC*	8 049	50.0	11 772	100.0
BM Holding LTD	3 129	100.0	3 348	100.0
CJSC Investlesprom**	10	100.0	-	-
CJSC Stolichnaya Neftyanaya Kompania	-	100.0	-	-
Total investments in non-consolidated subsidiaries	**20 417**		**32 120**	

* The Group participated in 50% of the company's share capital through CJSC Financial Assistant. The Group ceased to control CJSC Financial Assistant in 2005. Information on disposal of subsidiaries and associates is disclosed in Note 31.

** The Companies were set up in 2005. Information on acquisition and establishment of subsidiaries is disclosed in Note 31.

Financial statements of the above subsidiaries were not included into the Group consolidated financial statements, as they would not have a material effect on the consolidated financial statements.

11. Other Assets

	2005	**2004**
Prepaid expenses	429 382	130 984
Receivables and prepayments	419 396	263 889
Plastic cards receivables	169	60 497
Settlements on conversion operations	-	11 946
Other	53 946	26 048
Less: provision for impairment of other assets	(13 976)	(3 122)
Total other assets	**888 917**	**490 242**

Movements in the provision for impairment of other assets are as follows:

	2005	**2004**
Provision for impairment of other assets as at 1 January	**3 122**	**-**
Change in the provision for impairment of other assets on acquisition /disposal of a subsidiary	(681)	4 699
Provision for/(recovery of) for impairment of other assets	11 535	(1 577)
Provision for impairment of other assets as at 31 December	**13 976**	**3 122**

Geographical analysis, analysis of other assets by currency and maturity are disclosed in Note 27.

(in thousands of Russian Roubles)

12. Premises and Equipment, and Intangible Assets

	Premises	Computers, equipment and other fixed assets	Capital investments	Intangible assets	Total
Net book value as at 31 December 2004	**4 511 603**	**1 329 847**	**1 612 898**	**91 068**	**7 545 416**
Carrying amount					
Balance as at 31 December 2004	4 643 826	2 104 240	1 612 898	157 609	8 518 573
Additions	4 403	686 634	1 283 976	29 437	2 004 450
Additions on acquisition of subsidiaries	364 014	120 418	781	-	485 213
Transfers	126 209	249 120	(375 246)	(83)	-
Disposals	(76 582)	(261 575)	-	(1 316)	(339 473)
Effect of hyperinflation and exchange rate changes	(9 697)	(4 439)	(505)	(1 440)	(16 081)
Total carrying amount as at 31 December 2005	**5 052 173**	**2 894 398**	**2 521 904**	**184 207**	**10 652 682**
Accumulated depreciation and amortisation					
Balance as at 31 December 2004	132 223	774 393	-	66 541	973 157
Depreciation and amortisation charge	11 010	398 089	-	25 923	435 022
Additions on acquisition of subsidiaries	22 020	62 687	-	-	84 707
Transfers	(31 806)	31 758	-	48	-
Disposals	(3 862)	(109 048)	-	(1 310)	(114 220)
Effect of hyperinflation and exchange rate changes	(702)	(1 645)	-	(862)	(3 209)
Total accumulated depreciation and amortization as at 31 December 2005	**128 883**	**1 156 234**	**-**	**90 340**	**1 375 457**
Net book value as at 31 December 2005	**4 923 290**	**1 738 164**	**2 521 904**	**93 867**	**9 277 225**

(in thousands of Russian Roubles)

12. Premises and Equipment and Intangible Assets (continued)

Premises comprise buildings and structures. The Group's premises were appraised by an independent appraiser as at 31 December 2002. The net book value of premises as at 31 December 2005 includes the amount of RUR 637 532 thousand (2004: RUR 645 986 thousand), which is a revaluation surplus of the Group's premises. Deferred tax liability arising from this revaluation was computed and posted to revaluation reserve of premises and equipment.

13. Due to Other Banks

	2005	2004
Term deposits and loans of other banks	10 907 857	4 643 778
Sale and reverse repurchase agreements with other banks	9 117 932	1 856 315
Correspondent accounts of other banks	1 127 586	693 247
Total due to other banks	**21 153 375**	**7 193 340**

As at 31 December 2005, the Group held deposits of four banks (each over 5% of the total due to other banks) (2004: two banks), making up RUR 17 048 577 thousand or 80.6% of the total amount owed to other banks (2004:RUR 3 329 907 thousand or 46%).

Securities sold under sale and reverse repurchase agreements include the 5th tranche of OVGVZ government bonds with a fair value of RUR 2 365 606 thousand as at 31 December 2005 (2004: RUR 2 136 624 thousand) and eurobonds of RF Government maturing in 2007 with a fair value of RUR 2 110 126 thousand as at 31 December 2005 (2004: no assets). As at 31 December 2005, these securities were reflected in the consolidated balance sheet as financial assets at fair value through profit or loss.

Geographical analysis, analysis of due to other banks by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 27. The Group accepted funds from related parties. The relevant information on related party balances is disclosed in Note 30.

14. Customer Accounts

	2005	2004
Federal and regional budgets and funds		
— Current/ settlement accounts	16 013 074	12 899 515
— Term deposits	30 271 692	21 184 555
State-owned organisations		
— Current/settlement accounts	9 822 843	7 209 266
— Term deposits	742 433	189 589
Other legal entities		
— Current/settlement accounts	30 243 719	18 284 271
— Term deposits	11 366 130	10 329 281
Individuals		
— Current/demand accounts	11 976 858	6 280 713
— Term deposits	58 088 108	40 216 190
Total customer accounts	**168 524 857**	**116 593 380**

Geographical analysis, analysis of customer accounts by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 27. The Group accepted funds from related parties. The relevant information on related party balances is disclosed in Note 30.

(in thousands of Russian Roubles)

15. Debt Securities Issued

	2005	2004
Eurobonds	24 737 343	7 086 556
Promissory notes	4 309 080	6 572 704
Certificates of deposit	29 861	450 202
Total debt securities issued	**29 076 284**	**14 109 462**

As at 31 December 2005 eurobonds comprised:

Description	Interest rate	Date of issue	Maturity date	Nominal value	Carrying amount	Market price
I tranche	8 %, every half year	28.09.2004	28.09.2009	$250 000 thousand	7 338 322	104.25
II tranche	7.375 %, every half year	26.05.2005	26.11.2010	$300 000 thousand	8 698 079	103.15
III tranche, subordinated	7.5 %, every half year during the first 5 years, then the rate equals US Treasury plus 4.567%	25.11.2005	25.11.2015 with offer in November 2010	$300 000 thousand	8 700 942	-
Total eurobonds				**$850 000 thousand**	**24 737 343**	

As at 31 December 2004 eurobonds comprised:

Description	Interest rate	Date of issue	Maturity date	Nominal value	Carrying amount	Market price
I tranche	8 %, every half year	28.09.2004	28.09.2009	$250 000 thousand	7 086 556	-

Geographical analysis, analysis of debt securities issued by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 27.

16. Other Liabilities

	2005	2004
Accounts payable	2 178 455	713 684
Settlements with employees	322 342	8 462
Plastic cards payables	-	61 861
Settlements on conversion operations	5 018	25 991
Other	60 074	19 247
Total other liabilities	**2 565 889**	**829 245**

Accounts payable include net position of the Group in the amount of RUR 863 475 thousand on transactions with Barclays Bank PLC on acquisition and subsequent sale of securities under REPO agreement and liabilities on acquisition of securities under the forward contract with OJCS Moscow Insurance Company in the amount of RUR 661 890 thousand. In 2004 liabilities on acquisition of securities under forward contracts amounted to RUR 29 106 thousand.

Geographical analysis, analysis of other liabilities by currency structure and maturities, as well as analysis of interest rates are disclosed in Note 27.

17. Share Capital

	2005		2004	
	Number of shares	Amount in thousands of RUR	Number of shares	Amount in thousands of RUR
Ordinary shares	117 500 932	11 750 093	117 500 932	11 750 093
Less treasury shares	(21 510)	(11 483)	-	-
Adjustment of share capital till 31 December 2002 under IFRS 29	-	2 476 746	-	2 476 746
Total share capital	**117 479 422**	**14 215 356**	**117 500 932**	**14 226 839**

The Bank's authorised share capital consists of 117 500 932 ordinary shares. The nominal value of each ordinary share is 100 roubles. Each share gives the right of one vote.

Amount of dividends paid by the Group is limited to the amount of retained earnings determined in accordance with the Russian law.

The principal shareholder of the Bank of Moscow is Moscow Government, which owns 48.68% of issued and paid-in share capital. 15 835 685 shares or 13.48% of the share capital are owned by OJSC Moscow Insurance Company controlled by Moscow Government. The Bank's other shareholders own stakes not exceeding 5% of the share capital.

In 2005 OJSC International Management Company bought out 21 510 shares of the Bank in the total amount of RUR 11 483 thousand.

18. Minority Interest

The Group owns 100% shares of most consolidated companies. As at 31 December 2005, minority interest of the remaining companies amounted to RUR 223 082 thousand (as at 31 December 2004: RUR 73 692 thousand).

	Note	2005	2004
Minority interest as at 1 January		**73 692**	**109 753**
Share in net profit		14 582	34 348
Acquisition of subsidiaries	31	134 460	75 327
Increase in capital of subsidiaries		348	15 000
Disposal of subsidiaries	31	-	(160 736)
Minority interest as at 31 December		**223 082**	**73 692**

19. Interest Income and Expense

	2005	2004
Interest income		
Loans to customers	14 127 699	8 845 214
Financial assets at fair value through profit or loss	2 688 756	2 114 889
Due from other banks	1 038 692	461 990
Total interest income	**17 855 147**	**11 422 093**
Interest expense		
Current accounts and term deposits of customers	6 232 881	4 854 782
Debt securities issued	1 561 267	566 424
Term placements of banks	610 924	353 899
Total interest expense	**8 405 072**	**5 775 105**
Net interest income	**9 450 075**	**5 646 988**

(in thousands of Russian Roubles)

20. Fee and Commission Income

	2005	2004
Fee and commission income		
Commission on settlement and cash transactions	1 300 813	843 724
Commission on operations with plastic cards	595 221	343 310
Commission on guarantees issued	167 463	149 703
Commission on cash collection	158 228	126 889
Commission on transactions with securities	144 906	83 894
Other	68 471	245 247
Total fee and commission income	**2 435 102**	**1 792 767**
Fee and commission expense		
Commission on cash collection	235 316	190 494
Commission on operations with plastic cards	181 112	149 674
Commission on settlement and cash transactions	24 211	17 416
Commission on guarantees received	4 530	305
Commission on transactions with securities	3 761	6 591
Other	1 334	35 364
Total fee and commission expense	**450 264**	**399 844**
Net fee and commission income	**1 984 838**	**1 392 923**

21. General and Administrative Expenses

	Note	2005	2004
Staff costs		3 367 342	2 438 300
Professional services (security, communications and other.)		573 687	441 195
Rent		492 359	203 016
Taxes other than income tax		472 734	385 821
Depreciation and amortisation	12	435 022	453 451
Administrative expenses		395 915	215 292
Advertising and marketing		276 160	226 312
Charity		73 161	63 890
Expenses related to premises and equipment		72 924	134 432
Other		222 234	213 970
Total general and administrative expenses		**6 381 538**	**4 775 679**

Staff costs include remuneration to employees and unified social tax. The average number of the Group employees for the year was 6 415 (2004: 5 325).

