

IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular accessed from this page or otherwise received as a result of such access and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have been sent the attached offering circular on the basis that you have confirmed to Credit Suisse First Boston and Merrill Lynch International, being the senders of the attached, that (i) the address to which it has been delivered is not located in the United States of America, its territories and possessions, any State of the United States and the District of Columbia; and “possessions” include Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands and (ii) you consent to delivery by electronic transmission.

This document 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 transmission and consequently neither Credit Suisse First Boston nor Merrill Lynch International (nor any affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from Credit Suisse First Boston or Merrill Lynch International.

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

Restrictions: Nothing on this electronic transmission constitutes an offer of securities for sale in the United States or any other jurisdiction. Any securities to be issued will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States or to or for the account or benefit of US persons (as such terms are defined in Regulation S under the Securities Act of 1933) unless registered under the Securities Act or pursuant to an exemption from such registration.



ROSBANK

**US\$75 million Class 2004 9.75% Structured Receivables Notes
to be consolidated and form a single series with the US\$225 million Class 2004 9.75%
Structured Receivables Notes**

issued by

Russia International Card Finance S.A.

for the purpose of financing a loan to

ROSBANK (OJSC JSCB)

Issue Price 102%

The US\$75 million Class 2004 9.75% Structured Receivables Notes (the "Further Class 2004 Notes") will be issued by Russia International Card Finance S.A., a newly formed company incorporated with limited liability under the laws of Luxembourg and subject to the law of 22 March 2004 on securitisation (the "Securitisation Law") (the "Issuer") and will be constituted by a trust deed dated 1 November 2004 (the "Original Trust Deed") as supplemented by a first supplemental trust deed expected to be dated on or about 4 February 2005 (the "Supplemental Trust Deed" and, together with the Original Trust Deed, the "Trust Deed") between, *inter alios*, the Issuer and The Bank of New York, London Branch as trustee (the "Trustee"). The Further Class 2004 Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"). The Further Class 2004 Notes are being offered outside the United States in reliance upon Regulation S ("Regulation S") under the Securities Act and may not be offered or sold within the United States or to, or for the benefit of, US Persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Further Class 2004 Notes may not be offered or sold in the United States, the Russian Federation, the United Kingdom, Italy, the Netherlands or Luxembourg, except pursuant to the securities laws thereof. The Further Class 2004 Notes will be consolidated and form a single series with the US\$225 million Class 2004 Notes issued on 3 November 2004 (the "Original Class 2004 Notes" and, together with the Further Class 2004 Notes, the "Class 2004 Notes") on the Payment Date (as defined below) falling in March 2005.

The Class 2004 Notes are limited recourse obligations of the Issuer and will not be guaranteed or insured by any other person or entity. The Issuer's payment obligations under the Class 2004 Notes will be secured by substantially all of the assets of the Issuer, consisting primarily of (a) the Issuer's rights and interest in the original loan agreement dated 1 November 2004 (the "Original Loan Agreement") as supplemented by a first supplemental loan agreement to be dated on or about 4 February 2005 (the "Supplemental Loan Agreement" and, together with the Original Loan Agreement, the "Loan Agreement"), between, among others, the Issuer, in its capacity as Lender, and ROSBANK (OJSC JSCB), an open joint stock company incorporated under the laws of the Russian Federation ("ROSBANK"), in its capacity as Borrower, and (b) the Issuer's rights and interest in respect of the Loan Collateral (as defined below) in which ROSBANK has granted a security interest to the Issuer, as security for ROSBANK's obligations in respect of the Loan Agreement. The Loan Collateral consists primarily of the Receivables (as defined below) owing to ROSBANK from the Receivables Obligors (as defined below), as well as the Collections (as defined below) in respect of the Receivables. The Issuer's rights in respect of the Loan Collateral are assigned to the Trustee.

Interest will accrue on the Further Class 2004 Notes from 9 February 2005 (the "Closing Date") at the rate of 9.75% per annum (the "Class 2004 Rate"). Interest will be paid quarterly on 24 March, 24 June, 24 September and 24 December, commencing on 24 March 2005 (each, a "Payment Date"). Payments of principal will be made in quarterly instalments on each Payment Date commencing on 24 December 2005, but may be paid earlier or later under certain circumstances as described herein. The net proceeds from the issuance of the Further Class 2004 Notes will be used to fund an advance (the "2005 Advance") to ROSBANK under the Loan Agreement. Payments of interest and principal under the 2005 Advance from ROSBANK will be due in the same amounts and at the same times as payments of interest and principal are due on the Further Class 2004 Notes. The final payment of principal is due on the 2005 Advance on the Payment Date in September 2009 (the "Expected Maturity Date"). The legal final maturity date (the "Final Maturity Date") of the Class 2004 Notes will be 24 September 2010.

It is a condition to the issuance of the Class 2004 Notes that they be rated at least "B+" by Fitch Ratings Ltd. ("Fitch") and at least "Ba3" by Moody's Investors Service Inc. ("Moody's") (each, a "Rating Agency"). A rating is not a recommendation to buy, sell or hold a Class 2004 Note (or beneficial interest therein) and is subject to revision or withdrawal in the future by any Rating Agency. A suspension, change or withdrawal of a rating may adversely affect the market price of the Class 2004 Notes.

An investment in the Class 2004 Notes involves a high degree of risk. Prospective investors should consider the factors set forth under "Risk Factors" beginning on page 18 of this Offering Circular.

Application has been made to list the Further Class 2004 Notes on the Luxembourg Stock Exchange.

The Further Class 2004 Notes will be issued in denominations of US\$100,000 and integral multiples of US\$1,000 in excess thereof and will be represented on issue by beneficial interests in a global note certificate (the "Global Note Certificate") in fully registered form, without interest coupons. The Further Class 2004 Notes will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with a common depository for, Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg") on or about the Closing Date. Class 2004 Notes in definitive certificated, fully registered form ("Individual Note Certificates") evidencing holdings of Class 2004 Notes will be available only in certain limited circumstances described under "Summary of Provisions Relating to the Class 2004 Notes in Global Form".

Other than information relating to the Issuer in the section under the heading “Description of the Issuer” for which no representation or warranty by ROSBANK is made, and subject to the limitations set out below, ROSBANK, having made all reasonable enquiries, confirms that (i) this Offering Circular (the “Offering Circular”) contains all information with respect to ROSBANK, ROSBANK and its subsidiaries taken as whole (the “Group”), United Card Service, a closed stock company incorporated under the laws of the Russian Federation (“UCS”), the Transaction Documents (as defined below) and the Class 2004 Notes, that is material in the context of the issue and offering of the Further Class 2004 Notes (the “Offering”); (ii) the statements contained in this Offering Circular relating to ROSBANK, the Group and UCS, the Transaction Documents and the Class 2004 Notes are in every material particular true and accurate and not misleading; (iii) to the best knowledge of ROSBANK, after having made all reasonable enquiries, the statements contained in this Offering Circular relating to the OVK network of banks (“OVK”) are in every material particular true and accurate and not misleading; (iv) the opinions, expectations and intentions expressed in this Offering Circular with regard to ROSBANK, the Group and UCS are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (v) there are no other facts in relation to ROSBANK, the Group, UCS, the Transaction Documents or the Class 2004 Notes the omission of which would, in the context of the issue and offering of the Further Class 2004 Notes, make any statement in this Offering Circular misleading in any material respect; and (vi) all reasonable enquires have been made by ROSBANK to ascertain such facts and to verify the accuracy of all such information and statements. Accordingly, save as set out in the immediately preceding sentence and below, ROSBANK accepts responsibility for the information contained in this Offering Circular. The Issuer accepts responsibility for the accuracy of the information relating to itself set forth in this Offering Circular.

Information relating to VISA International, MasterCard International and under the headings “The Banking Sector and Banking Regulation in the Russian Federation”, “Factors Affecting Volumes of Receivables” and “Principal Shareholders and Related Parties of ROSBANK – The Interros Group” includes extracts from information and data publicly released by official and other sources (including, *inter alios*, the Central Bank of the Russian Federation (the “CBR”) and Euromonitor International). Each prospective investor shall be deemed to acknowledge that none of the Issuer, ROSBANK, the Managers (as defined below), the Trustee, VISA International or MasterCard International has made any representation or warranty about the accuracy or completeness of such information. Prospective investors are urged to make their own independent evaluation of VISA International and MasterCard International prior to making an investment in the Further Class 2004 Notes.

None of the Managers (as defined in “Subscription and Sale”), the Trustee or the Issuer (save, in the case of the Issuer, for information contained in the section under the heading “Description of the Issuer”) makes any representation, warranty or undertaking, express or implied, and no responsibility or liability is or will be accepted by the Managers, the Trustee or the Issuer (save, in the case of the Issuer, for information contained in the section under the heading “Description of the Issuer”), as to the accuracy or completeness of the information in this Offering Circular. This Offering Circular does not contain any financial statements as of any date or for any period subsequent to 30 September 2004, and there can be no assurance by the Managers that ROSBANK’s business, financial condition, results of operations or prospects have not changed in any material respect when compared to ROSBANK’s business, financial condition, results of operations and prospects as presented in the 30 September 2004 audited consolidated financial statements. The delivery of this Offering Circular does not at any time imply that information contained herein concerning the Issuer is correct at any time subsequent to the date hereof. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Trustee or the Issuer (save, in the case of the Issuer, for information contained in the section under the heading “Description of the Issuer”) or any person affiliated with the Managers, the Trustee or the Issuer, in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Class 2004 Notes must make its own investigation and analysis of the creditworthiness of ROSBANK and UCS and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other

factors that may be relevant to it in connection with such investment. This Offering Circular may only be used for the purpose for which it has been published.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, ROSBANK, UCS or the Managers to subscribe or purchase any of the Further Class 2004 Notes. The distribution of this Offering Circular and the offering of the Further Class 2004 Notes in certain jurisdictions may be restricted by law. The Managers, the Trustee and the Issuer do not and will not represent that this Offering Circular may be lawfully distributed or that the Further Class 2004 Notes may be lawfully offered in compliance with any applicable registration or other requirements of any jurisdiction or pursuant to any available exemption or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been or will be taken by the Managers, the Trustee or the Issuer which will permit a public offering of the Further Class 2004 Notes or distribution of the Offering Circular in any jurisdiction where such action is required. Accordingly, the Further Class 2004 Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other marketing material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular comes are required by the Issuer, ROSBANK, UCS and the Managers to inform themselves about and to observe any such restrictions.

The Further Class 2004 Notes have not been approved or disapproved by the US Securities and Exchange Commission, any State securities commission in the United States or any other US regulatory authority nor have any of the foregoing authorities passed upon or endorsed the merits of the Further Class 2004 Notes or the accuracy or the adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States. In addition, none of the Issuer, ROSBANK or the Managers has authorised any offer of Further Class 2004 Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended (the “Regulations”). Further Class 2004 Notes may not lawfully be offered or sold to persons in the United Kingdom except in circumstances that do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations. For a description of certain further restrictions on offers and sales of the Further Class 2004 Notes and distribution of this Offering Circular, see “Subscription and Sale”.

Neither the Issuer, ROSBANK, UCS, the Trustee nor the Managers makes any representation regarding the legality of an investment by any offeree or purchaser under any legal investment or similar laws. Prospective investors should consult their own advisers as to the legal, business, financial and other aspects of any purchase of the Further Class 2004 Notes.

No person is authorised to provide any information or to make any representation not contained in this Offering Circular and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, ROSBANK, UCS, the Trustee or the Managers. The delivery of this document at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

Neither the delivery of this Offering Circular nor the offer, sale or delivery of any Class 2004 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 ROSBANK or UCS since the date of this Offering Circular.

In connection with the issue of the Further Class 2004 Notes, Credit Suisse First Boston (Europe) Limited (the “Stabilising Manager”) (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Further Class 2004 Notes at a level higher than that which might otherwise prevail for a limited period. However, there is no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

ENFORCEABILITY OF JUDGMENTS

ROSBANK is an open joint stock company and UCS is a closed joint stock company incorporated under the laws of the Russian Federation. All of their respective assets are currently located outside the United States and the United Kingdom. In addition, all of the directors and executive officers of ROSBANK and UCS are residents of countries other than the United States and the United Kingdom. As a result, it may not be possible for investors to:

- effect service of process within the United States or the United Kingdom upon any of the directors or executive officers of ROSBANK or UCS named in this Offering Circular; or
- enforce, in courts located within the United States or the United Kingdom, judgments obtained in courts in jurisdictions located outside the United States or the United Kingdom against ROSBANK or UCS or any of their respective directors or executive officers in any action.

In addition, it may be difficult for investors to enforce, in original actions brought in courts in jurisdictions located outside the United States and the United Kingdom, liabilities predicated upon the US federal securities laws and English law.

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. No such treaty exists between the United States and the Russian Federation nor between the United Kingdom and the Russian Federation for the reciprocal enforcement of foreign court judgments.

The Agency Agreement, the Servicing Agreement, the Loan Agreement, the Subscription Agreement and the UCS Parent Undertaking, each as defined herein, are governed by English law and provide for disputes, controversies and causes of action brought by any party thereto against ROSBANK, or the UCS Parent (as defined below), or UCS, as the case may be, to be settled by the courts of England or by arbitration in accordance with the Rules of the LCIA (the London Court of International Arbitration). The UCS Parent Pledge (as defined below) is governed by Russian law and provides for disputes to be settled by arbitration in accordance with the Rules of the LCIA. 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 the relative inexperience of the Russian courts in international commercial transactions and political resistance to the enforcement of awards against Russian companies in favour of foreign investors.

FORWARD LOOKING STATEMENTS

This Offering Circular contains statements that constitute forward looking statements. Words such as “believes”, “anticipates”, “expects”, “estimates”, “intends”, “plans”, “will”, “may” and similar expressions are intended to identify forward looking statements but are not the exclusive means of identifying such statements. These statements include those regarding the intent, belief or current expectations of ROSBANK and UCS and their respective officers with respect to, among other things:

- the financial condition of ROSBANK and UCS, as applicable, and the characteristics of UCS’s and ROSBANK’s merchant voucher business;
- UCS’s and ROSBANK’s plans, objectives or goals, including those related to products or services;
- statements of future economic performance; and
- assumptions underlying those statements.

Forward looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward looking statements as a result of various factors. The information in this Offering Circular, including the information under “Risk Factors”, “Description of UCS’s and ROSBANK’s Merchant Voucher Business” and “Description of

ROSBANK” identifies important factors that could cause such differences including, *inter alia*, a change in overall economic conditions in the Russian Federation, a change in UCS’s financial condition, a change in ROSBANK’s financial condition or its merchant voucher business, a change in the value of the Russian rouble relative to the US dollar and euro, a change in the level of tourism and business travel in and to Russia and the effect of new legislation or government regulations in the Russian Federation.

Moreover, no assurances can be given that any of the historical information, trends or practices mentioned and described in this Offering Circular are indicative of future results or events.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

ROSBANK’s financial information set forth herein has, unless otherwise indicated, been derived from its audited consolidated financial statements (the “IFRS Financial Statements”) as of and for the years ended 31 December 2001, 2002 and 2003, and as of and for the nine months ended 30 September 2004, in each case prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board. The Russian rouble is the measurement currency for the IFRS Financial Statements. The IFRS Financial Statements as at and for the years ended 31 December 2001, 2002 and 2003 and as at and for the nine months ended 30 September 2004 were audited by Deloitte & Touche, independent auditors, who expressed an unqualified opinion in those statements. The address of Deloitte & Touche is 4/7-2 Vozdizhenka St., Moscow 125009, Russian Federation.

In this Offering Circular, references to “Rbl” or the “rouble” are to the lawful currency of the Russian Federation, references to “Dollar”, “\$”, “US dollar” or “US\$” are to the lawful currency of the United States and references to “euro”, “Euro” or “€” are to 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 by the Treaty on the European Union.

Some numerical figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be on arithmetic aggregation of the figures that precede them.

The exchange rate of roubles per US dollar as published by the CBR on 3 February 2005 was Rbl 27.9665 per US\$1.00. No representation is made that the rouble or US dollar amounts referred to herein could have been or could be converted into roubles or US dollars, as the case may be, at this rate or at any particular rate or at all.

TABLE OF CONTENTS

| | | | |
|---|-----|---|-----|
| SUMMARY | 7 | DESCRIPTION OF VISA INTERNATIONAL AND MASTERCARD INTERNATIONAL..... | 116 |
| TRANSACTION STRUCTURE OVERVIEW – PRIMARY DOCUMENTS..... | 16 | DESCRIPTION OF ROSBANK | 124 |
| MERCHANT VOUCHER GENERATION AND SETTLEMENT OVERVIEW | 17 | SELECTED STATISTICAL AND OTHER INFORMATION RELATING TO ROSBANK | 145 |
| RISK FACTORS..... | 18 | PRINCIPAL SHAREHOLDERS AND RELATED PARTIES OF ROSBANK | 151 |
| DESCRIPTION OF CERTAIN OF THE TRANSACTION DOCUMENTS..... | 33 | MANAGEMENT OF ROSBANK..... | 154 |
| TERMS AND CONDITIONS OF THE CLASS 2004 NOTES | 50 | THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION..... | 160 |
| SUMMARY OF PROVISIONS RELATING TO THE CLASS 2004 NOTES IN GLOBAL FORM..... | 88 | CERTAIN LEGAL ASPECTS OF THE TRANSACTION..... | 171 |
| USE OF PROCEEDS..... | 89 | TAXATION | 180 |
| DESCRIPTION OF THE ISSUER..... | 90 | SUBSCRIPTION AND SALE..... | 183 |
| DESCRIPTION OF ROSBANK’S AND UCS’S MERCHANT VOUCHER BUSINESS..... | 92 | GENERAL INFORMATION..... | 186 |
| FACTORS AFFECTING VOLUMES OF INTERNATIONAL RECEIVABLES | 108 | INDEX TO FINANCIAL STATEMENTS | 188 |

SUMMARY

The information in this section is a summary of selected features of the Class 2004 Notes and related matters. The summary is not complete and should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Offering Circular. Defined terms used in this section have the meaning given them elsewhere in this Offering Circular.