22. Other Operating Income Less Expenses

	2005	2004
Net income from sale of goods, work and services by non-banks	247 953	394 255
Proceeds from property lease	130 227	74 921
Fines and penalties received and paid	76 784	31 617
Income from fiduciary activities	47 988	13 541
Net proceeds from dealing in precious metals	18 946	7 648
Net proceeds from factoring transactions	8 914	14 653
Net other income	59 875	1 953
Total other operating income less expenses	**590 687**	**538 588**

(in thousands of Russian Roubles)

23. Income Tax Expense

	2005	2004
Current tax expense	1 102 796	619 375
Change in deferred taxation	94 549	266 726
Total income tax expense	**1 197 345**	**886 101**

Each entity of the Group must file individual tax returns.

The current tax rate for profits applicable to the major portion of the profits earned by the Bank of Moscow and its resident subsidiaries is 24% (2004: 24%). The effective tax rate for profits for Latvian residents is 15% (2004: 15%) and for Belarus residents is 32.8% (2004: 32.8%).

The tax rate for received coupon income on state securities was: 15% on coupon income of OFZ and OVGVZ issued in 1999; 0% on OVGVZ coupon income of 5-7 tranches; 24% on coupon income of Russian Government Eurobonds. The tax rate for received coupon income on state securities for RF subjects was 9 - 15% in 2005.

Current tax expense of the Bank and its subsidiaries located on the territory of the Russian Federation was computed based on the amount of profits calculated under Russian federal accounting regulations and adjusted for compliance with the Russian tax legislation. Accordingly, current tax expense of the subsidiary banks located on the territory of Latvia, Estonia, Belarus and Ukraine was determined in accordance with the local tax legislation.

Reconciliation between the theoretical and the actual taxation charge is provided below.

	2005	2004
IFRS profit before taxation	5 222 214	4 014 630
Theoretical tax charge at the rate of 24% (2003: 24%)	1 253 331	963 511
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Recovery of non-taxable impairment provision on loans	-	(66 545)
- Non-taxable income and non-deductible expenses	153 607	103 381
Income on government securities taxed at different rates	(182 942)	(105 525)
Adjustments for foreign subsidiary banks' profits taxed at different rates	(26 651)	(8 721)
Income tax expense	**1 197 345**	**886 101**

Differences between IFRS and statutory taxation regulations of the Russian Federation and other countries where the Group's entities are registered give rise to certain temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profit tax purposes. The tax effect of the movement on these temporary differences is recorded at the rate of 24%, except for coupon income on state and subfederal securities that is taxed at the rate from 0 to 15%.

	2005	Change	2004
Tax effect of deductible temporary differences			
Provision for loan impairment	58 552	(18 312)	76 864
Revaluation of financial assets at fair value through profit or loss	3 298	(56 518)	59 816
Premises and equipment	206 259	(13 231)	219 490
Deferred tax assets of subsidiary banks	13 616	13 616	-
Total deferred tax assets	**281 725**	**(74 445)**	**356 170**
Tax effect of taxable temporary differences			
Provision for impairment of other assets	(16 108)	(16 108)	-
Revaluation of financial assets at fair value through profit or loss	(124 084)	(1 208)	(122 876)
Premises and equipment	(827 516)	(2 788)	(824 728)
Total deferred tax liabilities	**(967 708)**	**(20 104)**	**(947 604)**
Net deferred tax liabilities	**(685 983)**	**(94 549)**	**(591 434)**

23. Income Tax Expense (continued)

Change in tax assets and liabilities of the Group for the reporting year is set out below:

	2005	Change	2004
Current tax assets	428 008	219 790	208 218
Deferred tax assets	13 616	13 616	-
Total tax assets	**441 624**	**233 406**	**208 218**
Current tax liabilities	(45 690)	501	(46 191)
Deferred tax liabilities	(699 599)	(108 165)	(591 434)
Total tax liabilities	**(745 289)**	**(107 664)**	**(637 625)**

24. Earnings per Share

Basic earnings per share are calculated by dividing the annual net profit by the weighted average number of ordinary shares in issue during the year.

The Group has no dilutive potential ordinary shares. Thus, the diluted earnings per share are equal to basic earnings per share.

	2005	2004
Net profit attributable to shareholders (in thousands of roubles)	**4 010 287**	**3 094 181**
Weighted average number of ordinary shares in issue (in thousands)	117 490	81 130
Basic and diluted earnings per share (in roubles per share)	**34.13**	**38.14**

25. Dividends

	2005	2004
Dividends payable as at 1 January	453	10
Dividends for 2004 declared during the year	92 678	-
Dividends for 2003 declared during the year	-	118 937
Dividends paid during the year	(93 112)	(118 494)
Dividends payable as at 31 December	**19**	**453**
Dividends per share, declared during the year	**0.79**	**1.49**

All dividends are declared and paid in Russian roubles.

26. Segment Reporting

The Group uses information on business segments as its primary format for reporting segment information. Over 88% of the Group's banking business is concentrated on the territory of the Russian Federation at the location of the parent company of the Group – the Bank of Moscow. Based on this, the Group considers segmenting of its business by geographic principle as inexpedient.

The Group's main business segments are as follows:

Treasury business – this business segment includes trading in financial instruments, transactions in securities and derivatives, including REPO deals, foreign currency transactions, raising and origination of loans on money markets, interest rate arbitrage on SWAP transactions. Besides, treasury function includes the Group's short-term asset management, i.e. liquidity risk, and the Group's open positions in foreign currencies, i.e. currency risk.

Corporate business – this business segment includes services associated with servicing settlement and current accounts of legal entities, acceptance of deposits from corporate clients, extension of credit lines in the form of overdrafts, issuance of loans and other types of financing, provision of investment banking services, trade financing to corporate clients, provision of structured financing, merging and acquisition consulting services.

Retail business – this segment covers provision of banking services to individuals - opening and maintaining accounts, acceptance of deposits from individuals, fiduciary services, accumulation of investments, servicing debit and credit cards, consumer crediting and mortgage lending.

The Group transactions not included in the above business segments are disclosed separately.

26. Segment Reporting (continued)

Transactions between business segments are based on commercial terms. In the ordinary course of business the Group's financial resources are reallocated between business segments. As a result, intersegment allocations are reflected within assets/liabilities of a business segment and the cost of reallocated financial resources is included in the business segment income/expenses.

(in thousands of Russian Roubles)

26. Segment Reporting (continued)

Information on assets and liabilities of business segments and on redistribution of funds between business segments of the Group as at 31 December 2005 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banks	Non-allocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	1 513 180	9 554 817	8 847 891	1 403	-	19 917 291
Financial assets at fair value through profit or loss and available for sale	26 822 550	2 912 448	-	41 071	-	29 776 069
Due from other banks	12 537 285	-	-	-	-	12 537 285
Investments in associates and non-consolidated subsidiaries and other assets	-	-	169	41 976	846 772	888 917
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	**40 873 015**	**12 467 265**	**8 848 060**	**84 450**	**846 772**	**63 119 562**
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	2 488	2 433 897	1 734 224	-	2 858	4 173 467
Financial assets available for sale	-	5 755 551	-	278 501	115 797	6 149 849
Due from other banks	938 655	388 759	1 425	-	-	1 328 839
Loans to customers	-	145 990 140	15 072 756	15 608	-	161 078 504
Tax assets	-	-	-	8 401	433 223	441 624
Investments in associates and non-consolidated subsidiaries and other assets	-	-	-	10 309	190 054	200 363
Premises and equipment, and intangible assets	-	-	-	141 219	9 136 006	9 277 225
Total assets maturing in more than 1 month and part of assets with no stated maturity	**941 143**	**154 568 347**	**16 808 405**	**454 038**	**9 877 938**	**182 649 871**
Total assets	**41 814 158**	**167 035 612**	**25 656 465**	**538 488**	**10 724 710**	**245 769 433**

(in thousands of Russian Roubles)

26. Segment Reporting (continued)

	Treasury business	Corporate business	Retail business	Non-banks	Non-allocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	11 349 237	-	561 114	-	-	11 910 351
Customer accounts	-	56 079 636	11 976 858	-	-	68 056 494
Other liabilities	5 018	-	-	21 352	-	26 370
Total liabilities on demand, maturing in less than one month and part of liabilities with no stated maturity	**11 354 255**	**56 079 636**	**12 537 972**	**21 352**	**-**	**79 993 215**
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	601 028	8 641 996	-	-	-	9 243 024
Customer accounts	-	42 259 891	58 088 108	120 364	-	100 468 363
Debt securities issued	71 096	28 886 461	-	118 727	-	29 076 284
Other liabilities	-	-	-	-	2 539 519	2 539 519
Tax liabilities	-	-	-	17 258	728 031	745 289
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	**672 124**	**79 788 348**	**58 088 108**	**256 349**	**3 267 550**	**142 072 479**
Total liabilities	**12 026 379**	**135 867 984**	**70 626 080**	**277 701**	**3 267 550**	**222 065 694**
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of with no stated maturity	**(29 518 760)**	**43 612 371**	**3 689 912**	**(63 098)**	**(846 772)**	**16 873 653**
(Transferred)/received funds on demand, maturing in less than 1 month and with no stated maturity to/from other business segments	29 518 760	(16 980 788)	(12 537 972)	-	-	-
Surplus/(deficit) of funds maturing in more than 1 month and part of with no stated maturity	**(269 019)**	**(74 779 999)**	**41 279 703**	**(197 689)**	**(6 610 388)**	**(40 577 392)**
(Transferred)/received funds maturing in more than 1 month and part of with no stated maturity to/from other business segments	-	32 431 643	(32 431 643)	-	-	-
Equity financing	269 019	15 716 773	-	260 787	7 457 160	23 703 739
Net deficit/unallocated surplus	**-**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian Roubles)

26. Segment Reporting (continued)

Information on assets and liabilities of business segments and on redistribution of funds between business segments of the Group as at 31 December 2004 is given in the table below:

	Treasury business	Corporate business	Retail business	Non-banks	Non-allocated	Total
Assets						
Assets on demand, maturing in less than 1 month and part of assets with no stated maturity						
Cash and cash equivalents	10 367 724	4 448 328	1 572 594	256	-	16 388 902
Financial assets at fair value through profit or loss and available for sale	26 427 920	-	-	33 713	-	26 461 633
Due from other banks	10 231 575	206 512	90 100	241	-	10 528 428
Investments in associates and non-consolidated subsidiaries and other assets	11 946	-	60 497	-	-	72 443
Total assets on demand, maturing in less than 1 month and part of assets with no stated maturity	**47 039 165**	**4 654 840**	**1 723 191**	**34 210**	**-**	**53 451 406**
Assets maturing in more than 1 month and part of assets with no stated maturity						
Mandatory cash balances with central banks	73 610	1 793 702	1 190 149	-	-	3 057 461
Financial assets available for sale	106 237	-	-	917 491	-	1 023 728
Due from other banks	1 167 797	-	-	-	-	1 167 797
Loans to customers	-	85 821 561	4 761 438	450 510	-	91 033 509
Investments in associates and non-consolidated subsidiaries and other assets	-	-	-	739 090	609 654	1 348 744
Tax assets	-	-	-	15 327	192 891	208 218
Premises and equipment, and intangible assets	-	-	-	177 953	7 367 463	7 545 416
Total assets maturing in more than 1 month and part of assets with no stated maturity	**1 347 644**	**87 615 263**	**5 951 587**	**2 300 371**	**8 170 008**	**105 384 873**
Total assets	**48 386 809**	**92 270 103**	**7 674 778**	**2 334 581**	**8 170 008**	**158 836 279**

(in thousands of Russian Roubles)

26. Segment Reporting (continued)

	Treasury business	Corporate business	Retail business	Non-banks	Non-allocated	Total
Liabilities						
Liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity						
Due to other banks	3 513 567	-	3 607	260	-	3 517 434
Customer accounts	-	38 393 052	6 280 713	-	-	44 673 765
Other liabilities	25 991	-	61 861	56 602	-	144 454
Total liabilities on demand, maturing in less than 1 month and part of liabilities with no stated maturity	**3 539 558**	**38 393 052**	**6 346 181**	**56 862**	**-**	**48 335 653**
Liabilities maturing in more than 1 month and part of liabilities with no stated maturity						
Due to other banks	3 675 906	-	-	-	-	3 675 906
Customer accounts	-	31 695 496	40 216 190	7 929	-	71 919 615
Debt securities issued	169 375	13 563 878	-	376 209	-	14 109 462
Other liabilities	-	-	-	-	684 791	684 791
Tax liabilities	-	-	-	1 603	636 022	637 625
Total liabilities maturing in more than 1 month and part of liabilities with no stated maturity	**3 845 281**	**45 259 374**	**40 216 190**	**385 741**	**1 320 813**	**91 027 399**
Total liabilities	**7 384 839**	**83 652 426**	**46 562 371**	**442 603**	**1 320 813**	**139 363 052**
Surplus/(deficit) of funds on demand, maturing in less than 1 month and part of with no stated maturity	**(43 499 607)**	**33 738 212**	**4 622 990**	**22 652**	**-**	**(5 115 753)**
(Transferred)/received funds on demand, maturing in less than 1 month and with no stated maturity to/from other business segments	38 361 202	(33 738 212)	(4 622 990)	-	-	-
Surplus/(deficit) of funds maturing in more than 1 month and with no stated maturity	**2 497 637**	**(42 355 889)**	**34 264 603**	**(1 914 630)**	**(6 849 195)**	**(14 357 474)**
(Transferred)/received funds maturing in more than 1 month and with part of no stated maturity to/from other business segments	-	34 264 603	(34 264 603)	-	-	-
Equity financing	2 640 768	8 091 286	-	1 891 978	6 849 195	19 473 227
Net deficit/unallocated surplus	**-**	**-**	**-**	**-**	**-**	**-**

(in thousands of Russian Roubles)

26. Segment Reporting (continued)

The table below shows a breakdown of consolidated statement of income of the Group by business segments for the year ended 31 December 2005:

	Treasury business	Corporate business	Retail business	Non-banks	Non-allocated	Total
Interest income	3 719 376	12 426 044	1 700 863	8 864	-	17 855 147
Interest expense	(610 924)	(3 389 174)	(4 370 467)	(34 507)	-	(8 405 072)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	30 494	-	-	17 766	-	48 260
Gains less losses from dealing in foreign currency	437 252	-	174 754	-	-	612 006
Net operating result on banking assets and liabilities	**3 576 198**	**9 036 870**	**(2 494 850)**	**(7 877)**	**-**	**10 110 341**
Income/(expense) on allocation of funds on demand, less than 1 month and part with no stated maturity	(1 652 225)	1 303 903	348 322	-	-	-
Income/(expense) on allocation of funds for more than 1 month and part with no stated maturity	-	(4 745 769)	4 745 769	-	-	-
Net operating result on banking assets and liabilities after intersegment allocations	**1 923 973**	**5 595 004**	**2 599 241**	**(7 877)**	**-**	**10 110 341**
Fee and commission income	127 387	1 046 593	1 243 603	17 519	-	2 435 102
Fee and commission expense	(3 761)	(272 444)	(173 928)	(131)	-	(450 264)
Provision for loan impairment	55 657	(242 676)	(455 628)	(2 689)	-	(645 336)
General and administrative expenses	(408 980)	(1 952 008)	(2 279 063)	(213 655)	(1 527 832)	(6 381 538)
Other income/(expense)	-	-	(287 000)	334 184	106 725	153 909
Profit before taxation	**1 694 276**	**4 174 469**	**647 225**	**127 351**	**(1 421 107)**	**5 222 214**
Income tax expense	-	-	-	(26 669)	(1 170 676)	(1 197 345)
Profit after taxation	**1 694 276**	**4 174 469**	**647 225**	**100 682**	**(2 591 783)**	**4 024 869**
Minority interest	-	-	-	-	(14 582)	(14 582)
Net profit	**1 694 276**	**4 174 469**	**647 225**	**100 682**	**(2 606 365)**	**4 010 287**

(in thousands of Russian Roubles)

26. Segment Reporting (continued)

The table below shows a breakdown of consolidated statement of income of the Group by business segments for the year ended 31 December 2004:

	Treasury business	Corporate business	Retail business	Non-banks	Non-allocated	Total
Interest income	2 576 754	8 395 400	434 186	15 753	-	11 422 093
Interest expense	(353 899)	(1 594 677)	(3 825 670)	(859)	-	(5 775 105)
Gains less losses arising from financial assets at fair value through profit or loss and available for sale	1 218 853	-	-	11 960	-	1 230 813
Gains less losses from dealing in foreign currency	325 012	-	135 472	109	-	460 593
Net operating result on banking assets and liabilities	**3 766 720**	**6 800 723**	**(3 256 012)**	**26 963**	**-**	**7 338 394**
Income/(expense) on allocation of funds on demand, less than 1 month and part with no stated maturity	(2 095 702)	1 843 144	252 558	-	-	-
Income/(expense) on allocation of funds for more than 1 month and part with no stated maturity	-	(4 959 779)	4 959 779	-	-	-
Net operating result on banking assets and liabilities after intersegment allocations	**1 671 018**	**3 684 088**	**1 956 325**	**26 963**	**-**	**7 338 394**
Fee and commission income	83 894	719 792	989 081	-	-	1 792 767
Fee and commission expense	(6 591)	(243 006)	(150 247)	-	-	(399 844)
Provision for loan impairment	(50 666)	(190 638)	(92 069)	(180 560)	-	(513 933)
General and administrative expenses	(365 805)	(1 876 816)	(1 981 594)	(551 464)	-	(4 775 679)
Other income/(expense)	45 285	31 806	-	273 606	222 228	572 925
Profit before taxation	**1 377 135**	**2 125 226**	**721 496**	**(431 455)**	**222 228**	**4 014 630**
Income tax expense	-	-	-	(11 569)	(874 532)	(886 101)
Profit after taxation	**1 377 135**	**2 125 226**	**721 496**	**(443 024)**	**(652 304)**	**3 128 529**
Minority interest	-	-	-	-	(34 348)	(34 348)
Net profit	**1 377 135**	**2 125 226**	**721 496**	**(443 024)**	**(686 652)**	**3 094 181**

27. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational and legal risks.

The main risk management activity is to identify, measure and control the above-mentioned risks, take management decisions to avoid or minimise risks (hedging, reallocation, diversification, etc.).

The Group implemented a three-level risk management system. At the first level, business units exercise preliminary and operational control over the established limits in the course of transactions. At the second level, back office controls compliance of business units with the established limits. At the third level, preliminary and subsequent risk control is exercised independently by specialised divisions, which are charged with risk control functions.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The assessment of exposure to risks also serves as a basis for optimal distribution of risk-adjusted capital, transaction pricing and business performance assessment. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

In accordance with strategic tasks in the management area a comprehensive system for management of all types of risks is functioning and developing within the Group. Further efforts will be aimed at development of the existing risk management methods and instruments, as well as systematisation and integration of risk assessment and management methods with regard for international standards.

Credit risk. Credit risk is the risk of financial losses caused by inability of the Group's borrower or counterparty to meet their liabilities.

The following methods of control and management are applied to manage credit risk.

Risk assessment. The risk by each credit product is assessed on the basis of internal bank ratings. The level of risk for individual borrowers is assessed with the use of scoring methods. To assess credit risk exposure on loans to legal entities the following instruments are used.

Limits on transactions for provision of credit products. The limiting system comprises:

- scope limits, which limit credit risk concentration by division, type of products, region, industry, etc.;
- scope limits for separate counterparties;
- limits by each credit product, calculated in accordance with own methods of credit risk assessment;
- risk limits, which limit maximum admissible risk of separate divisions' portfolios;
- maturity limits depending on risk level by product, type and other terms of lending;
- limits of personified lending authority.

Limit values are updated on a regular basis in accordance with current level of credit risk and macro- and microeconomic situation. Compliance of authorised persons and management bodies with set limits is monitored daily.

Monitoring of credit risk of operating products is conducted regularly and is aimed at detection of risk-increasing factors in order to further neutralise them and reduce concentration.

The Group developed the policy and procedures related to credit risk management. These include requirements for setting of and complying with the limits on loan portfolio concentration and provide for establishment of the Credit Committee to monitor credit risk exposure of the Group.

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

Credit risk on off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in managing contingent obligations as it does for balance sheet financial instruments based on procedures of authorisation of deals, risk control limits and monitoring of the financial position of counterparty.

The policy of the credit risk management is reviewed and approved by the Board.

27. Financial Risk Management (continued)

Market risks. Market risks are the risks of potential losses due to decreases in the value of securities portfolio and other traded assets as a result of adverse movements in market parameters (prices, interest and currency exchange rates). The following methods of control and management are applied to market risks.

Market risk assessment is performed using two main methods: statistical probability method and method of historical modelling. These methods allow to calculate the amount of potential gains or losses of the portfolio over a specified time horizon and level of reliability.

At the same time, stress-testing of portfolios is carried out allowing (under different scenarios) to evaluate stability and maximum financial loss for market instrument portfolios.

The market risk *limiting system* is similar to the credit risk limiting system, but it has a number of peculiarities consisting in the use of special limits applicable only to this type of risk (stop-loss limits, etc.).

Market risk *monitoring* encompasses revaluing all open positions at market prices in order to identify present value of portfolios and changes in estimates of expected potential losses.

Hedging implies additional transactions with financial instruments with similar characteristics for guaranteed limitation of losses.

Market risks may be reduced without decrease in the expected yield by means of portfolio *diversification*, mainly, diversification into different market instruments and segments.

The Group manages market risks by increasing or decreasing its position within the limits set by the Group management. These limits mitigate possible effect of changes in the market financial indicators on the Group's income and value of sensitive assets and liabilities.

The procedures of market risk management, as well as the tariff policy of the Group, are reviewed and approved by the Financial Committee.

Interest rate risk is determined by the extent of impact of changes in interest rates on interest margin and net interest income. Interest margins may increase or decrease as a result of such changes, depending on the degree of difference in the structure of interest-bearing assets and liabilities.

In practice, interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The management of the Group sets limits on the level of acceptable mismatch of interest rate re-pricing terms, which are monitored daily. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

(in thousands of Russian Roubles)

27. Financial Risk Management (continued)

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity/ interest-free	Total
Assets						
Cash and cash equivalents	5 239 654	-	-	-	14 677 637	19 917 291
Mandatory cash balances with central banks	-	-	-	-	4 173 467	4 173 467
Financial assets at fair value through profit or loss	390 795	243 613	2 718 071	23 870 429	2 553 161	29 776 069
Due from other banks	12 960 111	836 220	46 025	23 768	-	13 866 124
Loans to customers	16 979 151	48 456 257	49 348 760	46 294 336	-	161 078 504
Financial assets available for sale	5 755 551	-	-	-	394 298	6 149 849
Investments in associates and non-consolidated subsidiaries	-	-	-	-	200 363	200 363
Other assets	-	-	-	-	888 917	888 917
Tax assets	-	-	-	-	441 624	441 624
Premises and equipment, and intangible assets	-	-	-	-	9 277 225	9 277 225
Total assets	**41 325 262**	**49 536 090**	**52 112 856**	**70 188 533**	**32 606 692**	**245 769 433**
Liabilities						
Due to other banks	14 464 921	6 540 615	73 444	74 395	-	21 153 375
Customer accounts	50 227 539	38 688 229	38 203 914	27 131 530	14 273 645	168 524 857
Debt securities issued	1 393 982	1 766 693	866 703	25 048 906	-	29 076 284
Other liabilities	-	-	-	-	2 565 889	2 565 889
Tax liabilities	-	-	-	-	745 289	745 289
Total liabilities	**66 086 442**	**46 995 537**	**39 144 061**	**52 254 831**	**17 584 823**	**222 065 694**
Net interest rate gap as at 31 December 2005	**(24 761 180)**	**2 540 553**	**12 968 795**	**17 933 702**	**15 021 869**	**23 703 739**
Net interest rate gap as at 31 December 2004	**(34 427 423)**	**(26 083 979)**	**35 509 696**	**28 721 483**	**15 753 450**	**19 473 227**
Cumulative interest rate gap as at 31 December 2005	**(24 761 180)**	**(22 220 627)**	**(9 251 832)**	**8 681 870**	**23 703 739**	
Cumulative interest rate gap as at 31 December 2004	**(34 427 423)**	**(60 511 402)**	**(25 001 706)**	**3 719 777**	**19 473 227**	

(in thousands of Russian Roubles)

27. Financial Risk Management (continued)

The table below shows analysis of effective average interest rates by currency for main monetary financial instruments. The analysis was prepared on the basis of weighted average interest rates at the end of the year.