Description of the Transaction

- The Issuer will issue the Further Class 2004 Notes to the Noteholders for the sole purpose of funding the 2005 Advance to ROSBANK under the Loan Agreement. The interest rate, amortisation schedule, and payment dates will be the same for both the 2005 Advance and the Further Class 2004 Notes.
- On the Payment Date falling in March 2005, the Further Class 2004 Notes will be consolidated and form a single series with the Original Class 2004 Notes. The Loan Agreement and the Trust Deed provide that, following such consolidation, if the amounts (if any) received by the Issuer under the 2005 Advance or the 2004 Advance (as defined in the Loan Agreement, and together with the 2005 Advance, the “Advance”) are insufficient to meet the amounts then payable under the Conditions of the Original Class 2004 Notes and/or the Further Class 2004 Notes, such amount will be apportioned *pro rata* between the holders of the Original Class 2004 Notes and the Further Class 2004 Notes.
- As security for its obligations under the Loan Agreement, ROSBANK has created security in favour of the Issuer over certain Receivables due to ROSBANK from the Receivables Obligors, as well as the collections on the Receivables.
- The Receivables Obligors have consented to the transaction and agree to make payments on Receivables without set-off (except for incidental charges) directly to the Collateral Accounts.
- The security provided by ROSBANK in respect of the Loan Agreement, together with the Issuer’s rights under the Loan Agreement, has been assigned by the Issuer for the benefit of the Trustee for the Noteholders, pursuant to the Trust Deed constituting the Class 2004 Notes and certain other security documents.
- Collections on the Receivables will be applied in satisfaction of ROSBANK’s obligations under the Loan Agreement, and in turn in satisfaction of the Issuer’s obligations in respect of the Class 2004 Notes, pursuant to the Priority of Payments (as defined below). To the extent that Collections on the Receivables are not sufficient in any relevant period to pay the amounts set out under the Priority of Payments, the Issuer (and the Trustee) will have recourse to ROSBANK for any shortfall.
- Any remaining Collections after providing for the necessary payments under the Priority of Payments will be remitted to ROSBANK, subject to certain conditions (for example there being no Early Amortisation Event (as defined below) or Event of Default (as defined below)).
- Following the occurrence of an Early Amortisation Event, payments of interest as well as payments of principal equal to the Early Amortisation Amount (as defined below) in respect of the Advance and the Class 2004 Notes will be made monthly together with additional payments of principal from a portion of the excess collections as described under “Description of the Transaction Documents – Loan Agreement – Early Amortisation”.
- Certain servicing functions with respect to the Receivables are performed by UCS. ZAO KM Invest (“KM Invest”), the parent company of UCS, has entered into the UCS Parent Undertaking (as defined below), pursuant to which KM Invest has made certain undertakings in favour of the Trustee with respect to UCS. In the event of a breach of the UCS Parent Undertaking, and if at such time the Loan has been accelerated, KM Invest may be required to pay any acceleration payments that are not paid by ROSBANK or in lieu of making such payments may transfer its shares in UCS to the Trustee. (The UCS Parent Undertaking and UCS Parent Pledge (as defined below) are described further in “Description of the Transaction Documents – UCS Parent Undertaking” and “– UCS Parent Pledge”.)

The Parties

| | |
|--|---|
| The Issuer | Russia International Card Finance S.A., a newly formed, single purpose, limited liability company incorporated under the laws of Luxembourg and subject to the Securitisation Law. The Issuer has two shareholders: (i) Stichting RICF1 and (ii) Stichting RICF2 (together, the “Stichtings”). The Stichtings are incorporated under the laws of the Netherlands and are neither owned nor controlled by ROSBANK or any of its affiliates. |
| ROSBANK | ROSBANK (OJSC JSCB) (“ROSBANK” or the “Borrower”), an open joint stock company incorporated under the laws of the Russian Federation and more particularly described under “Description of ROSBANK” below. |
| Servicer | United Card Service Private Company (“UCS” or the “Servicer”), a closed joint stock company incorporated under the laws of the Russian Federation and more particularly described under “Description of UCS and ROSBANK’s Merchant Voucher Business” and “Summary of the Transaction Documents – The Servicing Agreement” below. |
| UCS Parent | Closed Joint Stock Company ZAO KM Invest (the “UCS Parent” or “KM Invest”), a closed joint stock company incorporated under the laws of the Russian Federation and more particularly described under “Principal Shareholders and Related Parties of ROSBANK – Related Parties Relevant to the Offering” below. |
| Corporate Administrator | TMF Management Luxembourg S.A. will act as the corporate administrator of the Issuer and will provide services, <i>inter alia</i> , in relation to the accounting and general affairs of the Issuer. |
| Trustee | The Bank of New York, London Branch at its office at One Canada Square, London E14 5AL will act as the trustee in relation to the Class 2004 Notes (together with its successors in that capacity, the “Trustee”). |
| Principal Paying Agent, Calculation Agent and Custodian | The Bank of New York, London Branch at its office at One Canada Square, London E14 5AL will act as principal paying agent for the Class 2004 Notes (the “Principal Paying Agent”, which expression includes its successors in that capacity), calculation agent (the “Calculation Agent” which expression shall include its successors in that capacity). |
| Luxembourg Paying Agent and Luxembourg Transfer Agent | The Bank of New York (Luxembourg) S.A. at its office at Aerogolf Centre, 1A Hoehenof, Senningerberg, L-1376, Luxembourg will act as Luxembourg paying agent (the “Luxembourg Paying Agent” which expression shall include its successors in that capacity) and Luxembourg transfer agent (the “Luxembourg Transfer Agent”, which expression shall include its successor in that capacity). |
| Registrar and Transfer Agent | The Bank of New York, New York at its office at 101 Barclay Street, New York, New York 10286, United States, will act as registrar (the “Registrar”, which expression shall include its successors in that capacity) and transfer agent (the “Transfer Agent”, which expression shall include its successors in that capacity). |

The Class 2004 Notes

| | |
|--|---|
| The Further Class 2004 Notes | <p>US\$75 million in principal amount of Class 2004 Structured Receivables Notes (the “Further Class 2004 Notes”).</p> <p>The Further Class 2004 Notes will be issued by the Issuer on the Closing Date.</p> |
| Single Series | <p>The Further Class 2004 Notes will be consolidated and form a single series with the US\$225 million Class 2004 Notes issued on 3 November 2004 (the “Original Class 2004 Notes” and, together with the Further Class 2004 Notes, the “Class 2004 Notes”) on the Payment Date falling in March 2005.</p> |
| Interest | <p>The Interest Rate for the Class 2004 Notes will be 9.75% per annum payable (subject to the commencement of the Early Amortisation Period) quarterly in arrear (the “2004 Interest Rate”).</p> <p>Interest on the Further Class 2004 Notes will accrue from (and including) 9 February 2005 (the “Closing Date”) at the 2004 Interest Rate on the principal amount of the Further Class 2004 Notes outstanding at the beginning of the relevant Interest Period.</p> <p>Interest in respect of any Interest Period will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.</p> <p>“Interest Period” means (i) initially, the period from and including the Closing Date to but excluding the first Payment Date thereafter, and (ii) subsequently, the period from and including the preceding Payment Date to but excluding the following Payment Date.</p> |
| Payment Dates | <p>(i) Prior to the occurrence of an Early Amortisation Event, the 24th day of each March, June, September and December of each year, beginning on 24th March 2005, or if such day is not a Business Day, on the following Business Day (or on the preceding Business Day if such following Business Day would occur in a different month); and</p> <p>(ii) after the occurrence of an Early Amortisation Event, the 24th day of each calendar month, beginning after the occurrence of an Early Amortisation Event, or if such day is not a Business Day, on the following Business Day.</p> |
| Interest-Only Period | <p>No principal will be payable in respect of the Further Class 2004 Notes during the period from and including the Closing Date to but excluding the earliest of:</p> <p>(a) the December 2005 Payment Date,</p> <p>(b) the first Payment Date after an Early Amortisation Event, and</p> <p>(c) any date on which principal in respect of the Class 2004 Notes becomes due and payable as a result of a Note Event of Default, Optional Redemption or Mandatory Redemption.</p> |
| Scheduled Amortisation Period | <p>Unless the Early Amortisation Period commences prior thereto, the Scheduled Amortisation Period for the Class 2004 Notes will commence on, and include, the Payment Date falling in December 2005 and end on the earlier of (a) the Expected Maturity Date and (b) the commencement of the Early Amortisation Period. During the Scheduled Amortisation Period, an amount of principal equal to the Scheduled Amortisation Amount will be due on each Payment</p> |

| | |
|---|--|
| | Date. The Scheduled Amortisation Amounts in relation to the Further Class 2004 Notes are attached as Schedule A of the Terms and Conditions of the Further Class 2004 Notes. |
| Maturity of the Class 2004 Notes... | The Expected Maturity Date of the Class 2004 Notes is the Payment Date in September 2009, which is the date on which the final Scheduled Amortisation Amount is due from ROSBANK in respect of the Advance. The Final Maturity Date of the Class 2004 Notes will be 24 September 2010. |
| Early Amortisation Period | The Early Amortisation Period for the Class 2004 Notes will commence on the occurrence of an Early Amortisation Event, and will end on, but exclude, the date upon which the Outstanding Principal Amount of the Class 2004 Notes has been reduced to zero. During the Early Amortisation Period, an amount of principal equal to the Early Amortisation Amount will be due on each Payment Date, together with an additional payment of principal to be paid to the extent of available excess funds less the Applicable Cash Sharing Percentage of such excess funds. |
| Mandatory Redemption..... | Following a Loan Event of Default, the Issuer shall redeem all the Class 2004 Notes at an amount equal to the 2004 Redemption Amount (as defined below) in accordance with Condition 6 (<i>Application of Amounts</i>). ROSBANK shall be obligated to pay all of such 2004 Redemption Amount but can use funds on deposit in the Collateral Accounts and available for such purpose. |
| Security for the Class 2004 Notes... | <p>The obligations of the Issuer under the Trust Deed and the Class 2004 Notes are secured in favour of the Trustee for the benefit of the Noteholders, pursuant to the Trust Deed by:</p> <ul style="list-style-type: none"> (i) a first fixed charge over all of the Issuer's rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to the monies from time to time standing to the credit of the Euro Collateral Account and including any interest accrued or accruing thereon. (ii) an assignment, by way of security, of all of the Issuer's rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to the Euro Collateral Account and all sums derived therefrom; (iii) an assignment, by way of security, of all of the Issuer's rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to any Debt Service Reserve LC (for which the issuer is named as beneficiary) and all sums derived therefrom; and (iv) an assignment, by way of security, of all of the Issuer's rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to the Loan Agreement, the Bank Account Assignment and the Servicing Agreement (to the extent not specifically secured above) and any other document, agreement, deed or instrument entered into by the Issuer in connection with the Transaction Documents (which is governed by the laws of England and Wales). <p>Additionally, as continuing security for all monies and other liabilities payable or owing by the Issuer to the Secured Creditors under the Trust Deed, the Trust Deed provides that the obligations</p> |

of the Issuer to the Trustee on its own behalf and on behalf of the Secured Creditors are secured in favour of the Trustee by a first-ranking floating charge granted in favour of the Trustee over the whole of its undertaking and assets that are not charged by way of any fixed charge.

Issuer Security Agreement The Issuer has granted in favour of the Trustee a first priority security interest in, and has assigned to the Trustee, all of its rights under the Rosbank Security Agreement including its rights to the Loan Collateral as security for the Issuer's obligation in respect of the Class 2004 Notes.

Optional Redemption..... ROSBANK may, on any Payment Date which falls after the first anniversary of the 2004 Closing Date, upon not less than 15 days' irrevocable prior written notice to the Issuer and the Trustee, require the Issuer to redeem the Class 2004 Notes in whole but not in part at a price equal to the 2004 Redemption Amount.

The redemption amount (the "2004 Redemption Amount"), as of any date of determination, will be an amount in US dollars equal to the sum of (a) the Outstanding Principal Amount of the Class 2004 Notes; (b) all accrued and unpaid interest on the Outstanding Principal Amount of the Class 2004 Notes for the period from but excluding the immediately prior Payment Date up to but including the date set for redemption pursuant to Condition 8(d) (*Redemption at the Option of ROSBANK*) (the "Optional Redemption Date"); (c) all unpaid Additional Amounts (if any) with respect to the Class 2004 Notes; (d) subject as provided below, the Make-whole Premium for the Class 2004 Notes, (where applicable) calculated as of the Optional Redemption Date; and (e) all other amounts then due and payable under the Transaction Documents which would otherwise be payable from the Collections in accordance with the Priority of Payments.

The 2004 Redemption Amount will not include a Make-whole Premium described in (d) above with respect to an Optional Redemption occurring within 60 days of a Tax Event.

As used herein:

"**2004 Closing Date**" means 3 November 2004.

"**Additional Amounts**" means, in respect of the Class 2004 Notes, the additional amounts payable under Condition 10 (*Taxation*) and, in relation to any Further Notes, any additional amounts expressed to be payable under any equivalent Condition.

"**Make-whole Premium**" means, (a) in relation to the Class 2004 Notes, as of any date of determination, shall be an amount (not to be less than zero) equal to (i) the present value to such date of the remaining principal and interest on the Class 2004 Notes being redeemed, discounted at a *per annum* rate equal to the then current bid side yield (as most recently published in the New York edition of *The Wall Street Journal*) on the US Treasury Note having a maturity date closest to the remaining weighted average life on such Class of Notes calculated at the time of the repayment, *plus 0.50% per annum, minus* (ii) the aggregate Outstanding Principal Amount of the Class 2004 Notes (or portion thereof) to be redeemed on such date or (b) in relation to any Further Notes which accrue interest on a fixed rate basis, such other amount which may be specified in the applicable Conditions.

“**Tax Event**” means (i) the occurrence after the 2004 Closing Date of any change (other than any such changes or amendments enacted on or before the 2004 Closing Date but not yet effective) in, or amendment to, the laws, rules, treaties or regulations (or in the official interpretation or application thereof) of Russia, the United States, the United Kingdom or Luxembourg or (ii) any Person (after the 2004 Closing Date) becoming subject to, or ceasing to be exempt from, any such laws, rules, treaties or regulations (or official interpretation or application thereof), that results in ROSBANK becoming obligated to pay Additional Amounts.

Use of Proceeds The Issuer will use the gross proceeds of issue of the Further Class 2004 Notes to make the 2005 Advance to ROSBANK in accordance with the Loan Agreement. ROSBANK will use such proceeds for general corporate purposes.

Form and Denomination..... The Further Class 2004 Notes will be issued in registered form. The Further Class 2004 Notes will be in denominations of US\$100,000 each and integral multiples of US\$1,000 in excess thereof and will be represented by a Global Note Certificate which will be exchangeable for Individual Note Certificates in the limited circumstances specified in the Global Note Certificate.

Taxation..... Issues relating to the tax laws of the Russian Federation and Luxembourg are discussed under “Taxation” below.

Ratings It is a condition to the issuance of the Further Class 2004 Notes that on the date of issuance they be rated at least “Ba3” by Moody’s and “B+” by Fitch. The Moody’s rating addresses the expected loss posed to investors up to the Final Maturity Date. The structure allows for timely payment of interest and ultimate payment of principal at par on or before the Expected Maturity Date. Moody’s ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A suspension, reduction or withdrawal may adversely affect the market price of the Class 2004 Notes.

Listing Application has been made to list the Further Class 2004 Notes on the Luxembourg Stock Exchange.