	USD		EUR		RUR	
	2005	2004	2005	2004	2005	2004
Assets						
Due from other banks	4.71%	3.07%	2.35%	2.10%	6.51%	3.48%
Loans to customers	10.06%	11.12%	9.37%	10.51%	11.59%	11.75%
Financial assets at fair value through profit or loss	5.40%	5.79%	-	2.70%	8.02%	7.87%
Financial assets available for sale	6.00%	-	-	-	-	-
Liabilities						
Due to other banks	5.46%	4.06%	5.20%	5.68%	4.04%	-
Customer accounts	5.37%	6.19%	4.83%	5.43%	4.51%	5.04%
Debt securities issued	7.60%	7.78%	5.64%	4.88%	6.41%	7.13%

(in thousands of Russian Roubles)

27. Financial Risk Management (continued)

Geographical concentration of the Group's assets and liabilities as at 31 December 2005 is set out below.

	Russia	OECD	Other	Total
Assets				
Cash and cash equivalents	18 171 750	1 228 238	517 303	19 917 291
Mandatory cash balances with central banks	4 089 104	-	84 363	4 173 467
Financial assets at fair value through profit or loss	28 753 198	539 143	483 728	29 776 069
Due from other banks	5 992 745	5 171 086	2 702 293	13 866 124
Loans to customers	142 220 092	3 317 308	15 541 104	161 078 504
Financial assets available for sale	6 149 849	-	-	6 149 849
Investments in associates and non-consolidated subsidiaries	200 363	-	-	200 363
Other assets	789 599	4 994	94 324	888 917
Tax assets	421 200	-	20 424	441 624
Premises and equipment, and intangible assets	8 614 913	-	662 312	9 277 225
Total assets	**215 402 813**	**10 260 769**	**20 105 851**	**245 769 433**
Liabilities				
Due to other banks	1 627 214	18 513 843	1 012 318	21 153 375
Customer accounts	158 095 898	1 182 350	9 246 609	168 524 857
Debt securities issued	4 306 144	24 737 343	32 797	29 076 284
Other liabilities	2 263 467	20 010	282 412	2 565 889
Tax liabilities	743 391	-	1 898	745 289
Total liabilities	**167 036 114**	**44 453 546**	**10 576 034**	**222 065 694**
Net balance sheet position as at 31 December 2005	**48 366 699**	**(34 192 777)**	**9 529 817**	**23 703 739**
Net balance sheet position as at 31 December 2004	**23 389 663**	**(4 454 058)**	**537 622**	**19 473 227**

27. Financial Risk Management (continued)

Currency risk. The Group holds assets and liabilities denominated in several foreign currencies. The Group takes on exposure to effects of foreign currency exchange rates volatility on its financial position and cash flows. The Financial Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. For banks conducting their activities on the territory of the Russian Federation, the amount of open currency position is subject to regulations of the CBR and should not be more than 20% of the Bank's equity for all foreign currencies and 10% for any of the foreign currencies. Currency risks are managed by matching assets and liabilities in foreign currencies through TOM and SWAP transactions with the Bank's counterparties.

As at 31 December 2005, the Group's gross position in USD and in EUR was 2.07% and 0.52% of the equity, respectively.

The table below summarises the Group's exposure to foreign currency exchange rate risk as at 31 December 2005. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency.

(in thousands of Russian Roubles)

27. Financial Risk Management (continued)

	RUR	USD	EUR	Other currencies	Total
Assets					
Cash and cash equivalents	15 947 035	2 428 145	555 780	986 331	19 917 291
Mandatory cash balances with central banks	4 089 104	-	-	84 363	4 173 467
Financial assets at fair value through profit or loss	20 012 252	8 733 527	561 203	469 087	29 776 069
Due from other banks	6 492 952	5 478 316	1 395 125	499 731	13 866 124
Loans to customers	112 623 150	43 375 050	4 343 847	736 457	161 078 504
Financial assets available for sale	394 103	5 755 551	-	195	6 149 849
Investments in associates and non-consolidated subsidiaries	200 363	-	-	-	200 363
Other assets	789 599	16 463	29 527	53 328	888 917
Tax assets	421 200	-	-	20 424	441 624
Premises and equipment, and intangible assets	8 614 913	-	-	662 312	9 277 225
Total assets	**169 584 671**	**65 787 052**	**6 885 482**	**3 512 228**	**245 769 433**
Liabilities					
Due to other banks	1 290 673	19 275 919	428 299	158 484	21 153 375
Customer accounts	135 231 889	26 453 748	4 052 231	2 786 989	168 524 857
Debt securities issued	3 023 911	25 868 113	184 260	-	29 076 284
Other liabilities	2 336 039	94 632	33 773	101 445	2 565 889
Tax liabilities	743 391	-	-	1 898	745 289
Total liabilities	**142 625 903**	**71 692 412**	**4 698 563**	**3 048 816**	**222 065 694**
Net balance sheet position as at 31 December 2005	**26 958 768**	**(5 905 360)**	**2 186 919**	**463 412**	**23 703 739**
Net balance sheet position as at 31 December 2004	**18 487 851**	**932 345**	**(400 526)**	**453 557**	**19 473 227**

27. Financial Risk Management (continued)

Liquidity risk. Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to risk via daily calls from customers on its available cash resources from current accounts, maturing deposits, loan draw downs, guarantees and other calls on cash settled derivatives. The Group does not accumulate cash resources to meet calls on all liabilities mentioned above, as based on the existing practice, it is possible to forecast with a sufficient degree of certainty the required level of cash funds necessary to meet the above obligations.

The Group developed liquidity management tools with the objective of maintaining the availability of funds to meet its liabilities as they come due. The liquidity management policy of the Group is reviewed and approved by the Financial Committee.

Liquidity is managed based on the following main principles:

- *substantiated assessment and forecasting* of liquidity crisis,
- *pro-active approach* to prevention/successful overcoming of possible crisis,
- *methods of effective liquidity management*,
- *methods of effective control* over functioning of liquidity management system and preparation of internal and external reports.

To maintain objective reflection of actual situation the Group implemented a system of mandatory segregation of rights and responsibilities between the bodies comprising the liquidity management system, which:

- take strategic decisions;
- manage liquidity;
- analyse and control the process.

To manage *quick liquidity* the Group applies the principle of anticipatory receipt and use in calculations of the information about its calendar transactions, customer deposits/write-offs on the basis of forecast and insider information. Quick liquidity is monitored and managed using the automated payment accounting system.

To manage *current and medium-term liquidity* the Group uses cash-flow calendar, which helps to assess liquidity and impact on liquidity of large transactions and arrangements carried out to obtain the desirable values.

Statistical analysis of quick, current and long-term liquidity is carried out by calculating economic ratios required by the Central Bank of Russia. In case of significant (exceeding 20%) changes in values of ratios for the last 3 months, especially for the last month of the period, reasons (or movements in assets and liabilities), which gave rise to material changes in these ratios are analysed.

The Group envisaged measures to be taken in case of insufficient liquidity and failure to cover gap using traditional sources. Depending on the complexity of the situation and general condition of the financial system the Group can act as follows:

- sell part of assets;
- enter into REPO transactions with the Central Bank of Russia;
- restrict growth of assets in certain types of business;
- change rates and tariffs;
- work purposefully with major clients and counterparties to make long-term placements.

The table below shows the assets and liabilities as at 31 December 2005 by their remaining contractual maturity.

(in thousands of Russian Roubles)

27. Financial Risk Management (continued)

	On demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	No stated maturity	Total
Assets						
Cash and cash equivalents	19 917 291	-	-	-	-	19 917 291
Mandatory cash balances with central banks	-	-	-	-	4 173 467	4 173 467
Financial assets at fair value through profit or loss	29 776 069	-	-	-	-	29 776 069
Due from other banks	12 960 111	836 220	46 025	23 768	-	13 866 124
Loans to customers	16 979 151	48 456 257	49 348 760	46 294 336	-	161 078 504
Financial assets available for sale	-	-	-	-	6 149 849	6 149 849
Investments in associates and non-consolidated subsidiaries	-	-	-	-	200 363	200 363
Other assets	888 917	-	-	-	-	888 917
Tax assets	-	-	-	-	441 624	441 624
Premises and equipment, and intangible assets	-	-	-	-	9 277 225	9 277 225
Total assets	**80 521 539**	**49 292 477**	**49 394 785**	**46 318 104**	**20 242 528**	**245 769 433**
Liabilities						
Due to other banks	6 694 595	784 115	7 843 770	5 830 895	-	21 153 375
Customer accounts	64 501 184	38 688 229	38 203 914	27 131 530	-	168 524 857
Debt securities issued	1 393 982	1 766 693	866 703	25 048 906	-	29 076 284
Other liabilities	2 537 457	28 432	-	-	-	2 565 889
Tax liabilities	-	-	-	-	745 289	745 289
Total liabilities	**75 127 218**	**41 267 469**	**46 914 387**	**58 011 331**	**745 289**	**222 065 694**
Net liquidity gap as at 31 December 2005	**5 394 321**	**8 025 008**	**2 480 398**	**(11 693 227)**	**19 497 239**	**23 703 739**
Net liquidity gap as at 31 December 2004	**(2 631 234)**	**(26 331 160)**	**34 415 284**	**2 052 719**	**11 967 618**	**19 473 227**
Cumulative liquidity gap as at 31 December 2005	**5 394 321**	**13 419 329**	**15 899 727**	**4 206 500**	**23 703 739**	
Cumulative liquidity gap as at 31 December 2004	**(2 631 234)**	**(28 962 394)**	**5 452 890**	**7 505 609**	**19 473 227**	

27. Financial Risk Management (continued)

Operational risk. The Group implemented fundamental measures for operational risk management, which imply regulation of performed transactions and business processes and availability of internal control system. These measures are supported by the respective risk assessment methodology based on world experience. The following management methods and instruments are applied to operational risks:

Standardisation and development of technologies. Clear and unambiguous description of performed transactions technology and decision-making procedure within the internal regulatory framework and its timely actualisation is one of the main factors for decreasing the level of operational risk and it also forms the basis for timely detection and effective control of risks. Operational risks are also mitigated by implementing the information technologies allowing to decrease the level of manual transactions.

Limitation of authority. The Group implemented a multilevel system of limits on authorities of responsible persons and collective bodies, identified responsibility and interchangeability of employees in all segments of work.

Operational risk assessment. Methodology for operational risk assessment has been developed and approved. To provide informational support of risk assessment the Bank installed special software and is forming a database for losses arising from operational risks.

Control. Active is the system of procedures aimed at prevention or detection of departures from laws, regulations and standards of professional activities, settlement of conflict of interests, provision of adequate level of reliability relevant to the nature and scope of transactions performed.

Risk insurance. Certain types of loss arising from realisation of operational risks are covered by insurance, thus transferring possible loss to insurance organisations.

Provisions by main types of risk are made to form sources to cover possible losses. Provision rates and procedures are defined on the basis of the approved regulations.

Based on the results of regular risk analysis the Group prepares management reports for its management. These reports not only provide assessment of risk level but also offer arrangements to limit and diversify risks.

28. Contingent Liabilities

Insurance. The insurance market in the Russian Federation is still in the phase of development, so many forms of insurance protection applied in other countries are not available in the Russian Federation, yet. The Group has not obtained full insurance coverage for premises and equipment, against discontinuance of operations or third party liability with respect to property or ecological damage arsing due to malfunction of banking equipment or in connection with the main operations of the Group.

However, the Group has obtained insurance coverage for the most significant property items: buildings, motor vehicles, ATM and other items against damage due to accidents and unlawful actions of third parties.

Legal proceedings. The management of the Group is not aware of any significant legal proceedings in respect of the Group either current, pending or suspended. As at 31 December 2005, the Group did not set up provisions for possible losses on litigation.

Taxation contingencies. The tax system of the Russian Federation is characterised by a large number of taxes and frequently changed regulations that may have the retroactive effect and often contain ambiguous and contradictory statements. Often, differing opinions exist among various regulatory bodies in respect of the same regulation. Accuracy of tax computations is subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts create tax risks in the Russian Federation, which are substantially more significant than typically found in other countries. Management believes that the Group fully reflected its tax liabilities in the accompanying consolidated financial statements based on interpretation of the current tax legislation by the Group management. However, the risk remains that relevant authorities could take differing positions with regard to issues allowing more than one interpretation and the effect of such risk may be material.

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

(in thousands of Russian Roubles)

28. Contingent Liabilities (continued)

	2005	2004
Less than 1 year	79 154	203 016
Total operating lease commitments	**79 154**	**203 016**

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties, carry the same credit risk as loans. Documentary letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to make loans at a specific rate of interest during a fixed period of time are accounted for as derivative financial instruments unless these commitments do not extend beyond the period expected to be needed to perform appropriate underwriting. Credit related commitments of the Group are as follows:

	2005	2004
Credit related commitments	27 491 641	6 388 559
Guarantees issued	6 459 543	4 781 267
Import letters of credit	2 413 392	204 740
Total credit related commitments	**36 364 576**	**11 374 566**

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

The total outstanding contractual amount of guarantees, letters of credit and undrawn credit lines does not necessarily represent future cash requirements as these financial instruments may expire or terminate without being funded.

The Group management estimates possibility of losses in connection with credit related commitments as immaterial. As at 31 December 2005 and 31 December 2004, the Group did not set up provisions for the related losses.

Derivative financial instruments maturing after the balance sheet date. The table below presents the analysis of contractual or agreed amounts and fair value of financial instruments. It reflects gross position before the netting of any counterparty position by type of instrument and covers the contracts with a maturity date subsequent to 31 December 2005.

	Domestic contracts			Foreign contracts	
	Contract amount	**Unrealised loss**	**Unrealised gain**	**Contract amount**	**Unrealised loss**
Forward transactions					
Foreign currency					
- sale of foreign currency	428 682	(3 056)	-	-	-
- purchase of foreign currency	428 470	-	3 268	-	-
Securities					
- sale of securities	25 107	-	-	3 192 850	(29 627)
Spot transactions					
Foreign currency					
- sale of foreign currency	57 460	(105)	-	-	-
- purchase of foreign currency	2 703 096	-	2 459	-	-
Total	**3 642 815**	**(3 161)**	**5 727**	**3 192 850**	**(29 627)**

29. Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. In separate cases professional judgement was applied to interpret market data to determine the estimated fair value. The Group has used available market information in estimating the fair value of financial instruments, the market information may not be fully reflective of the value that could be realised in the current circumstances.

Financial instruments carried at fair value. Cash and cash equivalents, financial assets at fair value through profit or loss and financial assets available for sale are carried in the consolidated balance sheet at their fair value (Notes 5, 6, 9). Some financial assets available for sale have no independent market quotations. The fair value of these assets was determined by the Group based on the results of recent sale of equity interests in the investees to unrelated third parties, analysis of other information, such as discounted cash flows and financial information about investees, as well as using other valuation methods.

Due from other banks. The fair value of floating rate instruments is their carrying amount. The estimated fair value of fixed interest-bearing placements is based on discounted cash flows using prevailing money market interest rates for instruments with similar credit risk and maturity. In the opinion of the Group, the fair values of due from other banks as at 31 December 2005 and 31 December 2004 do not materially differ from respective carrying amounts (Note 7). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Loans to customers. Loans to customers are reported net of impairment provisions. The estimated fair value of loans to customers represent the discounted amount of estimated future cash flows expected to be received. To determine fair value, expected cash flows are discounted at current market rates. The Group believes that fair values of loans to customers as at 31 December 2005 and 31 December 2004 do not materially differ from respective carrying amounts (Note 8). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Borrowings. The estimated fair value of borrowings with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The management believes that fair values of borrowings as at 31 December 2005 and 31 December 2004 do not materially differ from respective carrying amounts (Note 13, 14). This is primarily due to the fact that it is practice to renegotiate interest rates to reflect current market conditions. So, interest on most balances is accrued at rates approximating market interest rates.

Debt securities issued. The fair value of debt securities issued is based on market quotations. The fair value of instruments without quoted market prices is determined using the discounted cash flows model, which is based on the current yield curve for the remaining maturity (Note 15).

30. Related Party Transactions

In the normal course of business the Group enters into banking transactions with its major shareholders, directors, subsidiaries, associates, companies in which the Group shareholders have significant interests and other related parties. These transactions include settlements, origination of loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions were priced predominantly at market rates.

(in thousands of Russian Roubles)

30. Related Party Transactions (continued)

The outstanding balances at the year end, asset transactions and income items for the year with related parties are as follows:

	2005	2004
Financial assets at fair value through profit or loss		
as at 1 January	2 552 270	1 605 094
acquisitions during the year	16 139 910	12 639 673
sale, repayment during the year	18 584 270	11 692 497
Financial assets at fair value through profit or loss as at 31 December	**107 910**	**2 552 270**
Due from other banks		
as at 1 January	798 713	198 905
placed during the year	1 580 332	6 570 270
repaid during the year	1 824 654	5 970 462
Due from other banks as at 31 December	**554 391**	**798 713**
Provisions for impairment of due from other banks		
Provision for impairment of due from other banks as at 1 January	7 987	7 620
(Recovery of)/provision for impairment of due from other banks during the year	(2 987)	367
Due from other banks written off during the year as uncollectible	-	-
Recovery of due from other banks earlier written off as uncollectible	-	-
Provision for impairment of due from other banks as at 31 December	**5 000**	**7 987**
Due from other banks as at 1 January (less provision for impairment)	**790 726**	**191 285**
Due from other banks as at 31 December (less provision for impairment)	**549 391**	**790 726**
Loans to customers		
as at 1 January (gross)	3 602 907	7 481 142
originated during the year	5 845 077	6 389 993
repaid during the year	5 236 596	10 268 228
Loans to customers as at 31 December (gross)	**4 211 388**	**3 602 907**
Provisions for loan impairment		
Provision for loan impairment as at 1 January	77 195	121 374
(Recovery of)/provision for loan impairment during the year	3 784	(44 179)
Provision for loan impairment as at 31 December	**80 979**	**77 195**
Loans to customers as at 1 January (less provision for impairment)	**3 525 712**	**7 359 768**
Loans to customers as at 31 December (less provision for impairment)	**4 130 409**	**3 525 712**
Interest received on loans to customers and due from other banks	**695 021**	**495 018**

(in thousands of Russian Roubles)

30. Related Party Transactions (continued)

The outstanding balances at the year end, liability transactions and expense items for the year with related parties are as follows:

	2005	2004
Due to the other banks		
as at 1 January	14 628	322 869
Funds received during the year	1 739 853	5 093 527
Funds repaid during the year	1 739 413	5 401 768
Due to the other banks as at 31 December	**15 068**	**14 628**
Customer accounts		
Current accounts and deposits of customers as at 1 January	39 071 544	16 097 240
Funds received during the year	555 174 590	418 290 885
Funds repaid during the year	540 781 581	395 316 581
Customer accounts as at 31 December	**53 464 553**	**39 071 544**
Interest expense on customer and bank deposits	1 163 342	875 906
Fee and commission income for the year	203 292	155 498
Guarantees issued by the Group at the end of the year	341 707	300 206
Guarantees received by the Group at the end of the year	52 591	555
Import letters of credit at the end of the year	96 327	70 509

The Government of the City of Moscow is the principal shareholder of the Group. Operations with the Moscow Government structures account for a substantial share of related party transactions.

Information on remuneration to members of the Board of Directors and Executive Board and their families is given below:

	2005	2004
Remuneration to members of the Board of Directors and their families	24 408	-
Payroll and other short-term payments to members of the Executive Board and their families	372 608	123 740

(in thousands of Russian Roubles)

31. Acquisitions and Disposals

Acquisition of subsidiaries

AS Eesti Krediidipank

On 7 June 2005 the Group acquired 16.15% in the share capital of AS Eesti Krediidipank. As at the acquisition date the Group had a 28.17% shareholding in this bank. The Group's share in the net profit of the associated bank for the period from 1 January 2005 to 30 June 2005 amounted to RUR 18 765 thousand.

On 27 July 2005 the Group acquired 852 500 shares of AS Eesti Krediidipank in the total amount of EUR 596 750. Thus, the Group's interest in the share capital of AS Eesti Krediidipank increased to 5 727 772 shares or 52.00% which is a majority shareholding in this bank.

On 29 July 2005 the Group acquired 852 500 shares of AS Eesti Krediidipank in the total amount of EUR 596 750. Thus the Group's interest in the share capital of the bank increased to 6 580 272 shares or 59.82%. From 27 July 2005, AS Eesti Krediidipank was reclassified from associates into a subsidiary. Net profit of the acquired subsidiary bank made RUR 86 210 thousand in the period from 27 July 2005 to 31 December 2005.

The fair value of net assets of AS Eesti Krediidipank and also goodwill arising on acquisition are shown in the table below:

	7 June 2005
Fair value of net assets of associate	**378 780**
Fair value of acquired share in the net assets of associate	**61 173**
Goodwill on acquisition	-
Consideration paid	**61 173**

	27 and 29 July 2005
Fair value of net assets of associate	**527 568**
Fair value of acquired share in the net assets of associate	**81 773**
Negative goodwill on acquisition	(40 514)
Consideration paid	**41 259**

Negative goodwill in the amount of RUR 40 514 thousand that arose on acquisition of AS Eesti Krediidipank was written off against net (loss)/gain on acquisition and sale of subsidiaries and associates at the moment of acquisition.

CJSC Stolichnaya Neftyanaya Kompania

On 24 January 2005 the Group set up CJSC Stolichnaya Neftyanaya Kompania with the share capital of RUR 10 thousand.

CJSC Investlesprom

On 21 December 2005 the Group set up CJSC Investlesprom with the share capital of RUR 10 thousand.

BM Bank LLC

On 8 December 2005 the Group set up BM Bank LLC on the territory of Ukraine (Kiev) with the share capital of RUR 339 997 thousand. The Group's interest in the share capital of BM Bank LLC makes 99.5%. On 3 February 2006 the bank obtained a license for banking activities.