Loan Agreement and Receivables

| | |
|---|---|
| Loan Agreement | <p>ROSBANK will enter into a supplemental loan agreement which supplements the loan agreement dated 1 November 2004, (together the “Loan Agreement”) with the Issuer pursuant to which on the 2005 Drawdown Date ROSBANK will borrow, and the Issuer will lend, the 2005 Advance to be repaid not later than one Business Day prior to the 2004 Repayment Date.</p> <p>The Issuer will make available additional principal amounts (each a “Further Advance”) to be borrowed by ROSBANK pursuant to a supplement to the terms of the Loan Agreement and the Issuer will fund such Further Advances through the issuance of Further Notes of a similar principal amount.</p> <p>The Advance and any Further Advance made by the Issuer are secured pursuant to the terms of the Rosbank Security Agreement, in which ROSBANK grants in favour of the Issuer a first priority security interest in the Loan Collateral.</p> |
| Rosbank Security Agreement | <p>ROSBANK has granted in favor of the Issuer a first priority security interest in the Loan Collateral, consisting primarily of all of its rights, title and interest in and to the Receivables and all proceeds thereof.</p> |
| Receivables | <p>All amounts owed or to be owed to ROSBANK in connection with the settlement under the Card Programmes of merchant vouchers acquired by ROSBANK and presented into the respective settlement systems of the Receivables Obligor, net of Incidental Charges (as defined below).</p> |
| Collateral Accounts | <p>The Account Bank, pursuant to the Agency Agreement, has established for the Class 2004 Notes a sub-account of the USD Collateral Account (the “2004 Collateral Sub-account”).</p> <p>Collections received in the USD Collateral Account up to the 2004 Required Reserve Amount during any Collection Period will (subject to certain exceptions as detailed in Condition 6(a)(i) (<i>Priority of Payments</i>)) be retained in the USD Collateral Account until the next Payment Date, at which time Collections held in US dollars will be allocated to the 2004 Collateral Sub-account and the 2004 Debt Service Reserve Account in each case in the order of priority set out in the Priority of Payments.</p> <p>The 2004 Debt Service Reserve Account will contain the 2004 Required Reserve Amount from time to time with which the Issuer can pay any shortfall in respect of interest and scheduled principal on the Class 2004 Notes. The 2004 Debt Service Reserve Account may be replaced at any time, including as from the 2004 Closing Date, by ROSBANK with a letter of credit (the “2004 Debt Service Reserve LC”), which may be drawn for the same purposes as described above for the 2004 Debt Service Reserve Account.</p> |
| Euro Collections | <p>Any Collections received directly in Euros during a Collection Period will be held in Euros in the Euro Collateral Account until the Quarterly Required Amount is on deposit in the USD Collateral Account.</p> <p>After such time as the Quarterly Required Amount is on deposit in Dollars in the USD Collateral Account, the balance on the Euro Collateral Account will be released to ROSBANK and further Euro</p> |

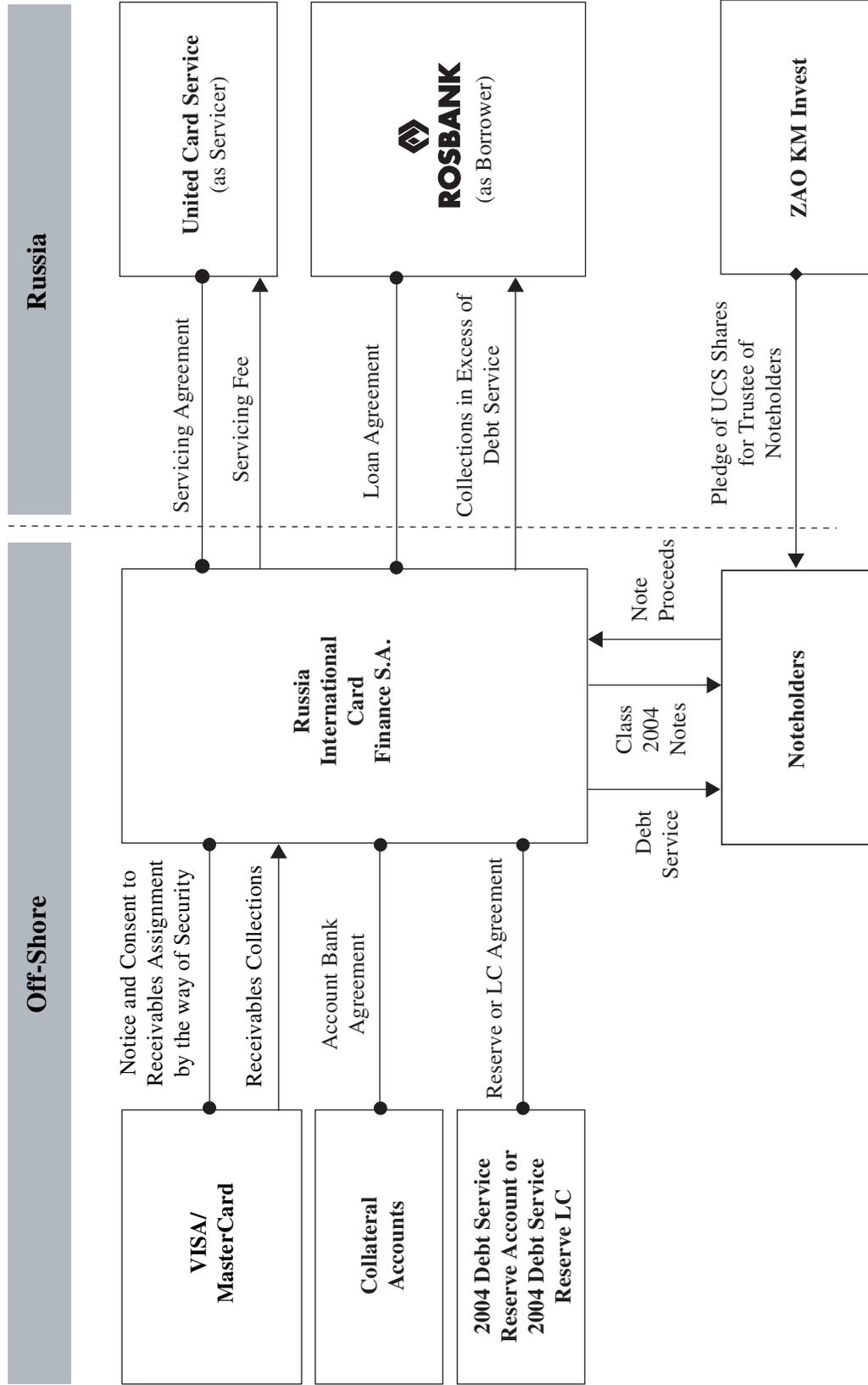
| | |
|--|---|
| | <p>Collections received during such Collection Period will be remitted by the Trustee to ROSBANK on a daily basis (subject to applicable conditions).</p> |
| Receivables Obligors | <p>MasterCard International Incorporated (“MasterCard”), Maestro, and VISA International Service Association (“VISA”).</p> <p>Maestro is a collective reference to the “Maestro Regional Licensors”, which administer the Maestro Card Programme (“Maestro”).</p> |
| Card Programmes | <p>The credit or debit card programmes administered by each Receivables Obligor pursuant to such Receivables Obligor’s contractual agreements, articles of association, by-laws, rules, regulations or policies (as applicable) in effect from time to time.</p> |
| Obligor Notices and Consents..... | <p>Each of the Receivables Obligors and ROSBANK has entered into one or more agreements (together, the “Obligor Notices and Consents”), pursuant to which such Receivables Obligors are obligated to deposit into either (x) the USD Collateral Account or (y) to the HSBC Account for further transfer to the Euro Collateral Account, as relevant, all settlement payments that such Receivables Obligor is obligated to make as a result of the settlement of Receivables related to the Card Programme of such Receivables Obligor.</p> |
| Servicing Agreement..... | <p>UCS has entered into an agreement (the “Servicing Agreement”) with the Issuer and the Trustee pursuant to which it has agreed to administer the processing and servicing of all Receivables generated under the Card Programmes. UCS is entitled to receive an annual servicing fee in respect of such services which will be payable in accordance with the priorities set out in the Priority of Payments.</p> |
| UCS Parent Undertaking..... | <p>Pursuant to an agreement entered into on 1 November 2004 between the UCS Parent and the Trustee (the “Original UCS Parent Undertaking” as amended and supplemented by a supplemental agreement to the Original UCS Parent Undertaking, dated on or about 4 February 2005 (the “Supplemental Agreement to the UCS Parent Undertaking”, and together with the Original UCS Parent Undertaking, the “UCS Parent Undertaking”)) the UCS Parent has made certain representations and undertakings to the Trustee. One of the primary purposes of the UCS Parent Undertaking is to provide an additional commitment for the benefit of the Noteholders that UCS will continue to use ROSBANK as its sole settlement bank, thus supporting the value of the Receivables to be generated. In the event that the undertakings given by the UCS Parent are breached and also a Loan Event of Default is declared, the UCS Parent may elect to transfer the UCS Pledged Shares to the Trustee in full satisfaction of its obligations. In such event, the Trustee may retain advisors for the purposes of selling the UCS Pledged Shares (subject to applicable law) and will apply the proceeds in payment of the Issuer Secured Obligations. The Trustee is not required to proceed with such sale unless the Trustee is indemnified or secured to its satisfaction. No assurance is given as to the monetary value that may be realized from this process. If such transfer of the UCS Pledged Shares by the UCS Parent is not made, the UCS Parent is liable to pay the unpaid Termination Amount, and if the UCS Parent fails to pay, the UCS Parent Pledge may be enforced. If the proceeds of the sale of the UCS Pledged Shares upon such enforcement, if any, are not sufficient to pay the unpaid</p> |

Termination Amount in full, there is no further recourse to the UCS Parent or to any other assets of the UCS Parent. See “Description of the Transaction Documents–UCS Parent Undertaking” and “–UCS Parent Pledge”.

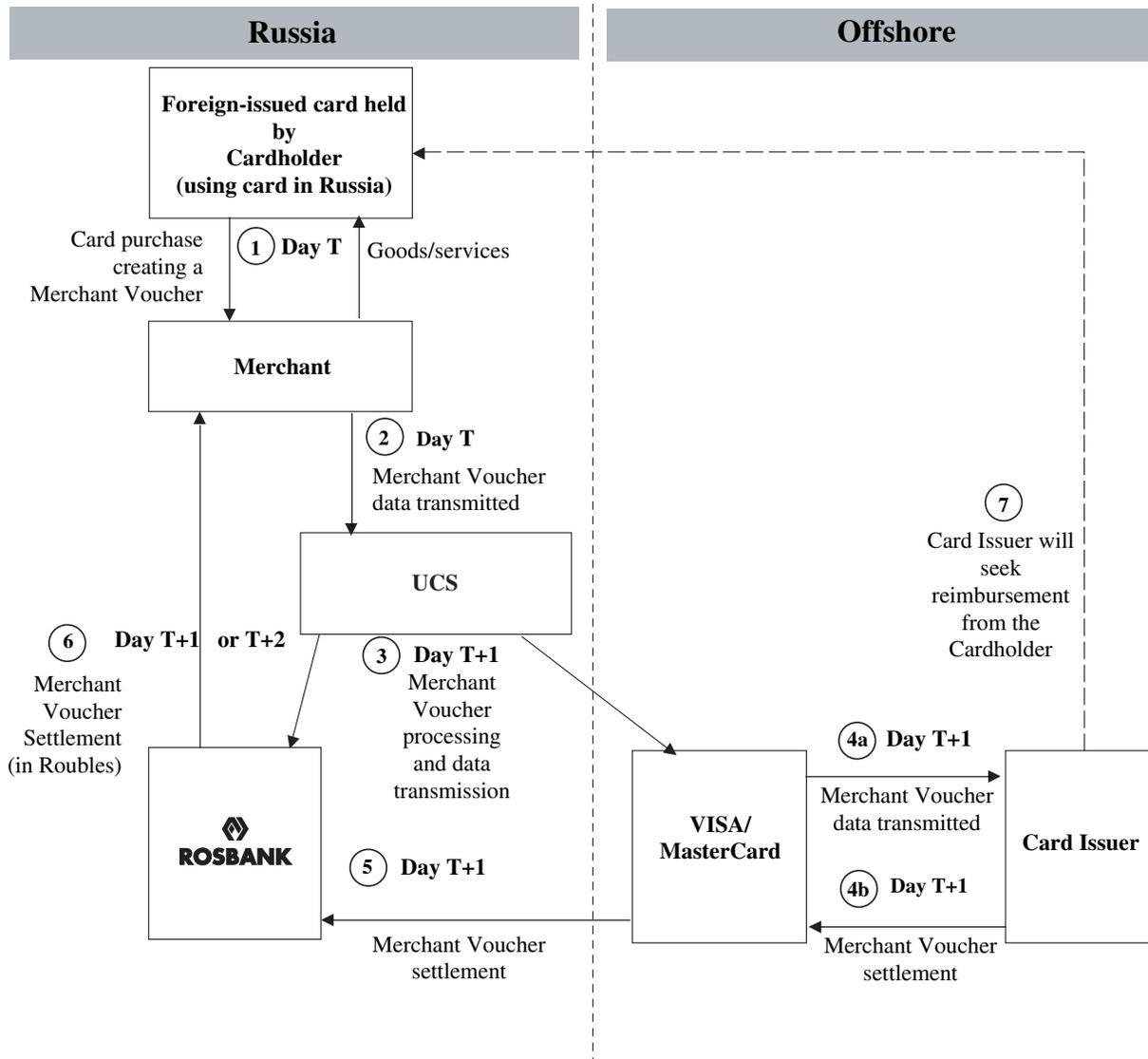
UCS Parent Pledge.....

Pursuant to an agreement on pledge of shares entered into on 1 November 2004 by the UCS Parent and the Trustee and governed by Russian law (the “Original UCS Parent Pledge” as supplemented and amended by a supplemental agreement to the Original UCS Parent Pledge, dated on or about 4 February 2005 (the “Supplemental Agreement to the UCS Parent Pledge, and together with the Original UCS Parent Pledge, the “UCS Parent Pledge”)), the UCS Parent has pledged its entire holding (100%) of shares in the Servicer in favour of the Trustee. Enforcement of the Trustee’s remedies under the UCS Parent Pledge involves levy and execution in Russia and potentially through Russian courts, leading to public auction of the UCS Pledged Shares, with the proceeds to be applied to the Issuer Secured Obligations. The Trustee is not required to enforce the UCS Parent Pledge unless the Trustee is indemnified or secured to its satisfaction. Enforcement under Russian law is subject to numerous contingencies, and the timing of receipt or value of any public sale proceeds cannot be estimated. See “Certain Legal Aspects of the Transaction”.

TRANSACTION STRUCTURE OVERVIEW — PRIMARY DOCUMENTS



MERCHANT VOUCHER GENERATION AND SETTLEMENT OVERVIEW



Notes to Merchant Voucher Generation and Settlement Overview:

- (1) Merchant calculates the amount of purchase for goods and services and asks buyer for payment. Buyer presents merchant with credit or debit card.
- (2) Merchant runs credit card through the point-of-sale unit. Merchant transmits the credit or debit card and sales amount with a request for authorisation of the sale to UCS.
- (3) UCS then processes the transaction and routes the authorisation request to VISA or MasterCard which in turn routes the authorisation request to the card issuer (or issuer bank). UCS sends all the financial data captured in the transaction to VISA and MasterCard as well as to ROSBANK.
- (4a) If the cardholder has enough credit in its account to cover the sale, the card issuer (or issuer bank) authorises the transaction and generates an authorisation code. UCS processes the transaction and then sends the approval or denial code to the merchant's point-of-sale unit. The point of sale unit or cash register prints out a sales draft. The merchant asks the buyer to sign the sales draft which obligates the buyer to reimburse the card issuer (or issuer bank) for the amount of the sale.
- (4b) The issuer (or issuer bank) pays the sales draft to VISA and MasterCard on the same day (net of commission).
- (5) VISA and MasterCard deposit the payments into ROSBANK's offshore accounts.
- (6) In certain instances, ROSBANK converts funds from dollars and euros into roubles on the same day (in order to avoid exchange rate risk). ROSBANK pays merchants 1-2 days after transaction.
- (7) The issuer (or issuer bank) processes transaction information and sends the invoice to the cardholder. The cardholder pays the invoice.

RISK FACTORS

The following section contains information on certain risks associated with an investment in the Further Class 2004 Notes. It does not contain all the information that may be important to you and contains certain forward looking statements. See “Forward Looking Statements”. Prospective investors should read the entire Offering Circular before deciding to invest in the Further Class 2004 Notes. Capitalised terms used, but not defined in this section, shall bear the respective meanings ascribed to such terms under “Terms and Conditions of the Further Class 2004 Notes”.

Risks Relating to the Russian Federation

ROSBANK and UCS are both businesses organised and incorporated in Russia. Substantially all of their assets are located in Russia and substantially all of their revenues are derived from Russia. There are certain risks associated with an investment in Russia.

Governmental instability could adversely affect the value of investments in Russia.

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a pluralist democracy with a market-oriented economy. The course of reform has in some respects been uneven and the composition of the Russian government (in particular, the prime minister and the other heads of federal ministries) has at times been highly unstable. Four different prime ministers, for example, headed governments between March 1998 and May 2000. While the current political climate is relatively stable, a recurrence of governmental instability or reversal of reform policies could have an adverse effect on investment in Russia, including the liquidity of the Further Class 2004 Notes, and on each of ROSBANK’s and UCS’s business, financial condition, results of operations and prospects.

Economic instability in Russia could adversely affect each of ROSBANK’s and UCS’s businesses.

Since the dissolution of the former Soviet Union, the Russian economy has at various times experienced significant declines in gross domestic product, hyperinflation, an unstable currency and high government debt relative to gross domestic product. It has also experienced a weak banking system providing limited liquidity to Russian enterprises, high levels of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings, significant use of barter transactions and illiquid promissory notes to settle commercial transactions, and widespread tax evasion. As a result of these and other factors, there is significant unemployment and underemployment and high poverty levels among the Russian population.

Despite significant improvements in the Russian economic situation since the 1998 crisis, there can be no assurance that the recent positive trends experienced by the Russian economy, such as the increase in gross domestic product, a relatively stable rouble and the reduced rate of inflation, will continue or will not be abruptly reversed. Moreover, fluctuations in international oil and natural gas prices, fluctuations in the value of the rouble in real terms relative to the US dollar and the consequences of any changes in monetary policy and other factors may significantly affect Russia’s economy and each of ROSBANK’s and UCS’s businesses, financial condition, results of operations and prospects.

In addition, some commentators have begun to question the progress of market and political reforms in Russia due to events surrounding the Yukos Oil Company (“Yukos”), Russia’s second largest petroleum company. Mikhail Khodorkovsky, the former CEO of Yukos, was arrested and imprisoned on charges of fraud and tax evasion in October 2003 and, in connection therewith, Russian authorities attached approximately 42% of the shares of Yukos which were alleged to be beneficially owned by him. In addition, the Russian tax authorities have filed claims against Yukos for back taxes and fines in the amount of approximately US\$3.4 billion for 2000 and US\$4.1 billion for 2001. Russian authorities have also filed a tax claim against Yuganskneftegas (“Yugansk”), a subsidiary of Yukos which is its main production facility, and may file additional claims against Yukos and its subsidiaries. As a security measure to insure payment of the tax claims, the shares of Yukos in its core production subsidiaries and bank accounts were seized by the Russian tax authorities, which has resulted in significant disruptions in the business and effective management of the Yukos group. On 19 December 2004 the Russian government sold Yugansk in a forced auction

to Baikal Finance Group for \$9.4 billion, less than half of Yugansk's estimated value, in an effort to settle pending tax claims against Yukos. Yugansk was effectively nationalised by the Russian government when Baikal Finance Group, an unknown entity created days before the auction, was subsequently purchased by Rosneft, a 100% state-owned entity. The sale of Yugansk prompted U.S. State Department spokesman Richard Boucher to comment that the Yukos matter "has eroded Russia's reputation as a place to do business and eroded confidence in Russia's legal and judicial institutions". The events surrounding Yukos have resulted in significant fluctuations in the market prices of Russian securities, and some experts have noted a negative impact on the size of investments in the Russian economy, especially in the oil sector, and have forecast a decrease in Russia's gross domestic product growth in 2004 as a result of the developments surrounding Yukos. Even if the current prosecutions relating to Yukos's core beneficial shareholders and other investigations of Yukos are concluded, these events may continue to negatively affect the Russian economy in the future.

Additionally, in early December 2004, Russian tax authorities levied a \$157 million back tax claim against VimpelCom, Russia's second largest mobile phone operator. As a result, the RTS stock market index plunged 10%, erasing \$10 billion of its market value, on fears that the Russian government intended to take actions similar to those taken against Yukos against targeted companies in other sectors of the economy. Although this tax claim has subsequently been reduced, commentators note that investors' confidence in Russia's business and legal environment has been weakened.

Instability in the Russian banking sector could have an adverse impact on ROSBANK's business.

In 2004 the Russian banking sector experienced instability and uncertainty resulting from actions taken by the CBR and a crisis of confidence among Russian banking customers. During May-June 2004, the CBR revoked the banking licences of a number of Russian banks, and the resulting uncertainty in the Russian banking system led to the virtual collapse of the interbank lending system and to liquidity pressures for many banks in the Russian market. On 6 July 2004, Guta-Bank, one of Russia's twenty largest banks by assets, ceased all operations after it could not meet demand for depositor withdrawals. Although ROSBANK's management does not believe that the 2004 banking crisis had a material effect on ROSBANK and the Russian banking market has since stabilised to a significant degree, similar actions taken in the future by the CBR could undermine depositors' trust in the Russian banking system and create overall instability in the markets, which could have a negative impact on ROSBANK's business.

Terrorist activity could negatively affect the Russian economy, which could adversely affect each of ROSBANK's and UCS's businesses.

Recent terrorist activity in the Middle East region and elsewhere have had a significant effect on international and domestic financial and commodity markets. In the past several months Russia has suffered a number of terrorist attacks resulting in significant loss of life and damage to property, including bombings near and inside metro stations in Moscow and bombings of two domestic airline passenger flights. In addition, terrorists took hundreds of people hostage at a school in Beslan, Russia, in September 2004. It is estimated that over 330 people were killed during the crisis, including approximately 170 children. Any future acts of terrorism or armed conflicts in the Russian Federation or internationally could have an adverse effect on the financial and commodities markets and the global economy. In addition, future acts of terrorism or armed conflict in Russia could negatively affect the level of tourism in Russia, which could have an adverse effect upon the volumes of international credit and debit card transactions in Russia and thus the volumes of Receivables generated by ROSBANK.

Changes in the Russian tax system could adversely affect each of ROSBANK's and UCS's businesses.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value added tax ("VAT"), property taxes and unified social tax. Because tax legislation is subject to frequent change and some of the sections and provisions of the Tax Code of the Russian Federation related to the aforementioned taxes are comparatively new, implementation of these regulations is often unclear or nonexistent. Often, differing interpretations

exist among various taxpayers subject to such taxes and the Federal Tax Service of the Russian Federation and its various tax inspectorates, creating uncertainties. There is little established precedent or consistent court practice in respect of these matters of law.

The Russian tax system has recently been restructured. The system, as restructured, aims to reduce the number of taxes and the overall tax burden on businesses and to simplify Russian tax laws. However, the system, as restructured, continues to rely heavily on the judgments of local tax officials and fails to address many existing problems.

Tax declarations, together with other legal compliance areas including, for example, customs and currency control matters, are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges. Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years following the tax year for which the declaration was made. The fact that a year has been reviewed by the tax authorities does not close that year, or any tax declaration applicable to that year, from further review during the three-year period, although such repetitive reviews are allowed only in limited circumstances. Accordingly, tax risks in Russia are more significant than typically found in countries with more developed tax systems.

Although the quality of tax legislation has generally improved with the introduction of the Tax Code of the Russian Federation, the possibility exists that, due to Russia's federal and local tax collection systems and historically large sub-federal government budget deficits, Russia will impose arbitrary or onerous taxes and penalties in the future, which could adversely affect each of ROSBANK's and UCS's businesses, financial condition, results of operations and prospects. In some instances, the Russian tax authorities have applied some provisions and rules retroactively, although such application is in violation of Russian law. These changing conditions and uncertainty about interpretation of the tax law by tax authorities generally complicate tax planning and related business decisions.

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

Russia is still developing the legal framework required by a market economy. Since 1991, Russian law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution. Each of ROSBANK's and UCS's businesses is subject to the rules of the Russian Civil Code, other federal laws and decrees, and orders and regulations issued by the Russian president, the Russian government, the federal ministries and the CBR, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only recently become effective. The recent enactment of much of Russian legislation and the rapid evolution of the Russian legal system result in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often leaves substantial gaps in the regulatory infrastructure. 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, a high degree of discretion on the part of governmental authorities and bankruptcy procedures that are not well developed and are sometimes subject to abuse.

All of these weaknesses could affect the ability of ROSBANK, UCS and the Trustee (acting on behalf of the Class 2004 Noteholders) to enforce their rights under contracts, or to defend against claims by others.

Inexperience and lack of independence of certain members of the judiciary, the difficulty of enforcing court decisions and governmental discretion in instigating, joining and enforcing claims could prevent ROSBANK, UCS or investors in the Further Class 2004 Notes from obtaining effective redress in a court proceeding, including in respect of expropriation or nationalisation of assets.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in Russia remain largely untested. The court system is understaffed and underfunded. Judges and courts are generally inexperienced in the area of business and corporate law. Russia 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 Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are sometimes used in furtherance of political aims. ROSBANK, UCS and/or their respective clients may be subject to such claims and may not be able to receive a fair trial. In addition, law enforcement agencies do not always enforce or follow court judgments.

There are also legal uncertainties relating to property rights. During Russia's transformation from a centrally planned economy to a market economy, legislation was enacted to protect private property against expropriation and nationalisation. However, it is possible that, due to the lack of experience in enforcing these provisions and due to political changes, these protections would not be enforced in the event of an attempted expropriation or nationalisation of ROSBANK's or UCS's assets, or in the event ROSBANK's or UCS's businesses and/or their clients' businesses are reorganised. Expropriation or nationalisation of any of ROSBANK's or UCS's assets or portions thereof, potentially with little or no compensation, could have a material adverse effect on each of their businesses, financial condition, results of operations and prospects, as well as on the value of the Further Class 2004 Notes.

Unlawful or arbitrary governmental action may have an adverse effect on ROSBANK's or UCS's business.

Government authorities and the CBR have a high degree of discretion in Russia and have in the past exercised their discretion arbitrarily, without a hearing or prior notice, and sometimes in a manner that was contrary to law. Moreover, government authorities also have the power in certain circumstances, by virtue of a regulation or government act, to interfere with the performance of, nullify or terminate contracts due to their control or supervisory functions. Unlawful or arbitrary governmental actions have included withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities have also used common defects in matters surrounding share issuances and registration of legal entities as pretexts for court claims and other demands to invalidate such issuances and registrations and/or to invalidate transactions, sometimes for political purposes. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further the interests of the Russian Government and individual officials. Although unlawful or arbitrary government action may be challenged in court, such action, if directed at ROSBANK or UCS or their shareholders, could have a material adverse effect on each of ROSBANK's and UCS's businesses, financial condition, results of operations and prospects, and on the value of the Further Class 2004 Notes.

It may be difficult for ROSBANK to enforce security for its loans under Russian law and a decline in the value of secured collateral may adversely affect ROSBANK's loan portfolio.

As at 30 June 2004, ROSBANK had entered into security and/or guarantee arrangements in connection with 45% of the total amount of loans outstanding to its non-bank customers at that date. See "Description of ROSBANK – Credit Procedures". Under Russian law, security arrangements (which include, *inter alia*, pledges and mortgages) and guarantees (other than bank guarantees) are considered secondary obligations, which automatically terminate if the secured or guaranteed obligation becomes void. Furthermore, foreclosure under Russian law 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 one year upon a pledgor's application. A mortgage under Russian law is a pledge over real property, such as land and buildings, which requires state registration to be valid. Such state registration may be difficult to obtain, especially for real property under construction. Russian law has no pledge perfection system for collateral other than mortgages, which may lead to unexpected and/or conflicting claims of secured creditors upon the pledged property. Therefore, ROSBANK may have difficulty foreclosing on collateral or enforcing other security when clients default on their loans.

In addition, downturns in the relevant markets or general deterioration of economic conditions in Russia may result in declines in the value of collateral securing a number of ROSBANK's loans to levels below the outstanding principal balance on those loans. If collateral values decline, they may not be sufficient to cover uncollectible amounts of ROSBANK's secured loans. A decline in the value of collateral securing ROSBANK's loans or its inability to obtain additional collateral may, in some

cases, require ROSBANK to reclassify the relevant loans, establish additional allowances for loan losses and increase reserve requirements. Also, failure to recover the expected value of collateral in the case of foreclosure may expose ROSBANK to losses which may adversely affect its financial condition and results of operations.

The new currency control regime could have an adverse effect on ROSBANK's business.

On 10 December 2003, President Putin signed a Federal Law "On Currency Regulation and Currency Control" (the "New Currency Control Law") which has replaced the former Federal Law "On Currency Regulation and Currency Control" of 1992. The New Currency Control Law came into force on 18 June 2004. The New Currency Control Law is generally aimed at the gradual liberalisation of Russian currency control regulations, but at the same time it introduces new forms of currency control (such as the deposit of reserve amounts into non-interest bearing accounts and the use of special accounts). In particular, Russian borrowers, including banks, may be required to reserve up to 20% of the amount of foreign currency loans received from foreign lenders for a period of up to one year, while Russian lenders may be required to reserve up to 100% of the amount of their foreign currency loans extended to foreign borrowers, for a period of up to two months. At the same time, under the New Currency Control Law, Russian banks may be required by the CBR to reserve at the CBR either up to 100% in roubles of the total amount of their non-banking transactions, including securities activities, for a period of up to 60 days, or up to 20% of the amount of such transactions for a period of up to one year. Under Directive No. 1425-U dated 28 April 2004, the CBR established a list of banking and non-banking transactions between authorised banks that are exempt from all currency control restrictions and provided that other currency operations by authorised banks shall be subject to the general currency control regime applicable to Russian resident legal entities, unless otherwise determined by the CBR. The reserve requirements are intended to give the CBR additional tools to combat asset-price and currency instability by curbing the inflow of short-term speculative funds into, and preventing the outflow of funds from, Russia. The implementation of these new requirements may make certain foreign currency operations burdensome and financially unattractive for Russian banks and their clients. However, until the Russian Government and the CBR have enacted and implemented regulations imposing currency control restrictions on banks under the New Currency Control Law, it is not clear whether and to what extent the New Currency Control Law will affect ROSBANK's business and the businesses of its clients. However, it could hamper ROSBANK's ability to receive foreign funding and make loans to foreign borrowers as well as ROSBANK's ability to engage in securities operations.

Payment of judgments may be in a foreign currency.

Under certain circumstances, Russian courts may enforce payment obligations established in foreign currencies, including in the context of enforcing a foreign judgment. The sum would be converted into roubles for the purpose of filing the enforcement action, when the sum will be relevant for the calculation of court fees and determination of jurisdiction. This *pro forma* currency conversion does not prevent the creditor from seeking in court full payment of the credit in foreign currency. Foreign currency claims in bankruptcy proceedings are converted into Russian currency at the rate of exchange in effect on the date the bankruptcy was decreed and it is only at the value so established that the claim will be considered.

Risks Relating to ROSBANK's Business and Industry

ROSBANK faces competition for client business in a number of areas.

The Russian market for financial and banking services is highly competitive. According to the CBR, as at 31 July 2004, 1,574 banks and other non-bank credit organisations were registered in Russia (although the banking licences of 252 of those had been revoked by the CBR as at that date). Of these banks, a small number of Moscow-based banks dominate the Russian banking industry. According to the CBR, as at 31 December 2003, Russia's ten largest banks accounted for 52% of total bank assets, and the top five banks accounted for 43% of total bank assets. In addition, competition between Russian banks and foreign banks operating in the Russian banking market has been increasing, and, in particular, competition for major corporate customers is growing.

ROSBANK faces challenges from domestic and international competitors in the various segments of the banking industry in which it operates. Some of its competitors, including the major state-owned banks and private banks that are affiliated with major corporate issuers in Russia, as well as international banks with operations in Russia, have greater resources than ROSBANK and are not necessarily constrained by market rates that must reflect unsubsidised cost structures. Certain of its competitors are able, from time to time, to set loan rates that reflect negative real interest rates with which ROSBANK cannot compete. If major state-owned banks or corporate-affiliated banks with subsidised cost structures adopt aggressive pricing strategies, ROSBANK may be limited in its ability to match these, which could have a material adverse impact on its business, financial condition, results of operations and prospects.

Fluctuations in global markets for oil, gas, minerals and precious metals may negatively impact ROSBANK.

Many of ROSBANK's large corporate clients engage in the production and/or export of oil, gas, iron ore and non-ferrous and precious metals. The financial condition of these corporate clients is to a degree related to the prices of the relevant commodities that they trade. A decrease in the prices of the commodities or an increase in production costs that is not offset by a corresponding price increase may negatively impact the financial condition of these companies and may result in, among other things, a decrease in funds that these clients hold on deposit with ROSBANK, a reduction of the volume of foreign currency and/or foreign trade operations in which these clients engage through ROSBANK, and default or a need for increased provisions on their obligations to ROSBANK. Any of these occurrences may have a material adverse effect on ROSBANK's business, financial condition, results of operations and prospects.

ROSBANK is dependent on its relationship with the Interros Group, both as a significant customer of its corporate banking services and a significant provider of its funding.

Although ROSBANK, which is 95% owned by the Interros Group, has begun diversifying its customer and funding base away from Interros Group companies, its business continues to be concentrated on the Interros Group companies, and ROSBANK continues to be the Interros Group's preferred bank. As at 30 June 2004, the Interros Group accounted for 10% of ROSBANK's total customer loans, and 22% of ROSBANK's outstanding total customer deposits were held for the benefit of members of the Interros Group. There can be no assurance that one or a number of Russian or foreign banks could not become the Interros Group's preferred bank or begin to provide the Interros Group with levels of service which could impact ROSBANK's business, financial condition, results of operations and prospects.

ROSBANK has also received significant amounts of capital contributions from the Interros Group in the past. The Interros Group has no obligation to contribute funds or otherwise provide financial support to ROSBANK in the future. Furthermore, the Interros Group is not providing any guarantees in connection with the Further Class 2004 Notes.

An increasing share of loans to retail clients and small- and medium-sized entities or SMEs, in ROSBANK's loan portfolio may have a negative effect on its credit quality.

In accordance with its strategy, ROSBANK intends to significantly increase lending to retail customers through the expected integration of the operations of OVK discussed more fully below. In addition, in order to tap a market segment where there is currently a funding shortage and to further diversify its loan portfolio, ROSBANK intends to increase its lending to SMEs. See "Description of ROSBANK – Strategy – Expand Services to Corporate Clients – Creation of Credit Products for SMEs". Although by increasing lending to retail clients and SMEs, ROSBANK may expand and diversify its loan portfolio and increase its interest margins due to the higher interest rates that may be charged on these loans, it may, at the same time, increase its credit risk exposure. Retail clients and SMEs usually have less capital and business experience than large companies and are more sensitive to economic downturns. Therefore, they are more likely to default on their loans, necessitating higher loan impairment provisions. Furthermore, the availability of accurate and comprehensive financial and general credit information on retail clients and SMEs in Russia is more limited than is the case for larger corporate clients, and therefore lending to these clients exposes ROSBANK to potentially greater credit risk. In spite of the credit risk determination procedures that

ROSBANK has in place, it may be unable to evaluate correctly the current economic condition of each prospective borrower and, in the case of SMEs, to determine their long-term economic viability. The failure of ROSBANK to accurately assess the credit risk of prospective borrowers could have a material adverse effect on its business, financial condition, results of operations and prospects.