(in thousands of Russian Roubles)

31. Additions and Disposals (continued)

Disposal of subsidiaries and associates

Sale of interest in a holding of associated leasing companies

As at 31 December 2003, a holding of leasing companies, with OJSC Leasingbusiness as a parent, formed part of the Group's associated companies. In 2005 the Group sold its participating interests in OJSC Leasingbusiness and its subsidiaries.

On 1 April 2005 the Group sold 29.84% in the share capital of OJSC Leasingbusiness and the following shareholdings in its subsidiaries: 29.84% in the share capital of CJSC Clipmash, 29.84% in the share capital of LLC Service-BM, 28.35% in the share capital of CJSC Leasingbuisness-Service, 28.35% in the share capital of LLC Leasingbusinessprom, 14.02% in the share capital of CJSC Orgtekhprom, 28.26% in the share capital of LLC Leasingoffice, and 29.77% in the share capital of LLC Stroybusinesservice.

Net loss of OJSC Leasingbusiness, CJSC Clipmash, LLC Service-BM, CJSC Leasingbuisness-Service, LLC Leasingbusinessprom, CJSC Orgtekhprom, LLC Leasingoffice and LLC Stroybusinesservice in the period from 1 January 2005 to 1 April 2005 amounted to RUR 28 250 thousand.

The amount of net assets sold and the proceeds received from the disposal are shown in the table below:

	1 April 2005
Net assets of associates	**(139 142)**
Sold share in the net assets of associates	(41 520)
Proceeds from disposal	**19 014**

The Group reported gain on sale of the associates in the amount of RUR 60 534 thousand within net (loss)/gain on acquisition and sale of subsidiaries and associates.

CJSC Financial Assistant

On 5 July 2005 the Group's 100% interest in the share capital of CJSC Financial Assistant was diluted to 0.0008% as a result of additional issue of 1 249 990 shares with nominal value of RUR 1 thousand. Net profit of CJSC Financial Assistant in the period from 1 January 2005 to 5 July 2005 made RUR 104 800 thousand.

The Group reflected loss on disposal of the subsidiary in the amount of RUR 201 582 thousand within net (loss)/gain on acquisition and sale of subsidiaries and associates, which equals the amount of net assets of the company at the moment of disposal.

RD Electronic

In 2005 AS Eesti Krediidipank reported income from sale of the associated company *RD Electronic* in the amount of RUR 9 656 thousand. This amount was recorded by the Group within net (loss)/gain on acquisition and sale of subsidiaries and associates.

(in thousands of Russian Roubles)

32. Capital Adequacy

The Central Bank of the Russian Federation requires banks to maintain a capital adequacy ratio of more than 10.0% of risk weighted assets.

As at 31 December 2005 and 2004, the Group's international risk based capital adequacy ratio exceeded the minimum ratio of 8.0% recommended by the Basle Accord of 1988:

	2005	2004
Core capital (Tier 1 capital)	22 858 984	18 932 431
Secondary capital (Tier 2 capital)	9 159 832	1 829 514
Total equity (capital)	**32 018 816**	**20 761 945**
Risk-weighted assets	**204 205 159**	**115 306 905**
Capital adequacy ratio	**15.7%**	**18.0%**
Core capital adequacy ratio	**11.1%**	**16.4%**
Minimum capital adequacy ratio	8.0%	8.0%

33. Fiduciary Activities

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of its customers. The Group gets commission fee for management of customers' assets. While managing these assets the Group has no obligations on fixed payments to customers. Funds managed by the Group on behalf of its customers are excluded from the balance sheet, as they are not assets of the Group.

The Group manages the following assets at cost at the moment of their transfer to management:

	2005	2004
Securities	1 951 496	1 118 832
Loans	253 344	272 067
Cash on bank accounts and other assets	24 643	707
Total	**2 229 483**	**1 391 606**

ERNST & YOUNG

■ Ernst & Young
Société Anonyme

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AUDITORS' REPORT

To the Shareholders of
Kuznetski Capital S.A.
Société Anonyme
Luxembourg

We have audited the accompanying financial statements of Kuznetski Capital S.A., which comprise the balance sheet as at December 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing; implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Kuznetski Capital S.A. as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG
Société Anonyme
Independent Auditor

Jeannot WEYER

April 18, 2007

Kuznetski Capital S.A.
Société Anonyme
BALANCE SHEET
December 31, 2006

ASSETS	2006 USD	2005 USD
Non current assets		
Loans and receivables (Note 3)	1 350 000 000,00	850 000 000,00
Current assets		
Loans and receivables (Note 3)	14 367 127,78	9 756 944,44
Trade and other receivables	1 120 000,00	386 845,56
Prepayments (Note 4)	114 547,37	145 117,36
Cash and cash equivalents	85 120,62	265 039,18
	15 686 795,77	10 553 946,54
	1 365 686 795,77	860 553 946,54

The accompanying notes are an integral part of these annual accounts.

EQUITY AND LIABILITIES	2006 USD	2005 USD
Equity		
Issued and subscribed share capital (Note 5)	50 000,00	50 000,00
Legal reserve	5 000,00	5 000,00
Profit or loss brought forward	615 926,50	155 150,48
Profit for the year	423 857,89	460 776,02
	1 094 784,39	670 926,50
Non current liabilities		
Interest bearing loans and borrowings (Note 6)	1 350 000 000,00	850 000 000,00
Current liabilities		
Interest bearing loans and borrowings (Note 6)	14 367 127,78	9 756 944,44
Tax payable (Note 7)	152 770,45	45 370,45
Deferred income (Note 4)	54 390,49	75 542,36
Other liabilities	17 722,66	5 162,79
	14 592 011,38	9 883 020,04
	1 365 686 795,77	860 553 946,54

Kuznetski Capital S.A.
Société Anonyme
INCOME STATEMENT
For the year ended December 31, 2006

	2006 USD	2005 USD
Finance revenue (Note 3)	87 699 782,26	35 713 162,05
Finance costs (Note 6)	(87 677 634,79)	(35 709 891,73)
Other income (Note 8)	2 519 267,81	3 585 353,93
Other expenses (Note 9)	(2 010 157,39)	(3 086 848,23)
Profit before tax	531 257,89	501 776,02
Income tax expense (Note 7)	(107 400,00)	(41 000,00)
Profit for the year	423 857,89	460 776,02

The accompanying notes are an integral part of these annual accounts.

Kuznetski Capital S.A.
Société Anonyme
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2006
All amounts in USD

	Issued share capital	Legal reserve	Result brought forward	Result for the year	Total
At January 1, 2005	50.000,00	-	-	160.150,48	210.150,48
Allocation of 2004 result	-	5.000,00	155.150,48	(160.150,48)	-
Result 2005	-	-	-	460.776,02	460.776,02
At December 31, 2005	50.000,00	5.000,00	155.150,48	460.776,02	670.926,50
Allocation of 2005 result	-	-	460.776,02	(460.776,02)	-
Result 2006	-	-	-	423.857,89	423.857,89
At December 31, 2006	50.000,00	5.000,00	615.926,50	423.857,89	1.094.784,39

The accompanying notes are an integral part of these annual accounts.

Kuznetski Capital S.A.
Société Anonyme
CASH FLOW STATEMENT
For the year ended December 31, 2006

	2006 USD	2005 USD
Operating activities		
Profit before tax from continuing operations	531 257,89	501 776,02
Interest received	87 677 250,00	31 064 000,00
Interest paid	(87 677 250,00)	(31 064 000,00)
Increase in trade and other receivables	(733 154,44)	(220 845,56)
Increase in other payables	12 559,87	2 423,12
(Increase)/decrease in prepayment /deferred income	9 418,12	(69 575,00)
Net cash flow from operating activities	**(179 918,56)**	**213 778,58**
Investing activities		
Disbursement of loans	(500 000 000,00)	(600 000 000,00)
Net cash flow from investing activities	**(500 000 000,00)**	**(600 000 000,00)**
Financing activities		
Proceeds from borrowings	500 000 000,00	600 000 000,00
Net cash flow received from financing activities	**500 000 000,00**	**600 000 000,00**
Net increase/(decrease) in cash and cash equivalents	(179 918,56)	213 778,58
Cash and cash equivalents at beginning of the year	265 039,18	51 260,60
Cash and cash equivalents at end of the year	**85 120,62**	**265 039,18**

The accompanying notes are an integral part of these annual accounts.

NOTE 1 – GENERAL INFORMATION

Kuznetski Capital S.A. (the "Company") was incorporated on July 26, 2004 by a deed of Me Tom Metzler, notary residing in Luxembourg. The Company is a Luxembourg public limited liability company domiciled at 69, boulevard de la Pétrusse, L- 2320 Luxembourg and is registered at the Luxembourg Trade Register under number B 102.041. The shareholders of the Company are Kuznetski Holding I Stichting at 99,9% and Kuznetski Holding II Stichting at 0,01%.

The purposes of the Company are all transactions pertaining directly or indirectly to the taking of participating interests in any enterprises in whatever form, the administration, the management, the control and the development of these participating interests. The Company may also borrow money and lend money to other companies. More specifically, the Company has been established to issue notes on the Luxembourg and London stock exchanges and to on lend these loans to the Bank of Moscow. The Company is not part of a consolidated group of companies.

The financial statements of the Company for the financial year ended December 31, 2006 prepared in accordance with International Financial Reporting Standards (IFRS) were authorized for issue on April 18 2007.

The Company operates on one reportable segment being financing activities in Russia.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a historical cost basis and are presented in US dollars ("USD").

Statement of compliance

The financial statements of Kuznetski Capital S.A have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board, and endorsed by the European Union, as at the balance sheet date.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Company.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

- IFRS 6 - Exploration for and Evaluation of Mineral Resources (effective 1 January 2006)
- IAS 19 amendment – Employee benefits: actuarial gains and losses, group plans and disclosures (effective 1 January 2006);
- IAS 21 amendment – The effects changes in foreign exchange rates: net investment in a foreign operation (effective 1 January 2006);
- IAS 39 and IFRS 4 amendments - Financial Guarantee Contracts (effective 1 January 2006);
- IAS 39 amendment - Fair value option (effective 1 January 2006)
- IAS 39 amendment - Cash flow Hedge Accounting (effective 1 January 2006);
- IFRIC 4 - Determining whether an Arrangement contains a Lease (effective 1 January 2006);
- IFRIC 5 - Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);
- IFRIC 6 - Liabilities arising from Participating in a specific Market - Waste Electrical and Electronic Equipment (effective from 1 December 2005);

Significant accounting judgments, estimates and assumptions

1) Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

<u>Fair value disclosure of loans granted</u>

The financial assets of the Company are comprised of loans which are not traded on an active market. Since the Company is granting these loans on a back-to-back basis at the same terms and conditions as the interest bearing loans and borrowings issued by the Company, management has determined that the fair value of each of the loans granted is identical to the fair value of the interest bearing loans and borrowings issued as determined by their respective market prices.

2) Estimates and assumptions

The key assumptions concerning the future and other key sources of uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

<u>Impairment of financial assets</u>

Management performs regular impairment reviews of financial assets to confirm that the carrying value in the Company's financial statements is still appropriate. This requires an estimation of the future cash flows expected to derive from each individual financial asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currency translation

The financial statements are presented in USD, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date *i.e.* the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Management has determined that the financial assets are all classified and accounted for as loans and receivables.

Loans and receivables

Loans and receivables are non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method, less any allowance for impairment. Gains and losses are recognized in income when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets carried at amortized cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (*i.e.* the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortization process.

Borrowing costs

Borrowing costs are recognized as an expense when incurred.

Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest income revenue is recognized as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying value amount of the financial asset).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

IFRS and IFRIC Interpretations not yet effective

The Company has not applied the following IFRS and IFRIC Interpretations that have been issued and adopted by the European Union but are not yet effective:

- IFRS 7: Financial instruments - Disclosures (effective 1 January 2007);
- IFRS 4 and IFRS 7 amendments - Insurance contracts and financial instruments: Disclosures (effective 1 January 2007);
- IAS 1: Amendment - Presentation of Financial statements – Capital Disclosures (effective 1 January 2007);
- IAS 14 and IFRS 7 amendments - Segment reporting and Financial instruments - Disclosures (effective 1 January 2007);
- IFRIC 7 - Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective 1 March 2006);
- IFRIC 8 - Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9 Reassessment of Embedded Derivatives (effective 1 June 2006).

The Company expects that adoption of the pronouncements listed above as they become effective will have no significant impact on the Company's financial statements.

NOTE 3 – OTHER FINANCIAL ASSETS

The Company granted 4 loans to Bank of Moscow as follows:

- A loan granted on September 28, 2004 for a nominal amount of USD 250 million. This loan bears interest at a nominal rate of 8% (effective rate of 8,16%) and matures in 2009. The interest is paid semi-annually on September 28 and March 28 of each year and interest accrued as of December 31, 2006 amounts to USD 5.111.111,11 (2005 – USD 5.111.111,11).

- A loan granted on May 23, 2005 for a nominal amount of USD 300 million. This loan bears interest at a nominal rate of 7,375% (effective rate of 7,510977%) and matures in 2010. The interest is paid semi-annually on May 26 and November 26 of each year and the interest accrued as of December 31, 2006 amounts to USD 2.458.666,67 (2005 – USD 2.458.333,33).

- A loan granted on November 22, 2005 for a nominal amount of USD 300 million. This loan bears interest at a nominal rate of 7,5% (effective rate of 7,640625%) and matures in 2015. The interest is paid semi-annually on May 25 and November 25 of each year and the interest accrued as of December 31, 2006 amounts to USD 2.187.500,00 (2005 – USD 2.187.500,00).

- A loan granted on May 10 2006 for a nominal amount of USD 500 million. This loan bears interest at a nominal rate of 7,335% (effective rate of 7,469506%) and matures in 2013. The interest is paid semi-annually on May 13 and November 13 of each year and the interest accrued as of December 31, 2006 amounts to USD 4.609.850,00.

NOTE 3 – OTHER FINANCIAL ASSETS - continued

The Management has determined that the fair value of each of these loans as of December 31, 2006 is identical to the fair value of the interest bearing loans and borrowings issued by the Company as determined by their respective market prices as at that date (Note 6) as the Company is granting these loans on a back-to-back basis at the same terms and conditions.

The Company incurred costs in raising financing which is then on-lent in its entirety to other companies. As part of this back-to-back financing arrangement, all such costs are reinvoiced to the respective companies and therefore no financing costs are borne by the Company. Therefore, such costs are not netted of against the consideration received. Correspondingly, loans and receivables do not include financing fees received under this arrangement.

NOTE 4 – PREPAYMENTS AND DEFERRED INCOME

Prepayments mainly represent the domiciliation, accounting and other administrative costs for the Company, paid in advance for subsequent years. These prepayments will be reversed to profit and loss when the underlying services will be actually delivered.

Deferred income represents part of the invoicing done by the Company for the recharge of the costs incurred up to December 31, 2006 and to be incurred in subsequent years. This deferred income should match the administrative costs to be incurred by the Company as described above.

NOTE 5 - SHAREHOLDERS' EQUITY

Share capital

On July 26, 2004, the Company was incorporated with a share capital amounting to 50.000 represented by 10.000 shares with a nominal value of 5 each.

As of December 31, 2006, the Company has a share capital of 50.000 represented by 10.000 shares with a nominal value of 5 each.

Legal reserve

Under Luxembourg law an amount equal to at least 5 percent of the profit of the year must be allocated to a legal reserve until such reserve equals 10 percent of the issued share capital. This reserve is not available for dividend distribution.

NOTE 6 – INTEREST BEARING LOANS AND BORROWINGS

On September 28, 2004, the Company issued a USD 250 million Loan Participation Notes (the "Notes") due 2009 at an issue price of 100% bearing a nominal interest rate of 8% (effective rate 8,16%). These Notes are listed on the Luxembourg Stock Exchange. The Notes generate an obligation for the Company to grant an amount equal to the proceeds of the issue of the Notes as a financing loan to Bank of Moscow pursuant to the terms of a loan agreement (Note 3).

The interest on the loan accrues from September 28, 2004 and is being paid semi-annually on March 28 and September 28 of each year. As of December 31, 2006, accrued interest on the Notes amounts to USD 5.111.111,11 (2005 – USD 5.111.111,11).

On May 23, 2005, the Company issued a USD 300 million Loan Participation Notes (the "Notes") due 2010 at an issue price of 100% bearing a nominal interest rate of 7,375% (effective rate 7,510977%). These Notes are listed on the Luxembourg Stock Exchange. The Notes generate an obligation for the Company to grant an amount equal to the proceeds of the issue of the Notes as a financing loan to Bank of Moscow pursuant to the terms of a loan agreement (Note 3).

The interest on the loan accrues from May 23, 2005 and is being paid semi-annually on May 26 and November 26 of each year. As of December 31, 2006, accrued interest on the Notes amounts to USD 2.458.666,67 (2005 – USD 2.458.333,33).

On November 22, 2005, the Company issued a USD 300 million Loan Participation Notes (the "Notes") due 2015 at an issue price of 100% bearing a nominal interest rate of 7,5% (effective rate 7,640625%). These Notes are listed on the London Stock Exchange. The Notes generate an obligation for the Company to grant an amount equal to the proceeds of the issue of the Notes as a financing loan to Bank of Moscow pursuant to the terms of a loan agreement (Note 3)

The interest on the loan accrues from November 22, 2005 and is being paid semi-annually on May 25 and November 25 of each year. As of December 31, 2006, accrued interest on the Notes amounts to USD 2.187.500,00 (2005 – USD 2.187.500,00).

On May 10, 2006, the Company issued a USD 500 million Loan Participation Notes (the "Notes") due 2013 at an issue price of 100% bearing a nominal interest rate of 7,335% (effective rate 7,469506%). These Notes are listed on the London Stock Exchange. The Notes generate an obligation for the Company to grant an amount equal to the proceeds of the issue of the Notes as a financing loan to Bank of Moscow pursuant to the terms of a loan agreement (Note 3).

The interest on the loan accrues from November 10, 2006 and is being paid semi-annually on May 13 and November 13 of each year. As of December 31, 2006, accrued interest on the Notes amounts to USD 4.609.850,00.

According to the Directors of the Company, the fair market value of each of these borrowings as of December 31, 2006 is equal to their respective market prices on the Luxembourg and London Stock Exchanges as of that date and amounts to 104,809998% (2005: 104,25%), 104,305% (2005: 102,75%), 103,839% (2005: 101,25%) and 105,413% respectively.

NOTE 7 – TAXES

The Company is subject to all the taxes relevant to commercial companies in Luxembourg.

A reconciliation between the statutory and effective tax rate for the year ended December 31, 2006 is as follows:

	2006	*2005*
Statutory tax rate:	29,63%	30,38%
Effect of change in taxable basis:	(9,41)%	(22,21%)
Effective rate:	20,22%	8,17%

The Company's effective tax rate is based on an interest margin between loans granted and received as deemed between third parties.

As there are no temporary timing differences, no carry forwards of unused tax losses and no unused tax credits, the Company has not recorded any deferred tax balances.

NOTE 8 – OTHER INCOME

The other income represents the reinvoicing of the costs incurred plus an agreed margin by the Company in relation to the issue of loans (Note 6) to the Bank of Moscow according to the agreements between the Company and the Bank of Moscow.

NOTE 9 – OTHER EXPENSES

The other expenses represent the expenses incurred by the Company in relation with the various issues of loans on the Luxembourg and London stock exchanges (Note 6).

NOTE 10 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to interest rate risk, credit risk and liquidity risk.

The Company has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy and has established processes to monitor and control hedging transactions in a timely and accurate manner.

NOTE 10 – FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company may enter into interest rate caps to manage its cash flow interest rate risk.

Credit risk

The Company is exposed to risks associated with the recoverability of the loans granted. The Company monitors credit risks by only granting loans to well-known financial institutions. The maximum exposure is equal to the carrying amount of the granted loans.

As indicated in note 3 all loans are with the same counterpart.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding. The maturity and interest payment dates of the loans granted match the dates of repayment of the borrowings.

ERNST & YOUNG

Ernst & Young
Société Anonyme

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AUDITORS' REPORT

To the Shareholders of
Kuznetski Capital S.A.
Société Anonyme
Luxembourg

We have audited the accompanying financial statements of KUZNETSKI CAPITAL S.A. ("The Company") which comprise the balance sheet as at December 31, 2005 and the related income statement, statement of changes in equity and cash flow statement for the year then ended and the related notes to the financial statements. The financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 annual accounts. 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 annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of Kuznetski Capital S.A. as of December 31, 2005 and of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

ERNST & YOUNG
Société Anonyme
Independent Auditor

Michael HORNSBY

May 10, 2006

Bureaux:

7, Parc d'Activité Syrdall
L-5365 Munsbach

6, rue Jean Monnet
L-2180 Luxembourg

Kuznetski Capital S.A.
Société Anonyme
BALANCE SHEET
December 31, 2005

ASSETS	2005	2004
	USD	USD
Non current assets		
Other financial assets (Note 3)	850.000.000,00	250.000.000,00
Current assets		
Other financial assets (Note 3)	9.756.944,44	5.111.111,11
Trade and other receivables	386.845,56	166.000,00
Cash and cash equivalents	265.039,18	51.260,60
	10.408.829,18	5.328.371,71
Prepayments (Note 4)	145.117,36	90.650,83
	860.553.946,54	255.419.022,54

The accompanying notes are an integral part of these annual accounts.

EQUITY AND LIABILITIES	2005 USD	2004 USD
Equity		
Issued and subscribed share capital (Note 5)	50.000,00	50.000,00
Legal reserve	5.000,00	—
Profit or loss brought forward	155.150,48	—
Profit for the year	460.776,02	160.150,48
	670.926,50	210.150,48
Non current liabilities		
Interest bearing loans and borrowings (Note 6)	850.000.000,00	250.000.000,00
Current liabilities		
Interest bearing loans and borrowings (Note 6)	9.756.944,44	5.111.111,11
Tax payable (Note 7)	45.370,45	4.370,45
Other liabilities	5.162,79	2.739,67
	9.807.477,68	5.118.221,23
Deferred income (Note 4)	75.542,36	90.650,83
	860.553.946,54	255.419.022,54

Kuznetski Capital S.A.
Société Anonyme
STATEMENT OF PROFIT AND LOSS
For the year ended December 31, 2005

	2005 USD	2004 USD (5 months)
Other incomes (Note 8)	3.585.353,93	1.622.927,17
Other expenses (Note 9)	(3.086.848,23)	(1.458.400,76)
Finance revenue (Note 3)	35.713.162,05	5.111.114,74
Finance costs (Note 6)	(35.709.891,73)	(5.111.120,22)
Profit before tax	**501.776,02**	**164.520,93**
Income tax expense (Note 7)	(41.000,00)	(4.370,45)
Profit for the year	**460.776,02**	**160.150,48**

The accompanying notes are an integral part of these annual accounts.