ROSBANK may fail to manage its growth properly.

ROSBANK intends to grow its business both organically through the expansion of its branch network, and through mergers and acquisitions, including through the integration of OVK's banking operations into ROSBANK as discussed below. Expansion of ROSBANK's branch network will entail significant investment, as well as increased operating costs. There is no guarantee that ROSBANK will achieve a positive return on the investment that it makes in the development of its branch network.

On 28 October 2003, the Interros Group acquired OVK, one of the largest retail banking networks in Russia, the operations of which it intends to merge with ROSBANK. The management of ROSBANK has commenced the process of merging the operations of OVK with those of ROSBANK and, on 26 January 2004, the CBR approved ROSBANK's proposed plan of consolidation. OVK is a banking network made up of six retail banks operating through more than 400 branches and offices in most regions and urban areas in Russia. The integration of a bank as large as OVK will require extensive management, personnel and monetary resources. The integration is expected to be completed by the second half of 2005, prior to which time management will be faced with modernising the OVK network, integrating its operations and personnel with those of ROSBANK, merging its IT systems with those of ROSBANK, and implementing group-wide financial and management information systems and controls. If management is unable to successfully manage ROSBANK's existing business and the integration of OVK, ROSBANK will be vulnerable to loss of market share and to the loss of existing clients to its competitors. In addition, because the merger with OVK is expected to entail significant costs, it may have a material adverse effect on ROSBANK's profitability over the next two years.

Some transactions between ROSBANK and its interested parties or affiliated companies require the approval of disinterested directors or disinterested shareholders.

Russian law requires a joint stock company that enters into transactions with certain related persons that are referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" means: (i) any member of the board of directors or the collegiate executive body of the company, (ii) the chief executive officer of the company (including managing organisation or hired manager), (iii) any person who, together with its affiliates, owns at least 20% of the company's voting shares or (iv) a person who on legal grounds has the right to give mandatory instructions to the company, if any of the above listed persons, or a close relative or affiliate of such person, is, in each case:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
- in other cases stipulated by law or the company's charter.

Under applicable Russian law, interested party transactions are required to be approved by a majority of the disinterested directors of the company or, where (i) all the directors are interested, (ii) the value of the transaction is equal to or exceeds 2% of the company's assets as determined under Russian accounting regulations ("RAR") according to its latest balance sheet, or (iii) in case of certain share placements, by a majority vote of the disinterested shareholders. Not having obtained the appropriate approval for a transaction may result in it being declared invalid upon a claim by the company or any of its shareholders.

Information relating to OVK contained herein is based solely on information which has been made publicly available in Russia, and no independent verification of this information has been made.

Interros began a full due diligence review of all of OVK's business operations in April 2004, and expects to complete its due diligence review after the completion of the Offering. Accordingly, the results of its due diligence review are not disclosed in this Offering Circular. To date, no information has come to the attention of ROSBANK that would materially adversely affect the integration of OVK into ROSBANK. The information relating to OVK contained herein has been derived solely from publicly available information released in Russia, and has not been prepared or independently verified by the Issuer, ROSBANK, UCS, the Managers or any selling agent thereof, or any other offering participant.

Banking reform in Russia may have an adverse effect on the performance of Russian banks.

At the end of 2001, the Russian Government and the CBR issued a joint declaration setting out the strategy for banking reform in Russia and calling for certain legislative steps and structural changes to be taken during the proceeding five years. Among other measures aimed at increasing the stability of the Russian banking sector, the strategy envisages (i) an increase in capital adequacy requirements, (ii) the introduction of amendments to the Russian Civil Code preventing the early withdrawal of funds held in deposit accounts opened for a certain term, (iii) the acceptance of IFRS by all Russian banks starting from 1 January 2004 and (iv) the gradual implementation of a mandatory system of insuring private depositors' funds held by all Russian banks. See "The Banking Sector and Banking Regulation in the Russian Federation".

The new Federal Law "On Insuring Individuals' Deposits in the Banks of the Russian Federation" No. 177-FZ passed by the State Duma on 23 December 2003 (the "Deposits Insurance Law") introduced rules regulating insurance of individuals' deposits placed with Russian banks. Russian retail banks are now required to satisfy certain qualification tests to be able to participate in the deposits insurance system and, more generally, to attract individuals' deposits. While management believes ROSBANK is in compliance with these rules, failure to comply with ongoing reporting and other requirements could prevent ROSBANK from attracting deposits from, and opening accounts for, individuals.

The recent changes in Russian banking and financial regulation are aimed at making it more similar to that of more developed countries. However, due to the recent nature of these changes, Russian banks are operating in a new and relatively unclear regulatory environment. It is difficult to forecast how 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 affect ROSBANK's ability to provide a full range of banking services or to compete effectively, thereby adversely affecting ROSBANK's business, financial condition, results of operations and prospects.

The rights of ROSBANK's shareholders and the public reporting requirements and the RAR requirements to which ROSBANK is subject differ significantly from comparable listed companies in other jurisdictions.

ROSBANK's corporate affairs are governed by its charter, its internal regulations, by-laws governing Russian banks and by-laws governing companies incorporated in Russia. See "The Banking Sector and Banking Regulation in the Russian Federation". The rights of shareholders and the responsibilities of members of ROSBANK's Board of Directors and Management Board under Russian law are different from, and may be subject to certain requirements not generally applicable to, corporations organised in the United Kingdom or other jurisdictions.

The Law on Banks and Banking Activities of the Russian Federation (the "Banking Law") contains certain periodic disclosure requirements including the requirement to publish annual financial statements in accordance with RAR. Due to the fact that ROSBANK's systems and processes are tailored to meet these Russian statutory requirements, it takes ROSBANK longer than most Western companies to prepare its IFRS consolidated annual financial reports.

In accordance with the Banking Law and CBR regulations, ROSBANK must publish quarterly reports within 40 days and file such quarterly reports with the CBR within 43 days of the end of each quarter. Such reports include certain financial information, including a balance sheet, income

statement and information on ROSBANK's assets, capital reserves and allowances for problem loans, but do not contain all of the information contained in ROSBANK's IFRS financial statements.

In accordance with Russian legislation applicable to securities issuers, ROSBANK must file quarterly reports with the CBR within 45 days after the end of the relevant quarter. Such reports include certain information about ROSBANK, its management, subsidiaries, affiliates, selected financial and business information (such as events of litigation, quarterly accounts prepared in accordance with Russian accounting standards, etc.) but likewise do not contain all of the information contained in ROSBANK's IFRS financial statements.

In accordance with Russian legislation applicable to professional securities market participants, ROSBANK must file quarterly reports with one of the "self-regulatory organisations" of which it is a member. ROSBANK files quarterly reports with Russian self-regulatory organisation NAUFOR (The National Association of the Stock Market Participants) and PARTAD (The Professional Association of Registrars, Transfer-Agents and Depositaries) as well as with the Federal Service for the Financial Markets (as successor to the Federal Commission for the Securities Market), within one and a half months after the end of the relevant quarter. Such reports include certain information about ROSBANK, its management, its balance sheet for the relevant period, transactions involving securities during the reporting period and certain other information.

While ROSBANK regularly publishes the reports described above and generally complies with its reporting requirements, there is nonetheless less publicly available information about ROSBANK than there is available for comparable banks in, for example, the United Kingdom or the United States.

ROSBANK's previous reorganisation could be challenged.

In 2000, ROSBANK acquired Uneximbank by means of a merger, which constituted a reorganisation under Russian law. Under Russian law, the reorganisation of a legal entity is a complex process that requires compliance with numerous laws, regulations and administrative requirements involves corporate as well as civil law aspects, administrative acts and numerous mandatory requirements that must be complied with by any company undergoing reorganisation. Non-compliance with any applicable required legal procedure in the course of reorganisation may impair the validity of the reorganisation or make corporate decisions or administrative acts related thereto subject to legal challenge by interested parties. Furthermore, creditors and shareholders of companies being reorganised enjoy special rights aimed at protecting their material interests (such as the right of creditors to accelerate payment of liabilities owed to them and the right of shareholders to claim redemption of their shares). Creditors and shareholders deprived of such rights may be allowed to pursue claims against the applicable reorganised company. There can be no assurance that ROSBANK complied fully with all applicable legal and administrative requirements in connection with its corporate reorganisation as part of the merger with Uneximbank. While the risk of any claims relating to ROSBANK's reorganisation appears to be low, due to, among other things, the lapse of applicable statute of limitations periods, potential claims against ROSBANK relating to alleged violations committed during the course of the reorganisation could have a material adverse effect on ROSBANK.

Risks Relating to UCS's and ROSBANK's Merchant Voucher Business

UCS may be unable to maintain its Merchant Voucher business at current levels and the value of Receivables generated may be insufficient to cover payments under the Further Class 2004 Notes.

Although UCS has agreed in the Servicing Agreement to continue to operate its Merchant Voucher business consistent with recent practice and in a manner that is not reasonably likely to have a material adverse effect on its financial condition or results of operations, UCS has not made any guarantees that its Merchant Voucher business will allow ROSBANK the opportunity to generate sufficient Receivables to make payment in full of ROSBANK's obligations under the Loan Agreement at any time.

In addition, in the event of a bankruptcy proceeding in Russia involving ROSBANK, the arbitration manager could decide to terminate any of ROSBANK's current lines of business, and could prevent it from operating as an acquirer of Merchant Vouchers in Russia. In such case, the

amount of future Receivables necessary to generate Collections to pay principal and interest under the Loan Agreement (and thus under the Further Class 2004 Notes) would not arise. In the event the level of Collections drops below the amount necessary to pay debt service in respect of the Loan in any relevant period, ROSBANK is required to pay any shortfall directly, and in addition this would give rise to a Loan Event of Default. The occurrence of a Loan Event of Default permits the Trustee to accelerate the obligations of ROSBANK under the Loan Agreement, leading to mandatory redemption of the Further Class 2004 Notes.

Economic factors may adversely affect the volume or value of international credit and debit card transactions in the Russian Federation.

A decline in the US dollar volume of international credit and debit card transactions in the Russian Federation could result in a decrease in the generation of the Receivables held for the benefit of the Issuer and, therefore, the amount of funds available for payments on the Further Class 2004 Notes.

The generation of the Receivables begins when purchases of goods and services are made in the Russian Federation by persons using VISA and MasterCard credit and debit cards issued by non-Russian financial institutions located outside of the Russian Federation. Therefore, tourism and business travel to the Russian Federation are critical to the ongoing generation of the Receivables. Many factors may influence the level of tourism and business travel to the Russian Federation. For example, political, economic or civil unrest in or outside of the Russian Federation or increases in the incidence of crimes committed against foreign travellers may have the effect of reducing tourism and business travel to the Russian Federation. See “Factors Affecting Volumes of International Receivables”.

In addition, if the depreciation of the rouble against the US dollar or the euro resumes, it will reduce the US dollar and/or euro value of expenditures in the Russian Federation, to the extent such goods and services are priced in roubles and not tied to the dollar or euro. Accordingly, assuming a constant rouble level of use of international VISA and MasterCard cards in the Russian Federation, a depreciation of the rouble without an equivalent level of price inflation would reduce the US dollar value of the Receivables with respect to goods and services priced in roubles.

For the foregoing reasons, no assurance can be given that any particular level of Receivables will be maintained in the future or what impact any devaluation of the rouble in the future may have on the level of Receivables generated. For a further description of these and certain other factors that may affect the volume of Receivables, see “– Risks Relating to the Russian Federation” and “Factors Affecting the Volume of Receivables”.

UCS faces competition from other credit and debit card processing companies for merchant relationships.

The acquisition of Merchant Vouchers by ROSBANK depends upon UCS’s ability to maintain relationships with merchants in the Russian Federation. The credit and debit card industry in the Russian Federation is highly competitive. Although UCS estimates that as at 31 December 2003, it held an approximate 50% share of the merchant voucher market attributable to the use of credit and debit cards issued by Russian financial institutions, an approximate 60% share of the Merchant Voucher processing market attributable to the use of credit and debit cards issued both in Russia and abroad and an approximate 90% share of the Merchant Voucher market attributable to the use of credit and debit cards issued by non-Russian financial institutions, it faces considerable competition from other card acquiring, issuing and processing companies, most notably Alfa Bank and Sberbank. For a description of UCS’s merchant relationships and related marketing efforts and factors that may affect its ability to attract and retain merchant customers, see “– Risks Relating to VISA International and MasterCard International – VISA International and MasterCard International are Obligor on the Receivables” and “Description of UCS’s and ROSBANK’s Merchant Voucher Business – UCS’s Merchant Portfolio”.

UCS and ROSBANK are vulnerable to a failure of their information technology systems.

UCS’s ability to process Merchant Vouchers and ROSBANK’s ability to make payments to merchants on a timely basis depends on the proper functioning and continuity of each of their respective information technology systems. While UCS and ROSBANK each maintain back up

servers and disaster recovery information plans, any significant interruption, deterioration, failure or lack of capacity in UCS's or ROSBANK's technology systems, processing centres or elsewhere may cause UCS to fail to process transactions and ROSBANK to fail to make payments to merchants on a timely basis, which could have an adverse effect on each of UCS's and ROSBANK's businesses and results of operations.

ROSBANK may face certain liquidity risks.

UCS's merchant customers expect ROSBANK to be able to pay them in roubles for the Merchant Vouchers they generate in a timely manner. Should ROSBANK face a time of rouble illiquidity during which it is unable to make required rouble payments to the merchants, it is possible that merchants would discontinue their relationship with UCS in favour of a competing processing company and settlement bank.

ROSBANK has always had sufficient liquidity to make rouble payments to merchants in the past, primarily as a result of the payments received by ROSBANK from VISA International and MasterCard International in respect of Merchant Vouchers submitted into the VISA International and MasterCard International settlement systems, respectively. See "Description of ROSBANK" and the IFRS Financial Statements included elsewhere in this Offering Circular for information regarding the financial condition and results of operations of ROSBANK in recent periods. In addition, ROSBANK believes that its level of access to international interbank and syndicated loans, its favourable credit standing and its sophisticated liquidity risk management policies, which include maintaining liquidity reserves sufficient to meet current obligations, allow and will continue to allow it to meet its liquidity needs. However, a deterioration of Russian companies' liquidity or of the Russian and international interbank and syndicated loan markets, and maturity mismatches between ROSBANK's assets and liabilities may, together or separately, have a material adverse effect on its liquidity which could adversely affect its ability to settle transactions with merchants on a timely basis. See "Description of ROSBANK – Risk Management".

Risks Relating to VISA International and MasterCard International

VISA International and MasterCard International are Obligor on the Receivables.

VISA International, MasterCard International and certain affiliates will be the only Receivables Obligor on all of the Receivables in which a security interest will be granted in favour of the Issuer by ROSBANK pursuant to the Rosbank Security Agreement. As a result, payments on the Loan Agreement (and thus the Further Class 2004 Notes) will be dependent on the Receivables Obligor's ability to make the required payments in respect of such Receivables. A material adverse change in the financial condition of any Receivables Obligor could have an adverse effect on its ability to make payments to ROSBANK of amounts due under the Receivables. VISA is currently rated "A1" (Senior Unsecured Debt) by Moody's on a stable outlook and "A+" (Long Term Foreign and Local Issuer Debt) by Standard and Poor's ("S&P") on a negative outlook. MasterCard is rated "A-" (Long Term Foreign and Local Issuer Credit) by S&P on a negative outlook. VISA International is a non-public company that generally does not disclose information concerning its financial condition or results of operations.

The occurrence of a bankruptcy event with respect to any Receivables Obligor is a Loan Event of Default under the Loan Agreement. The occurrence of a Loan Event of Default permits the Trustee to accelerate the obligations of ROSBANK under the Loan Agreement, leading to mandatory redemption of the Further Class 2004 Notes.

The rules and regulations governing the VISA and MasterCard settlement systems are subject to amendment outside of the control of ROSBANK, UCS or the Trustee.

All of the Receivables to be assigned to the Issuer by ROSBANK pursuant to the Loan Agreement will be cleared and settled through the settlement systems operated and maintained by VISA International and MasterCard International. These systems have been developed by VISA International and MasterCard International, respectively, and are operated exclusively by them subject to operating rules and regulations promulgated and revised from time to time. The rules governing the settlement process and indemnification of member institutions for VISA International and MasterCard International are subject to amendments outside of the control of ROSBANK, UCS or

the Trustee. Any such amendments could adversely affect payments for the Receivables or the timing of such payments to the Issuer.

Participation by ROSBANK or UCS in VISA International and MasterCard International may be terminated in certain circumstances.

The generation of Receivables depends on ROSBANK and UCS continuing to participate in VISA International and MasterCard International. For a description of the circumstances in which membership in VISA International and MasterCard International may be terminated, including upon the insolvency or bankruptcy of a member, see “Description of VISA International and MasterCard International”. If ROSBANK’s membership in VISA International and/or MasterCard International were terminated, the acquisition by ROSBANK of new Merchant Vouchers would cease and Collections would no longer be available to make the required payments of principal of or interest on the Further Class 2004 Notes. To the extent ROSBANK’s membership in VISA International and/or MasterCard International terminates, a Loan Event of Default will exist. See “Summary of Transaction Documents – The Loan Agreement” and “– Obligor Notices and Consents”.

Risks Relating to the Further Class 2004 Notes

The Further Class 2004 Notes have limited security for repayment and constitute limited recourse obligations of the Issuer.

The Further Class 2004 Notes will be limited recourse obligations of the Issuer, with recourse being limited to the Note Collateral. The Note Collateral consists primarily of the Receivables, Collections on the Receivables, the payments by ROSBANK under the Loan Agreement and the 2004 Debt Service Reserve Account. The Further Class 2004 Notes will not be an obligation or responsibility of, or guaranteed by, any other person or entity. None of the members, officers, directors or incorporators of the Issuer, ROSBANK, the Servicer, the Trustee, any of their respective affiliates or any other person or entity will be obligated to make payments on the Further Class 2004 Notes. The Issuer will have no assets available for payments on the Further Class 2004 Notes other than the assets comprising the Note Collateral. Noteholders must rely solely upon amounts received in respect of the Note Collateral for the payment of principal and interest on the Further Class 2004 Notes. There can be no assurance that the distributions on the Note Collateral will be sufficient to make payments on the Further Class 2004 Notes. After the Note Collateral has been fully realised and all remedies against ROSBANK have been exhausted, the Trust Deed will provide that all sums due but still unpaid in respect of the Issuer’s obligations under the Further Class 2004 Notes and the other Transaction Documents will be extinguished, and no debt shall be owed in respect of such sums by the Issuer.

The limited recourse nature of the obligations of the Issuer is complemented and reinforced by the creation by the Issuer of a compartment pursuant to the Securitisation Law consisting of all the assets and liabilities of the Issuer arising from the Class 2004 Notes and the related transactions. As a matter of Luxembourg law, the recourse under the Further Class 2004 Notes will be limited to the net assets of that compartment. See “Description of the Issuer”.

ROSBANK’s management expects that the volume of Receivables will be sufficient to make the scheduled payments of principal and interest on the Further Class 2004 Notes. In 2003, the value of Receivables acquired by ROSBANK was in excess of US\$400 million. However, there can be no assurance that a significant decline in the value of Receivables acquired will not result in a shortfall in the amounts available to pay amounts owing in respect of the Further Class 2004 Notes. If such a shortfall were to occur, the 2004 Debt Service Reserve Account (or the related 2004 Debt Service Reserve LC, if any), to the extent funds are then available thereunder, would be drawn upon to cover any such shortfall for the Further Class 2004 Notes. In the event of a shortfall, ROSBANK will be obligated to make payments to the Issuer under the Loan Agreement to cover such shortfall. See “Description of the Transaction Documents – Loan Agreement”.

Bankruptcy law considerations in respect of ROSBANK could affect the transaction.

The insolvency or bankruptcy of ROSBANK would likely have an adverse effect on the value of the Loan Collateral, because ROSBANK could in such a case lack the necessary liquidity to make prompt payments to merchant customers for Merchant Vouchers. In this event, the volume of

Receivables available to pay debt service on the Further Class 2004 Notes would be reduced. In addition, insolvency or bankruptcy of ROSBANK could give rise to a decision by VISA International or MasterCard International to terminate ROSBANK's participation in the card programmes, after which new Receivables would cease to be generated. In such event, a Loan Event of Default would occur, which would permit the Trustee to accelerate the obligations of ROSBANK under the Loan Agreement.

Prior to a bankruptcy of ROSBANK, the security arrangements provide for a perfected security interest in favour of the Trustee in the Receivables and the Collections on the Receivables under New York law. Following a bankruptcy of ROSBANK, the Trustee's security interest would continue in respect of existing Receivables and Collections, but would not attach to Receivables generated after bankruptcy under US bankruptcy law.

To the extent that recourse is not available to the Receivables, and assuming the 2004 Debt Service Reserve Account (or the 2004 Debt Service Reserve LC) has been fully drawn and not replenished, claims against ROSBANK for payment of amounts owing under the Loan Agreement and the Transaction Documents to which ROSBANK is a party would be general unsecured claims of ROSBANK. Unsecured claims would be satisfied from ROSBANK's general assets, subject to the priorities set forth in Russian law, and the Trustee in enforcing such claims would have no lien, preference or priority distinct from other similarly-situated unsecured creditors of ROSBANK. See “– Certain Legal Aspects of the Transaction”.

The legislative framework governing bankruptcy in the Russian Federation differs substantially from that of Western European countries, potentially adversely affecting the value of the Further Class 2004 Notes in the event of ROSBANK's insolvency.

Russian bankruptcy law differs from comparable law in Western European countries and is subject to varying interpretations. There is little precedent to predict how claims on behalf of the Further Class 2004 Noteholders against ROSBANK would be resolved in case of its bankruptcy. Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity and could therefore have a material adverse effect on an investment in the Further Class 2004 Notes.

Any claims of the Trustee against ROSBANK under the Loan Agreement or otherwise in relation to the rights in respect of Receivables or payments thereunder will be unsecured claims for the purpose of Russian bankruptcy legislation. Claims of the Trustee against the UCS Parent under the UCS Parent Undertaking and related UCS Parent Pledge will likely be secured claims in any Russian bankruptcy proceedings against the UCS Parent. Under current bankruptcy law in the Russian Federation, claims of unsecured creditors are generally subordinated to the claims of individual clients arising out of deposit and bank account agreements (in respect of the banks), certain claims of creditors arising after the initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations, severance pay, employment-related obligations and royalties. There is also some risk that claims of unsecured creditors may be further subject to claims under certain tax and payment obligations to the Russian federal and local governments. Furthermore, under the Law “On Insolvency (Bankruptcy)”, pledged assets are separated from the other assets of an insolvent entity, and claims of creditors secured by pledges are settled with the money received from the sale of pledged assets. Claims of creditors secured by pledged assets will be subordinated to the following obligations: (i) injury obligations and moral damages obligations and (ii) severance pay, employment-related obligations and royalties, if such obligations arose prior to the creation of the pledge. Claims of creditors secured by pledged assets remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors (i.e., after satisfaction of obligations mentioned above, irrespective of the moment of creation thereof). See “Certain Legal Aspects of the Transaction”.

Under the Russian Bank Insolvency Law, various grounds exist to invalidate transactions to which a Russian bank is a party, when the bank in question is subject to Russian bankruptcy proceedings including to a proceeding known as temporary administration. Examples of the types of proceedings subject to invalidation include transactions entered into with an “interested party” (as defined in the Bankruptcy Law) if the transaction at issue resulted or may result in losses to the

creditors of the bank, transactions entered into within six months preceding the initiation of the bankruptcy proceedings and resulting in a preference, and transactions entered into within three years of the appointment of a temporary administration or the declaration of bankruptcy, if in this latter case the terms of the transaction were materially worse than comparable situations. See “Certain Legal Aspects of the Transaction.”

Certain aspects of Russian law might apply to the Transaction Documents, to which ROSBANK, UCS or the UCS Parent are parties.

Transaction Documents, to which ROSBANK, UCS or the UCS Parent are parties, are, in respect of validity, enforceability and/or enforcement, subject to various provisions of Russian law that would apply irrespective of the choice of foreign law under such Transaction Documents (for example, in case of ROSBANK’s bankruptcy). The availability of legal remedies and their practical enforcement may be limited and may depend on the discretion of the courts in Russia, or other factors not expressly described in legislation. In addition, the UCS Parent Pledge is heavily regulated by Russian law requiring compliance with certain formal and sometimes burdensome procedures in order to enforce a pledge. Application of such mandatory provisions of Russian law might render certain provisions of the relevant Transaction Documents ineffective or hinder their effective enforcement in accordance with the terms thereof. As a result no assurance can be given as to the monetary value that may be obtained from enforcement of the UCS Parent Pledge. For a detailed discussion of such provisions, see “Certain Legal Aspects of the Transaction”.

Foreign judgments may not be enforceable against ROSBANK.

Judgments rendered by a court in any jurisdiction outside the Russian Federation are likely to be recognised by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. No such treaty exists between the United Kingdom or the United States and the Russian Federation for the reciprocal enforcement of foreign court judgments. Therefore, the enforcement of foreign court judgments issued by courts in the United Kingdom or the United States against ROSBANK in the Russian Federation may be impossible. The Trust Deed, the Agency Agreement, the Loan Agreement, the Servicing Agreement, the UCS Parent Undertaking and the UCS Parent Pledge provide that disputes between parties thereto may be settled by arbitration in accordance with the Rules of the LCIA. 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, official and unofficial political resistance to enforcement of awards against Russian companies in favour of foreign investors, Russian courts’ inability to enforce such orders, and corruption.

The Issuer may issue Further Notes without the consent of the Noteholders.

The Issuer may issue Further Notes in any currency as specified under “Terms and Conditions of the Further Class 2004 Notes – Further Issues”. The terms of any such Further Notes will not be subject to the prior review or consent of the Noteholders; however, the issuance of any Further Notes by the Issuer may not change the terms of the Further Class 2004 Notes and is subject to the satisfaction of certain conditions precedent. Assets of the Issuer, primarily the Receivables, are all denominated in US dollars, whereas its future liabilities, including any Further Notes, may be denominated in other currencies. An increase in value of such other currencies could adversely affect the foregoing pro forma coverage levels from what they were at the time the additional issuance test was calculated. There can be no assurance, however, that the principal terms of any Further Notes issued by the Issuer or any variations in exchange rates among the currencies in which Further Notes are denominated might not have an impact upon the timing and amount of payments received on the Further Class 2004 Notes, because holders of any such Further Notes and the holders of the Class 2004 Notes would share the Note Collateral.

The current ratings of the Further Class 2004 Notes may not remain the same throughout the life of the Further Class 2004 Notes.

It is a condition to the issuance of the Further Class 2004 Notes that they be rated at least “B+” by Fitch and at least “Ba3” by Moody’s. A rating is not a recommendation to buy, sell or hold the Further Class 2004 Notes or a beneficial interest therein, inasmuch as such rating does not comment on the market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that it will not be lowered or withdrawn by the applicable rating agency if, in its judgment, circumstances so warrant. Such a rating does not address the possibility of the occurrence of a Note Event of Default, a Servicer Default or any other Early Amortisation Event or the likelihood of payment by ROSBANK of the 2004 Redemption Amount (including any Make-whole Premium incorporated therein) or the likelihood of payment by ROSBANK of any Additional Amounts.

There is no existing market for the Further Class 2004 Notes.

The Further Class 2004 Notes constitute a new issue of securities for which there is no existing market, and there is no guarantee that a market for the Further Class 2004 Notes will develop, or that any such market for the Further Class 2004 Notes will be liquid. As a result, there can be no guarantee regarding the ability of the Noteholders to sell their Further Class 2004 Notes or beneficial interests therein or the price at which such Further Class 2004 Notes or beneficial interests therein may be sold. An application is being made to list the Further Class 2004 Notes on the Luxembourg Stock Exchange. The Managers are not obligated to facilitate trading in the Further Class 2004 Notes or beneficial interests therein and any such activities, if commenced, may be discontinued at any time, for any reason, without notice. If the Managers do not facilitate trading in the Further Class 2004 Notes or beneficial interests therein for any reason, there can be no assurance that another firm or person will do so. In addition, trading or resale of the Further Class 2004 Notes or beneficial interests therein may be negatively affected by other factors described in this Offering Circular arising from this transaction or the market for securities of Russian issuers generally. See “– Risk Factors Relating to the Russian Federation” above.

Expected Maturity and Prepayment Considerations; Loan Agreement.

Although the Final Maturity Date of the Further Class 2004 Notes is 24 September 2010, the Further Class 2004 Notes are expected to mature on the Expected Maturity Date of 24 September 2009, which is the Payment Date on which the last scheduled payment of principal is due from ROSBANK under the Advance (the “2004 Repayment Date”). In addition, the expected life of the Class 2004 Notes, will be subject to any early redemption or early amortisation in accordance with the Terms and Conditions of the Class 2004 Notes, which provide for early redemption and early amortisation of the Class 2004 Notes based on the corresponding terms of the Loan Agreement.

The expected life of the Further Class 2004 Notes is determined by the amount and frequency of principal payments, which are dependent upon the amount and frequency of payments under the Advance. The actual life and actual maturity of the Further Class 2004 Notes will be affected by the performance of the Receivables, the financial condition of ROSBANK and ROSBANK’s compliance with the terms of the Loan Agreement in respect of the Advance. ROSBANK is not permitted under the Loan Agreement to defer any payments of principal beyond the 2004 Repayment Date.

DESCRIPTION OF CERTAIN OF THE TRANSACTION DOCUMENTS

The following summary of certain provisions of certain of the Transaction Documents is not complete and is subject to, and qualified in its entirety by reference to all the provisions of the Transaction Documents. Copies of the Transaction Documents are available for inspection at the offices of the Paying Agents. Capitalised terms not otherwise defined herein have the meaning ascribed to them in the Amended and Restated Master Definitions Schedule.

Loan Agreement

The Issuer has entered into a Loan Agreement (as amended from time to time, the “Original Loan Agreement”) dated 1 November 2004 with ROSBANK (OJSC JSCB) (the “Borrower” or “ROSBANK”) as supplemented by a first supplemental loan agreement dated on or about 4 February 2005 (together with the Original Loan Agreement, the “Loan Agreement”), pursuant to which on the 2005 Drawdown Date ROSBANK will borrow, and the Issuer will lend, the 2005 Advance to be repaid not later than one Business Day prior to the 2004 Repayment Date.

Certain Covenants of ROSBANK

Set forth below are certain covenants of ROSBANK, in its capacity as Borrower, which (among others) are contained in the Loan Agreement:

No Termination or Transfer

The Borrower shall not take any action to reduce or terminate, or sell, assign or otherwise dispose of its merchant voucher settlement business, whether in a single transaction or a series of related transactions (it being understood that administrative and operational matters relating to the merchant voucher settlement business may, pursuant to the Servicing Agreement, be handled by third parties), or make any other change in such business that, in each case, is reasonably likely to have a Material Adverse Effect.

No Other Disposition or Liens

The Borrower shall not (a) purport to create, purport to incur or suffer to exist any Lien upon any of its rights, title or interest on the Receivables to any Person except as permitted by the Transaction Documents and any Liens for taxes, assessments and other governmental charges payable by the Borrower but that are not yet due and payable or (b) sell, pledge or otherwise transfer or assign or purport to sell, pledge, transfer or assign all or any of the Receivables except for the security interest granted to the Issuer under the Rosbank Security Agreement.

No Impairment of Rights

The Borrower shall not take any action that would impair in any respect the rights and interests of the Issuer, the Trustee or any Noteholder (including to cause any payment that would otherwise be a Receivable not to fall within the definition thereof) and shall continue in all respects to administer its merchant voucher settlement business as in effect on the 2004 Drawdown Date, in each case except to the extent that any variation therefrom is not reasonably likely to have a Material Adverse Effect.

Payment to Merchants

The Borrower shall make payments on a continuing basis directly to its merchant clients or to its agents for payments to their respective merchant clients, as the case may be, in Russia in connection with transactions which give rise to Receivables consistent with its normal business practices and the Card Programme Documents.

Compliance with Laws and Card Programmes

The Borrower shall comply at all times and in all respects with (i) all Applicable Laws applicable to or in any way affecting the generation and/or servicing of the Receivables or its merchant voucher settlement business and (ii) all of its obligations under the Card Programmes and any documents related to its membership in, or licence regarding any Card Programme; *provided* that, in each case, the failure to comply therewith shall not be a default to the extent that such non-compliance would not have a Material Adverse Effect. The Borrower will maintain at all times in

favour of each Receivables Obligor any letter of credit, other credit instrument or other reserves required by such Receivables Obligor in connection with such Receivables Obligor's waiver, set-off or netting under any Obligor Notice and Consent to which it is a party.

The Borrower shall comply with all Applicable Laws relating to taxation, and shall duly pay before they become overdue all taxes, assessments, and other governmental charges levied or imposed in any jurisdiction upon its property, earnings or business that, if not paid, could reasonably be expected to have a Material Adverse Effect.

The Borrower shall obtain and maintain in effect all governmental licences, consents, approvals and authorisations to own or lease its properties, to conduct its business (including its participation in the Card Programmes), and to perform its obligations under the Transaction Documents, including those necessary to maintain the validity or enforceability thereof.

Mergers, Consolidations, Asset Sales

The Borrower shall (a) preserve and maintain its corporate existence; (b) preserve and maintain all of its rights, franchises and privileges in the jurisdictions of its incorporation and operations necessary for the performance of its obligations under the Transaction Documents (except, in each case, to the extent that any failure to have such rights, franchises and privileges could not reasonably be expected to have a Material Adverse Effect); and (c) not consolidate with or merge into any other Person or convey, transfer or lease all or substantially all of its assets as an entirety, whether in a single transaction or a series of related transactions, to any other Person unless (with respect to this clause (c)):

- (A) (i) the Borrower is the continuing entity, or (ii) the Person formed by such consolidation or into which the Borrower is merged or that acquired or leased such property or assets of the Borrower (the "Successor Company") (x) will be a company organised and validly existing under the laws of Russia or any other country and if organised in Russia, such company will have a general banking licence, and (y) shall assume (jointly and severally with the Borrower unless it shall have ceased to exist as a result of such merger, consolidation or amalgamation) all of the obligations of the Borrower under the Transaction Documents and (z) shall become a member or a principal member (as the case may be) of VISA and MasterCard;
- (B) immediately after giving effect to the transaction, no Loan Event of Default or Potential Loan Event of Default or Early Amortisation Event or Incipient Early Amortisation Event shall have occurred and be continuing;
- (C) immediately after giving effect to the transaction, neither the Borrower nor the Successor Company, as applicable, shall be in violation or breach of any of its related covenants, agreements, obligations, representations or warranties contained in the Transaction Documents;
- (D) in the event the Borrower is not the continuing entity, the Borrower shall provide to the Trustee one or more opinions of counsel and certificate of the Borrower or the Successor Company, and which taken together state (A) that such merger, consolidation, sale, transfer or other conveyance or disposition has occurred and complies with the terms of the Transaction Documents and Applicable Law, (B) that the assumption by the Successor Company of the Borrower's obligations under the Transaction Documents is sufficient for each such Transaction Document to constitute a legal, valid and binding obligation of the Successor Company, enforceable against it (subject to customary exceptions to the same extent included in the equivalent opinions of counsel delivered on the 2004 Drawdown Date) in accordance with its terms and (C) that following such assumption, the Issuer will continue to have the same rights in the Receivables (and with the same priority) as immediately prior to such assumption; and
- (E) Rating Agency Confirmation is obtained with respect to the transaction, provided, however, no Rating Agency Confirmation shall be required pursuant to this subclause if at such time (x) there is no Loan Event of Default, (y) the relevant transaction is a merger or consolidation in which the Borrower is the surviving entity and (z) the value of such other

Person party to the relevant transaction (in the aggregate together with the value of other Persons party to other transactions occurring since the 2004 Drawdown Date and for which no Rating Agency Confirmation was obtained in reliance on this proviso) is no greater than US\$50 million.