Kuznetski Capital S.A.
Société Anonyme
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2005
All amounts in USD

	Issued share capital	Legal reserve	Result brought forward	Result for the year	Total
At incorporation	50.000,00	—	—	—	50.000,00
Result 2004	—	—	—	160.150,48	160.150,48
At December 31, 2004	50.000,00	—	—	160.150,48	210.150,48
Allocation of 2004 result	—	5.000,00	155.150,48	(160.150,48)	—
Result 2005	—	—	—	460.776,02	460.776,02
At December 31, 2005	50.000,00	5.000,00	155.150,48	460.776,02	670.926,50

The accompanying notes are an integral part of these annual accounts.

Kuznetski Capital S.A.
Société Anonyme
CASH FLOW STATEMENT
For the year ended December 31, 2005

	2005	2004
	USD	USD (5 months)
Cash flow from operating activities		
Profit from operations	460.776,02	160.150,48
Increase in receivables	(220.845,56)	(166.000,00)
Income tax paid	41.000,00	4.370,45
Increase in other payables	2.423,12	2.739,67
Increase in prepayment /deferred income	(69.575,00)	—
Net cash flow from operating activities	**213.778,58**	**1.260,60**
Cash flow from investing activities		
Disbursement of loans	(600.000.000,00)	(250.000.000,00)
Net cash flow from investing activities	**(600.000.000,00)**	**(250.000.000,00)**
Cash flows from financing activities		
Proceeds from issue of shares	—	50.000,00
Proceeds from borrowings	600.000.000,00	250.000.000,00
Net cash flows used/received in financing activities	**600.000.000,00**	**250.050.000,00**
Net increase in cash and cash equivalent	213.778,58	51.260,60
Cash and cash equivalent at beginning of the year	51.260,60	—
Cash and cash equivalent at end of the year	**265.039,18**	**51.260,60**

The accompanying notes are an integral part of these annual accounts.

Kuznetski Capital S.A.
Société Anonyme
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005
All amounts in USD

NOTE 1 — GENERAL INFORMATION

KUZNETSKI CAPITAL S.A. (the "Company") has been incorporated on July 26, 2004 by a deed of Me Tom Metzler, notary residing in Luxembourg. The Company is a Luxembourg limited liability company domiciled at 69, boulevard de la Pétrusse, L- 2320 Luxembourg and is registered at the Luxembourg Trade Register under number B 102.041. The shareholders of the Company are Kuznetski Holding I Stichting at 99,9% and Kuznetski Holding II Stichting at 0,01%.

The purposes of the Company are all transactions pertaining directly or indirectly to the taking of participating interests in any enterprises in whatever form, the administration, the management, the control and the development of these participating interests. The Company may also borrow money and lend money to other companies. More specifically, the Company has been established to issue notes on the Luxembourg and London stock exchanges and to on lend these loans to the Bank of Moscow. The Company is not part of a consolidated group of companies.

The statutory financial statements of the Company for the period ended December 31, 2005 prepared in accordance with Luxembourg accounting principles were authorized for issue in accordance with a resolution of the Board of directors of Kuznetski Capital S.A. dated May 10, 2006 and will be submitted to the approval of its shareholders.

The Company operates on one reportable segment being financing activities in Russia.

NOTE 2 — BASIS OF PREPARATION

The financial statements of Kuznetski Capital S.A have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements have been prepared on a historical cost basis. The financial statements are presented in US dollars ("USD").

Summary of significant accounting policies

a) Foreign currency translation

The financial statements are presented in USD, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

b) Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end. Management has determined that all other financial assets are classified and accounted for as loans and receivables.

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

NOTE 2 — BASIS OF PREPARATION — continued

Loans and receivables

Loans and receivables are non — derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognised or impaired, as well as through the amortization process. Interest income revenue is recognized as interest accrues.

c) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

d) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

e) Trade and other receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

f) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

NOTE 2 — BASIS OF PREPARATION — continued

For the purpose of the cash flow statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

g) Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognized in net profit or loss when the liabilities are derecognized as well as through the amortisation process.

h) Taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

i) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that reflect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

j) Financial risk management objectives and policies

The Company is exposed to market risk, interest risk, liquidity, foreign currency risk.

The Company has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy and has established processes to monitor and control hedging transactions in a timely and accurate manner.

Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company may enter into interest rate caps to manage its cash flow interest rate risk.

NOTE 2 — BASIS OF PREPARATION — continued

Credit risk

The Company is exposed to risks associated with the collectibility of the loans granted. The Company monitors chase risks by granted loans to well-known financial institutions.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding. The maturity dates of the loans granted matches the dates of repayment of the borrowings.

k) *IFRSs and IFRIC Interpretations not yet effective*

The Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006);

IFRS 7 Financial investments: Disclosures (effective 1 January 2007);

IFRIC 4 Determining whether an Arrangement contains a Lease (effective from 1 January 2006);

IFRIC 5 Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006);

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflatory Economies (effective from 1 March 2006);

Amendments to IFRS 1 First-time Adoption of IFRS and the Basis for Conclusions of IFRS 7 — Financial instruments: Disclosures (effective from 27 January 2006);

Amendment to IAS 1: Presentation of Financial statements — Capital Disclosures (effective from 27 January 2006);

Amendments to IAS 39 Financial instruments; Recognition and Measurement and IFRS 4 Insurance Contracts Financial Guarantee Contracts (effective from 27 January 2006);

Amendments to IAS 39 Fair value option (effective 1 January 2006) and amendment to IAS 39: Cash flow Hedge Accounting (effective 1 January 2006);

IFRIC Interpretation 6 Liabilities arising from Participating in a specific Marker- Waste Electrical and Electronic Equipment (effective from 27 January 2006);

IFRIC Interpretation 8 Scope of IFRS 2 (effective from 1 May 2006);

IFRIC Interpretation 9 Reassessment of Embedded Derivatives (effective from 1 June 2006).

The Company expects that adoption of the pronouncements listed above as they become effective will have no significant impact on the Company's financial statements.

NOTE 3 — OTHER FINANCIAL ASSETS

The Company has granted a loan to Bank of Moscow on September 28, 2004 for a nominal amount of USD 250 million. This loan bears interest at a nominal rate of 8% (effective rate of 8%) and matures in 2009. The interest is paid semi-annually on September 28 and March 28 of each year and the interests accrued as of December 31, 2005 amounts to 5.111.111,11 (2004-5.111.111,11).

In 2005, the Company has granted 2 others loans to Bank of Moscow as follows:

— A loan granted on May 23, 2005 for a nominal amount of USD 300 million. This loan bears interest at a nominal rate of 7,375% (effective rate of 7,375%) and matures in 2010. The interest is paid semi-annually on May 26 and November 26 of each year and the interest accrued as of December 31, 2005 amounts to USD 2.458.333,33.

NOTE 3 — OTHER FINANCIAL ASSETS — continued

— A loan granted on November 22, 2005 for a nominal amount of USD 300 million. This loan bears interest at a nominal rate of 7,5% (effective rate of 7,5%) and matures in 2015. The interest is paid semi-annually on May 25 and November 25 of each year and the interest accrued as of December 31, 2005 amounts to USD 2.187.500,00.

The Management has determined that the fair value of each of these loans as of December 31, 2005 is identical to the fair value of the interest bearing loans and borrowings issued by the Company as determined by their respective market prices as at that date (Note 6) as the Company is granting these loans on a back-to-back basis at the same terms and conditions..

The Company incurred costs in raising financing which is then on-lent in its entirety to other companies. As part of this back-to-back financing arrangement, all such costs are reinvoiced to the respective companies and therefore no financing costs are born by the Company. Therefore, such costs are not netted off against the consideration received. Correspondingly, loans and receivables do not include financing fees received under this arrangement.

NOTE 4 — PREPAYMENTS AND DEFERRED INCOME

Prepayments mainly represent the domiciliation, accounting and other administrative costs for the Company, paid in advance for subsequent years. These prepayments will be reversed to profit and loss when the underlying services will be actually delivered.

Deferred income represents part of the invoicing done by the Company for the recharge of the costs incurred up to December 31, 2005 and to be incurred in subsequent years. These deferred income should match the administrative costs to be incurred by the Company as described above.

NOTE 5 — SHAREHOLDERS' EQUITY

Share capital

On July 26, 2004, the Company was incorporated with a share capital amounting to 50.000 represented by 10.000 shares with a nominal value of 5 each.

As of December 31, 2005, the Company has a share capital of 50.000 represented by 10.000 shares with a nominal value of 5 each.

Legal reserve

Under Luxembourg law an amount equal to at least 5 percent of the profit of the year must be allocated to a legal reserve until such reserve equals 10 percent of the issued share capital. This reserve is not available for dividend distribution.

NOTE 6 — INTEREST BEARING LOANS AND BORROWINGS

On September 28, 2004, the Company issued a USD 250 million Loan Participation Notes (the "Notes") due 2009 at an issue price of 100% bearing a nominal interest rate of 8% (effective rate 8%). These Notes are listed on the Luxembourg Stock Exchange. The Notes constitute an obligation of the Company to apply an amount equal to the amount of the issue of the Notes solely for the purpose of financing a loan to the Bank of Moscow pursuant to the terms of a loan agreement (Note 3).

The interest on the loan accrue from September 28, 2004 and is being paid semi-annually on March 28 and September 28 of each year. As of December 31, 2005, the accrued interests on the Notes amounts to USD 5.111.111,11 (2004-5,111.111,11).

On May 23, 2005, the Company issued a USD 300 million Loan Participation Notes (the "Notes") due 2010 at an issue price of 100% bearing a nominal interest rate of 7,375% (effective rate 7,375%). These Notes are listed on the Luxembourg Stock Exchange. The Notes constitute an obligation of the Company to apply an amount equal to the amount of the issue of the Notes solely for the purpose of financing a loan to the Bank of Moscow pursuant to the terms of a loan agreement.

NOTE 6 — INTEREST BEARING LOANS AND BORROWINGS — continued

The interest on the loan accrue from May 23, 2005 and is being paid semi-annually on May 26 and November 26 of each year. As of December 31, 2005, the accrued interest on the Notes amount to USD 2.458.333,33.

On November 22, 2005, the Company issued a USD 300 million Loan Participation Notes (the "Notes") due 2015 at an issue price of 100% bearing a nominal interest rate of 7,5% (effective rate 7,5%). These Notes are listed on the London Stock Exchange. The Notes constitute an obligation of the Company to apply an amount equal to the amount of the issue of the Notes solely for the purpose of financing a loan to the Bank of Moscow pursuant to the terms of a loan agreement (See Note 3 in relation to financing costs incurred).

The interest on the loan accrue from November 22, 2005 and is being paid semi-annually on May 25 and November 25 of each year. As of December 31, 2005, the accrued interest on the Notes amount to USD 2.187.500.

According to the Directors of the Company, the fair market value of each of these borrowings as of December 31, 2005 is equal to their respective market prices on the Luxembourg and London Stock Exchanges as of that date and amounts to 104,25%, 102,75% and 101,25% respectively.

NOTE 7 — TAXES

The Company is subject to all the taxes relevant to commercial companies in Luxembourg.

A reconciliation between the statutory and effective tax rate for the period ended December 31, 2005 is as follows:

Statutory tax rate:	30.4%
Effect of change in taxable basis:	(22.2%)
Effective rate:	8.2%

The Company's effective tax rate is based on an interest margin between loans granted and received as deemed between third parties.

As there are no temporary timing difference, tax loss carry forward or tax credits give rise to deferred tax balances.

NOTE 8 — OTHER INCOMES

The other income represents the reinvoicing of the costs incurred plus an agreed margin by the Company in relation to the issue of loans (Note 6) to the Bank of Moscow according to the agreements between the Company and the Bank of Moscow.

NOTE 9 — OTHER EXPENSES

The other expenses represent the expenses incurred by the Company in relation with the various issues of loans on the Luxembourg and London stock exchanges (Note 6).

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