Notice of Certain Events

The Borrower shall promptly (and in any event within five Business Days or in the case of clause (e) only, one Business Day) provide the Issuer, the Trustee (for delivery to each Noteholder) and each Rating Agency: (a) notification of a Loan Event of Default, a Potential Loan Event of Default, an Early Amortisation Event or an Incipient Early Amortisation Event, (b) if one or more of the events described in clause (a) have actually occurred (including events that have since been cured), notice specifying all such events and what actions have been taken and/or will be taken with respect to such events, (c) details of any litigation, arbitration or other similar action or proceeding pending or (to its knowledge) threatened against it that, individually or in the aggregate, is reasonably likely to have a Material Adverse Effect, (d) notice of any Lien asserted or claim made against any Receivable (other than under the Transaction Documents) of which it obtains knowledge; and (e) notification of the downgrade of its credit rating by any Rating Agency (or that its credit rating has been placed on credit watch with negative implications by any Rating Agency).

Audit

- (a) At any time during the existence of any Early Amortisation Event, the Borrower shall (at its own cost and expense), subject to two Business Days' prior notice, permit (subject to applicable data and banking secrecy laws and agreements binding on it) (i) the Issuer (or the Servicer on its behalf), (ii) the Trustee and/or (iii) any Rating Agency (in each case, or their respective agents) to conduct a review of its books, records and systems relating to the Receivables wherever such books, records and systems are located.
- (b) If no Early Amortisation Event exists, at any time during normal business hours, subject to at least ten days' prior notice and the receipt of written assurances that the confidentiality of its proprietary information will be preserved, the Borrower shall (no more than once per calendar year at any location and at the cost and expense of the Person(s) conducting such review) permit (subject to applicable data and banking secrecy laws and agreements binding on the Borrower) the Issuer, the Trustee and the Rating Agencies (in each case, or their respective agents) to conduct a review of its books, records and systems relating to the Receivables wherever such books, records and systems are located.

Financial Statements

- (a) The Borrower shall provide to the Issuer, the Trustee (for delivery to each Noteholder) and each Rating Agency, in English or accompanied by a certified English translation thereof within 180 days after the end of the second calendar quarter of each fiscal year and the end of each fiscal year, its financial statements for the relevant period.
- (b) The Borrower, taking into consideration each of the financial statements delivered in accordance with the foregoing subclause (a), shall provide an Officer's Certificate (i) stating that it is in compliance with all of its financial covenants under the Loan Agreement (or, if not, specifying the relevant facts and what actions have been taken and will be taken with respect thereto) and (ii) including such other information as the Trustee and/or any Rating Agency may reasonably request (and that it may provide without violating any Applicable Law).

Notices

The Borrower shall deliver promptly to the Trustee and the Rating Agencies (i) copies of all notices received by it from any Receivables Obligor with respect to the Receivables or the Borrower's membership under the Card Programmes, except correspondence received in the ordinary course of business that does not relate to matters that might adversely affect the Borrower's or the Servicer's ability to perform its respective obligations with respect to the Receivables and (ii) a copy of any amendment, modification or waiver (A) of any agreement or other arrangement governing or related to any Card Programme entered into or agreed to by the Borrower (other than amendments effecting changes of a ministerial or administrative nature not adverse to the Trustee, the Servicer, the

Noteholders or the Issuer with respect to its interest in the Receivables) or the ROSBANK/UCS Agreement or (B) of any agreement or other arrangement, known to the Borrower governing any Card Programme entered into or agreed to by the respective Receivables Obligor, which adversely affects any agreement or other arrangement governing the settlement process or the servicing arrangements provided under such Card Programme, together with an Officer's Certificate certifying that such amendment, modification or waiver will not violate the provisions of the Transaction Documents to which the Borrower is a party or the Servicing Agreement.

No Amendment or Waiver

The Borrower shall not take any action to amend or waive any term of any Card Programme Document or any agreement or other arrangement governing the Borrower's membership in, or licence regarding, any Card Programme, the ROSBANK/UCS Agreement in a manner that would have a Material Adverse Effect.

No Modification of Obligations

Subject to its ability to comply with the Card Programme Documents then in effect, the Borrower shall not extend the time for payment of, discharge, vary or otherwise modify the terms of any Receivable due under any Card Programme or release any Receivables Obligor from its obligations with respect to any Receivables in aggregate greater than US\$100,000 in any calendar year.

Reduction of Receivables

The Borrower shall not take any action that would be likely to cause the future average monthly amount of Receivables to fall materially below the average monthly amount of Receivables for the immediately preceding twelve Calculation Periods.

Termination and Renewal of Membership in any Card Programme

In the event of the termination of the Borrower's membership in any Card Programme and the subsequent renewal of such membership, the Borrower agrees to continue to comply with the Transaction Documents to which it is a party for so long as any amounts remain outstanding under any Class of Notes issued pursuant to the Trust Deed and any relevant supplemental trust deed.

Anti-Money Laundering and OFAC Compliance

- (a) The Borrower shall comply at all times with all Applicable Laws relating to anti-money laundering activities. The Borrower shall maintain internal anti-money laundering policies and procedures, to a level equivalent to the policies and procedures maintained by the Borrower as of the 2004 Drawdown Date to effect the Borrower's compliance with such Applicable Laws and in accordance and compliance with any anti-money laundering guidelines published by the Central Bank or any other competent authority in Russia.
- (b) As a member of the Card Programmes, the Borrower further agrees to comply in all material aspects with any rules, procedures, policies, requests for information, or other requirements of any Receivables Obligor affecting the Borrower and arising from any anti-money laundering regulations.

Payment of Expenses

- (a) Except as otherwise provided in clauses (b) and (c) with respect to the compensation of the Trustee and the related items referred to therein, whether or not the transactions contemplated by the Transaction Documents shall be consummated, the Borrower shall protect and indemnify and hold the Issuer, the Trustee and each other Secured Creditor (other than the Noteholders) (and each of their respective Affiliates, directors, officers, employees, agents and other representatives) harmless on an after tax basis in respect of all expenses (provided they are accompanied by appropriate documentation) in connection with such transactions and in connection with any amendments or waivers (whether or not the same become effective) under or in respect of the Transaction Documents.

- (b) The Borrower also shall pay, subject to the provisions of the Subscription Agreement, and shall protect, indemnify and hold, the Trustee, the Issuer and each other Secured Creditor (other than the Noteholders) (and each of their respective Affiliates, directors, officers, employees, agents and other representatives) harmless on an after tax basis from all claims in respect of the fees, if any, of brokers and finders and any and all properly documented liabilities with respect to any and all registration, stamp, recording, excise or other documentary taxes that may be payable in respect of the execution, delivery, enforcement, filing, registration or recording of any of the Transaction Documents or the issue of any Class 2004 Notes and any amendment or waiver under or in respect of any of the Transaction Documents (provided such fees and liabilities are accompanied by appropriate documentation). In furtherance of the foregoing, and again subject to the provisions of the Subscription Agreement on the 2005 Drawdown Date and each other Issuance Date, the Borrower shall pay the fees and disbursements of special counsel for the Trustee and the Issuer that are reflected in the statements of such special counsel delivered to the Borrower on or prior to the 2005 Drawdown Date or such Issuance Date; and thereafter the Borrower shall pay, promptly upon receipt of supplemental statements therefor from time to time, additional fees, if any, and disbursements of such special counsel in connection with the closing of the transactions hereby contemplated (including unposted disbursements as of the 2005 Drawdown Date or such Issuance Date).
- (c) The Borrower covenants and agrees to pay to the Persons from time to time entitled thereto, as and when due, all documented Administrative Expenses.

In the event that the payment of expenses is due from the Borrower in respect of the 2005 Advance and related transactions and that are payable on the 2005 Drawdown Date shall be made in Same-Day Funds so that such amount is received in full by the Issuer at least one Business Day prior to the 2005 Drawdown Date for application upon the occurrence of the 2005 Drawdown Date. Payment of expenses subsequent to the 2005 Drawdown Date will be made directly by the Borrower when due, or if not paid directly by the Borrower may be paid in accordance with the Priority of Payments and the applicable Collateral Sub-account Priority of Payments.

Certain Indemnities

Without prejudice to any other rights that the Issuer, the Trustee, any Secured Creditor or any other Person may have thereunder or under Applicable Law, the Borrower covenants and agrees, to the fullest extent permitted by Applicable Law (i) to indemnify within ten Business Days of demand and hold each of, the Trustee, the Issuer and each Secured Creditor (and each of their respective Affiliates, directors, officers, employees, agents and other representatives) (each, an “Indemnified Party”) harmless on an after tax basis from and against any and all reasonable and documented damages, losses, claims, liabilities, costs and expenses (including documented attorneys’ fees and disbursements) awarded against or incurred by such Person arising out of or as a result of: (A) any Lien on, or any set-off, netting, defense or counterclaim (other than for Incidental Charges) asserted by any Receivables Obligor against the Receivables, (B) any claim resulting from the assignment or the furnishing of services related to the Receivables or (C) any Loan Event of Default, Potential Loan Event of Default, Early Amortisation Event or Incipient Early Amortisation Event, or the enforcement against the Borrower of any of its obligations hereunder or under the other Transaction Documents to which it is a party; provided that (i) the Borrower shall not be liable to the Trustee, the Issuer or any Secured Creditor (or any of their respective Affiliates, directors, officers, employees, agents and other representatives) for any portion of any such amount resulting from the negligence or wilful misconduct of such Person; and (ii) to indemnify the Trustee for, and to hold the Trustee harmless on an after tax basis against, any reasonable and documented losses, claims, liabilities, costs and expenses (including reasonable and documented attorney’s fees and disbursements) incurred without negligence or wilful misconduct on their part arising out of or in connection with the acceptance and administration of the trusts under and in accordance with the Trust Deed and/or the performance of its duties or obligations under the Transaction Documents.

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

All payments to be made by the Borrower under the Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under the Loan Agreement for or on account of any Taxes, it shall increase any payment due thereunder to such amount as may be necessary to ensure that the Issuer receives a net amount in US dollar equal to the full amount which it would have received had payment not been made subject to such Taxes, shall account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Issuer (and the Trustee) without undue delay evidence satisfactory to the Issuer (and the Trustee) of such deduction or withholding and of the accounting therefor to the relevant taxing authority. If the Issuer pays any amount in respect of such Taxes, the Borrower shall reimburse the Issuer in US dollar for such payment within ten Business Days of demand. The foregoing shall not apply to any tax imposed on and calculated by reference to the income of the Issuer. If the Borrower makes a payment under the Loan Agreement for or on account of any Taxes and the Issuer has obtained a Tax credit which is attributable to such Tax payment, then the Issuer shall pay to the Borrower an amount which the Issuer reasonably determines will leave it (after that payment) in the same after-tax position as it would have been in had the Tax payment not been required to be made by the Borrower.

Monthly Compliance Report

The Borrower shall provide, not later than the fifth Business Day after each Calculation Date, a Monthly Compliance Report (including the Officers' Certificate attached thereto) to each recipient thereof, substantially in the form set out in Annex A to the Loan Agreement, in respect of the Calculation Period ending on such Calculation Date.

Loan Events of Default

Under the Loan Agreement, if one or more of the Loan Events of Default shall occur, the Issuer (and following the assignment of the Issuer's rights to the Trustee under the Trust Deed and the Issuer Security Agreement, the Trustee) may, by notice in writing to the Borrower, (a) declare the obligations of the Issuer thereunder to be immediately terminated, whereupon such obligations shall terminate; and (b) declare all amounts payable thereunder by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower, provided that such termination and acceleration will be automatic in the case of the Loan Event of Default described in clause (p) below.

The following events shall constitute a "Loan Event of Default" under the Loan Agreement, entitling the Issuer to the remedies set forth above:

- (a) the Debt Service Coverage Ratio falls below 1.00:1.00 as of any Calculation Date; or
- (b) the Borrower fails to perform any of its obligations under any of the Transaction Documents to which it is a party or under any of the agreements governing the Borrower's participation in any of the Card Programmes or the ROSBANK/UCS Agreement, or the Servicer fails to perform any of its obligations under any of the agreements governing the Servicer's participation in any of the Card Programmes, or the ROSBANK/UCS Agreement and such failure by the Borrower or the Servicer, as the case may be:
 - (i) constitutes a Material Adverse Effect; and
 - (ii) remains unremedied for at least 30 days (or 5 days with respect to the failure to make any payment or deposit as and when required by any of the Transaction Documents) following actual knowledge of the Borrower, or the delivery to the Borrower of written notice of such failure by the Trustee; or

- (c) any of the representations and warranties of the Borrower in the Transaction Documents to which it is a party or in any report, certificate, or notice furnished by the Borrower pursuant to the Transaction Documents to which it is a party proves to have been false or incorrect in any respect on the date when made or deemed made and the occurrence of this event has a Material Adverse Effect; or
- (d) the Borrower shall, or shall purport to, sell, assign, convey, pledge or otherwise encumber or dispose of any of the Receivables other than pursuant to, or as otherwise permitted by, the Transaction Documents; or
- (e) any Receivables Obligor issues (i) a notice of termination or suspension of any of the agreements or arrangements governing its Card Programme or any Obligor Notice and Consent, or (ii) a notice of breach by the Borrower or the Servicer under any of the agreements or arrangements governing its Card Programme or any Obligor Notice and Consent, and in the case of this clause (ii) such breach constitutes a Material Adverse Effect; or
- (f) any bankruptcy, insolvency or similar proceeding is commenced by or against any Receivables Obligor and, if such proceeding is an involuntary proceeding, is not dismissed within 35 days; or
- (g) the Borrower (i) ceases to be a principal member of MasterCard or VISA or takes any action to terminate or suspend the Borrower's membership in the MasterCard or VISA Card Programme or fails to renew its membership in the MasterCard or VISA Card Programme, or (ii) ceases to be a member of Maestro or takes any action to terminate the Maestro Card Programme or fails to renew its membership in the Maestro Card Programme, and in the case of this clause (ii) such action constitutes a Material Adverse Effect; or
- (h) UCS ceases to be a "Third Party Processor" or a "Member's Agent" for VISA or a "Member Service Provider" for MasterCard and Maestro; or
- (i) there are imposed upon the Borrower's rights or privileges as a principal member or licensee, as applicable, of any Card Programme any restriction that constitutes a Material Adverse Effect; or
- (j) there are imposed upon the rights or privileges of UCS as a "Third Party Processor" for VISA or a "Member Service Provider" for MasterCard and Maestro, as applicable, of any Card Programme any restriction that constitutes a Material Adverse Effect; or
- (k) the settlement currency under any Card Programme ceases to be US dollars (or Euros in the case of MasterCard if it is not changed to US dollars); or
- (l) any Receivables Obligor fails to make a single payment in excess of US\$100,000 in respect of the Receivables owing by it to the Borrower, as required under the Obligor Notices and Consents to which it is a party, and such failure continues unremedied for at least 5 days and such failure has a Material Adverse Effect; or
- (m) any Receivables Obligor, in contravention of the Obligor Notices and Consents to which it is a party, effects one or more "set-offs" (other than in respect of Incidental Charges) in the aggregate in excess of US\$100,000 against any payment in respect of the Receivables owing by it to the Issuer and such event continues unremedied for at least 5 days and the occurrence of this event has a Material Adverse Effect; or
- (n) any bankruptcy, insolvency or similar proceeding is commenced by or against UCS and, if such proceeding is an involuntary proceeding, is not dismissed within 35 days; or
- (o) any of the Transaction Documents ceases to be in full force and effect in accordance with Applicable Law and such situation is not remedied within 30 days; or
- (p) the Borrower's general banking licence is revoked or it otherwise ceases to be duly authorised under the laws of Russia as a bank permitted to carry on a general commercial banking business and, in particular but without limitation, a charge, credit and debit card voucher issuing or acquiring business under the Card Programmes, or the Central Bank

commences enforcement proceedings or commences the institution of financial rehabilitation (*finansovoye ozdorovleniye*), bankruptcy management (*konkursnoye proizvodstvo*), and/or the appointment of a bankruptcy manager (*konkursniy upravlyayushchiy*) or similar officer, or any similar procedure with respect to the Borrower; or

- (q) a judgment or judgments is or are rendered and entered into force (or otherwise become enforceable in accordance with applicable procedural legislation) for the payment of money against (i) the Borrower in excess of US\$10,000,000 (or the equivalent in any currency) in the aggregate or (ii) UCS in excess of US\$1,000,000 (or the equivalent in any currency) in the aggregate; and such judgment is not discharged or execution thereon is not stayed pending appeal within 30 days after the entry thereof, or, in the event of such a stay, such judgment is not discharged within 30 days after such stay expires and provided however that in each case that such judgment has a Material Adverse Effect; or
- (r) (i) the Borrower shall default (as principal or guarantor or other surety) in the payment of any principal or premium or interest on any indebtedness for borrowed money that is outstanding in a principal amount of at least US\$10,000,000 (or the equivalent in any currency) in the aggregate, or any other event or condition shall occur or exist in connection with any such indebtedness, the effect of which is to cause, or to permit the holders thereof to cause, such indebtedness to become due and payable before its stated maturity or its regularly scheduled dates of payment, or (ii) UCS shall default (as principal or guarantor or other surety) in the payment of any principal or premium or interest on any indebtedness for borrowed money that is outstanding in a principal amount of at least US\$1,000,000 (or the equivalent in any currency) in the aggregate, or any other event or condition shall occur or exist in connection with any such indebtedness, the effect of which is to cause, or to permit the holders thereof to cause, such indebtedness to become due and payable before its stated maturity or its regularly scheduled dates of payment provided however that in each case the occurrence of this event causes a Material Adverse Effect; or
- (s) the Borrower or UCS shall take any affirmative action as a member (or other participant) of any Card Programme to endorse a change to such Card Programme Documents or other documents related to its participation in the Card Programmes which would constitute a Material Adverse Effect; or
- (t) any authorisation, licence, consent, registration or approval required under or by the laws of Russia, England or Luxembourg to enable the Borrower or UCS to perform its obligations under any Transaction Document to which it is a party ceases to be in full force and effect and such situation shall have continued for a period of 30 days; or
- (u) any governmental interference by the Russian government shall occur in connection with, or any legislative, judicial or other action (including without limitation adverse judicial or administrative interpretations of the law) is taken in Russia, the United States, or Luxembourg which interferes with, the Transaction Documents or the conduct of the merchant voucher settlement business by the Borrower or UCS and such interference has a Material Adverse Effect; or
- (v) the commencement of, or the subsequent occurrence of an adverse development in, any litigation or administrative proceeding (including proceedings of any nature involving claims for payment of taxes) against the Borrower, UCS and its subcontractors or any Receivables Obligor which has a Material Adverse Effect; or
- (w) at any time the Borrower's capital adequacy ratio (i) as calculated in accordance with the regulations of the Central Bank on the basis of the most recent available accounts of the Borrower falls below the minimum legal requirements imposed by the Central Bank at such time or (ii) as calculated in accordance with the capital adequacy standards, accords or guidelines published by the Basle Committee on Banking Regulations and Supervision which ROSBANK is subject to in accordance with Russian banking regulations in force from time to time (as amended or supplemented from time to time) falls below 8% or such

other level as may be established by the Basle Committee on Banking Regulations and Supervision, and, in each case where such breach continues unremedied for a period exceeding 30 days; or

- (x) any change occurs in the ownership structure of the Borrower resulting in CJSC Interros Estate failing to own directly or indirectly over 50% of the voting shares of the Borrower in relation to which Rating Agency Confirmation is not received within 15 days of such change; or
- (y) any Governmental Authority condemns, seizes, makes a compulsory purchase of, or expropriates all or a substantial part of the assets or business of the Borrower or the Servicer and its subcontractors (including the Receivables); or
- (z) the occurrence of (i) a Servicer Default under the Servicing Agreement, or (ii) a Parent Default under the UCS Parent Undertaking or UCS Parent Pledge; or
- (aa) the occurrence of a Note Event of Default.

Early Amortisation Events

Under the Loan Agreement, if one or more of the Early Amortisation Events occurs, the Borrower (in addition to paying the Early Amortisation Amount as provided in Clause 5.1 (*Repayment of the 2004 Advance*) of the Loan Agreement) shall prepay each Advance on each Early Amortisation Payment Date by an amount equal to the prepayment made on the Related Notes on such Early Amortisation Payment Date in accordance with the Priority of Payments and each Collateral Sub-account Priority of Payments. Any amount of principal of any Class of Notes so prepaid on any Early Amortisation Payment Date shall constitute a prepayment of the same amount of principal of the Related Advance. Such prepayments shall be applied to reduce the remaining Amortisation Amounts in inverse order of maturity.

The following events shall constitute an “Early Amortisation Event” under the Loan Agreement:

- (i) as of any Calculation Date the Debt Service Coverage Test is not satisfied; or
- (ii) any of the representations and warranties of the Borrower in the Transaction Documents to which it is a party or in any report certificate, or notice furnished by the Borrower pursuant to the Transaction Documents, or any of the representations and warranties of the Issuer in the Transaction Documents to which it is a party, proves to have been false or incorrect on the date when made or deemed made; or
- (iii) any Receivables Obligor fails to make payments in the aggregate in excess of US\$100,000 in respect of the Receivables owing by it to the account specified in the Obligor Notices and Consents to which it is a party, and such failure continues unremedied for at least 5 days; or
- (iv) any Receivables Obligor, in contravention of the Obligor Notices and Consents to which it is a party, effects one or more “set-offs” (other than in respect of Incidental Charges) in the aggregate in excess of US\$100,000 against any payment in respect of the Receivables owing by it to the Issuer and such event continues unremedied for at least 5 days; or
- (v) a final judgment or judgments is or are rendered for the payment of money against (a) the Borrower in excess of US\$10,000,000 (or the equivalent in any currency) in the aggregate, (b) UCS in excess of US\$1,000,000 (or the equivalent in any currency) in the aggregate or (c) the Issuer in excess of US\$10,000 (or the equivalent in any currency) in the aggregate; and such judgment is not discharged or execution thereon is not stayed pending appeal within 30 days after the entry thereof, or, in the event of such a stay, such judgment is not discharged within 30 days after such stay expires; or
- (vi) (a) the Borrower shall default (as principal or guarantor or other surety) in the payment of any principal or premium or interest on any indebtedness for borrowed money that is outstanding in a principal amount of at least US\$10,000,000 (or the equivalent in any currency) in the aggregate, or any other event or condition shall occur or exist in connection with any such indebtedness, the effect of which is to cause, or to permit the holders thereof to cause, such indebtedness to become due and payable before its stated

maturity or its regularly scheduled dates of payment or the Issuer shall default in the payment of any principal or premium or interest on any indebtedness for borrowed money, or (b) UCS shall default (as principal or guarantor or other surety) in the payment of any principal or premium or interest on any indebtedness for borrowed money that is outstanding in a principal amount of at least US\$1,000,000 (or the equivalent in any currency) in the aggregate, or any other event or condition shall occur or exist in connection with any such indebtedness, the effect of which is to cause, or to permit the holders thereof to cause, such indebtedness to become due and payable before its stated maturity or its regularly scheduled dates of payment or the Issuer shall default in the payment of any principal or premium or interest on any indebtedness for borrowed money; or

- (vii) the occurrence of an Early Amortisation Event set forth in the conditions of any other Classes of Notes; or
- (viii) the occurrence of a Note Event of Default in respect of any Class of Notes; or
- (ix) the Borrower's long term foreign currency bank deposit rating is withdrawn or is downgraded to any rating below "B1" in respect of Moody's.

The Loan Agreement is governed by, and construed in accordance with, the laws of England.

Rosbank Security Agreement

ROSBANK has entered into an agreement (the "Rosbank Security Agreement"), dated 1 November 2004 with the Issuer, pursuant to which ROSBANK grants to the Issuer, to secure the payment and performance in full of all of the Rosbank Secured Obligations, a security interest in the Receivables, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof.

Servicing Agreement

The Issuer has entered into a Servicing Agreement (as amended from time to time, the "Servicing Agreement") dated 1 November 2004 with the Servicer pursuant to which the Servicer has agreed to administer the processing and servicing of the Receivables as an independent contractor whose servicing benefits the Issuer, and the Trustee on behalf of the Secured Creditors. The Servicer has the obligation to manage and administer each of the Receivables, exercise all discretionary powers involved in such management, bear all the costs incurred in connection therewith or that may be necessary or advisable and permitted therewith.

Certain Covenants of the Servicer

Set forth below are certain covenants of the Servicer which (among others) are contained in the Servicing Agreement:

- (a) The Servicer hereby agrees to conduct its business under the Card Programmes in a manner consistent with the Card Programme Documents and its past practice; *provided* that nothing shall prohibit the Servicer from, in the ordinary course of business, taking any action to manage its business under the Card Programmes in a prudent manner that is consistent with the long-term growth of such business if such action could not reasonably be expected to have a material adverse effect on the amount or collectibility of the Receivables.
- (b) The Servicer further agrees to provide the services called for under the Card Programmes in a timely manner in accordance with the Card Programme Documents and other agreements related to the Card Programmes to which it is a party and Applicable Law and to use a reasonable degree of skill and attention no less than that which other institutional servicers acting prudently and in accordance with customary and usual servicing procedures use, including approval authorisations, billings, follow-up on Collections of the Receivables, processing of payment vouchers under the Card Programmes and as required

by the Card Programme Documents and negotiation of claims and disputes with the applicable Receivables Obligor or any Issuing Bank or any merchant, all as more fully set forth thereunder.

- (c) The Servicer hereby agrees to continue to service MasterCard, VISA and Maestro Paper generated in Russia by monitoring payment to merchants or other Persons in Russia in respect of VISA, MasterCard and Maestro payment vouchers generated by holders of VISA, MasterCard and Maestro credit, charge and debit cards issued by Issuing Banks in a manner consistent with its practices on the date hereof and the Card Programme Documents.
- (d) The Servicer agrees to use its best efforts to continue to cause Receivables to be created in a manner and to a degree at least equivalent to those efforts currently made by the Servicer.
- (e) The Servicer shall not make any change in the character of its credit, charge and debit card business, servicing and processing business, accounting records or policies and practices that could reasonably be expected to have a material adverse effect on the amount or collectibility of the Receivables.
- (f) The Servicer shall continue to use ROSBANK as its exclusive settlement bank with respect to the Receivables Obligors and will not cause a breach of section 3.3(a) of the Parent Undertaking. Notwithstanding the foregoing, the Servicer may take the actions contemplated in Clause 3.3(b) of the UCS Parent Undertaking, provided always that the conditions set forth in Clause 3.3(b) are complied with.
- (g) The Servicer shall maintain all licences, approvals and qualifications required under Applicable Law in order to perform its obligations under the Servicing Agreement and the Card Programme Documents and any other agreements related to participants in the Card Programmes.
- (h) The Servicer shall promptly respond to all reasonable requests of the Trustee in connection with the Servicer's duties under the Servicing Agreement and provide such information as is available to provide, which may be required by the Trustee to permit the Trustee to perform its obligations under any Transaction Document.
- (i) The Servicer shall not terminate or amend any agreements related to its participation in the Card Programmes if this could reasonably be expected to have a material adverse effect.
- (j) The Servicer shall not create, assume or otherwise incur indebtedness (including in respect of financial leases) that is either (a) in excess of the amount necessary in accordance with the Servicer's past practice prior to the 2004 Closing Date to maintain reasonable liquidity levels and provide required letter of credit or guarantee commitments to the Receivables Obligors, or (b) in excess of US\$10,000,000 in the aggregate at any time.
- (k) The Servicer shall not issue any shares of stock or any other securities other than those owned by the UCS Parent that are subject to the security created by the UCS Parent Pledge.
- (l) The Servicer shall not (i) make or declare any dividend or other distribution to shareholders other than in the ordinary course of business and consistent with prudent capital retention and reinvestment practices, and (ii) make available any credit or other financial support to any affiliated or group company other than credit and support in an aggregate outstanding (cash and non-cash) amount at any time not in excess of U.S. \$10,000,000 provided that such outstandings are consistent with prudent liquidity management practices by the Servicer and are made available in furtherance of the Servicer's funds processing business.
- (m) The Servicer (i) will preserve and maintain all of its rights, franchises and privileges in the jurisdictions of its incorporation and operations necessary for the performance of its obligations under the Servicing Agreement (except, in each case, to the extent that any failure to have such rights, franchises and privileges could not reasonably be expected to have a Material Adverse Effect) and (ii) will not consolidate with or merge into any other

entity or convey, transfer or lease all or substantially all of its assets as an entirety, whether in a single transaction or a series of related transactions, to any other person except if certain conditions more fully set out in the Servicing Agreement are satisfied.

- (n) The Servicer and ROSBANK will deliver, and will procure that ROSBANK delivers, promptly to the Trustee and the Rating Agencies (i) copies of all notices received from the Receivables Obligor with respect to the Receivables or ROSBANK's membership under the Card Programmes, except correspondence received in the ordinary course of business that does not relate to matters that might adversely affect the Servicer's or ROSBANK's ability to perform its obligations with respect to the Receivables and (ii) a copy of any amendment, modification or waiver (A) of any agreement or other arrangement governing the Card Programmes entered into or agreed to by ROSBANK (other than amendments effecting changes of a routine or administrative nature not adverse to the Trustee, Servicer, Noteholders or the Issuer with respect to their respective interests in the Receivables) or (B) of any agreement or other arrangement, known to the Servicer or ROSBANK governing any Card Programme entered into or agreed to by the respective Receivables Obligor, which adversely affects any agreement or other arrangement governing the settlement process or the servicing arrangements provided under such Card Programme, together with an officer's certificate certifying that such amendment, modification or waiver will not violate the provisions of the Servicing Agreement.
- (o) The Servicer will not take any action that causes or would be reasonably likely to cause the average monthly amount of Receivables to be generated to fall materially below the average monthly amount of Receivables for the immediately preceding twelve Calculation Periods for as long as any Notes shall remain Outstanding.
- (p) The Servicer shall comply at all times with all Applicable Laws relating to anti-money laundering activities. The Servicer shall maintain internal anti-money laundering policies and procedures, to a level equivalent to the policies and procedures maintained by the Servicer as of the 2004 Closing Date to effect the Servicer's compliance with such Applicable Laws and in accordance and compliance with any anti-money laundering guidelines published by any Governmental Authority. As a member of the Card Programmes, the Servicer further agrees to comply with any rules, procedures, policies, requests for information, or other requirements of any Receivables Obligor affecting ROSBANK and arising from any anti-money laundering regulations.

Servicer Defaults

The occurrence and continuation of any of the following events shall constitute a "Servicer Default" under the Servicing Agreement:

- (a) the Servicer shall fail to deliver any material report or material certificate it is required to provide under the Servicing Agreement to the parties specified for delivery of such report or certificate within five Business Days of the due date thereof provided that the failure to deliver any such report directly to a Noteholder following its written request will not constitute a Servicer Default;
- (b) any representation, warranty or certification made by the Servicer under or pursuant to the Servicing Agreement or in any certificate or document delivered pursuant to the Servicing Agreement shall prove to have been untrue or incorrect in any respect when made or deemed made;
- (c) except for payment, monetary transfer or deposit and certain other specified obligations, the Servicer shall fail to perform or observe any agreement or covenant in the Servicing Agreement, which failure (i) is material and (ii) shall continue for at least 15 days following the earlier of (A) an Authorised Officer of the Servicer obtaining actual knowledge of such failure and (B) the delivery to the Servicer of written notice of such failure by the Issuer or the Trustee;
- (d) the Servicer shall delegate, transfer or subcontract any of its duties under the Servicing Agreement other than in compliance with the terms of the Servicing Agreement;

- (e) the Servicer shall have failed to make any payment, monetary transfer or deposit required to be made by it under the Servicing Agreement and such failure shall have continued unremedied for at least five Business Days after the Servicer obtains actual knowledge of the date such payment, monetary transfer or deposit is required to be made; or
- (f) a Bankruptcy Event shall occur with respect to the Servicer.

Notwithstanding the foregoing, an event referred to in clause (a) existing for a period of ten Business Days after the applicable grace period, in clause (c) for a period of 15 days after the applicable grace period or in clause (d) for a period of five Business Days after the applicable grace period, will not constitute a Servicer Default if such delay or failure could not have been prevented by the exercise of reasonable diligence by the Servicer and such delay or failure was caused by an act of God, riot, act of war, terrorism, epidemic, flood, weather, landslide, fire, earthquake or other similar causes. The preceding sentence does not, however, relieve the Servicer from using its best efforts to perform its obligations in a timely manner in accordance with the Transaction Documents.

Servicer Indemnity

Under the Servicing Agreement, the Servicer shall indemnify the Issuer and the Trustee (and each of their respective Affiliates, directors, officers, employees, agents and other representatives) against, and hold each of the foregoing harmless on an after tax basis from, any and all documented Liabilities, obligations, losses, damages, payments, costs or expenses of any kind whatsoever (including the fees and expenses of counsel, any judgement, award, settlement and any other costs and expenses, provided that they are accompanied by appropriate documentation incurred in connection with the defence of any action or threatened action, proceeding or claim) that may be imposed on, incurred by or asserted against any such Person as the result of: (a) any act or omission of the Servicer in any way relating to either the maintenance by the Servicer of the Receivables Files or the performance by the Servicer of its obligations under the Card Programmes and under the Servicing Agreement, (b) any representation or warranty made by the Servicer in the Servicing Agreement or in any writing furnished in connection with or pursuant thereto proving to have been false in any respect on the date as of which made or (c) any failure of the Servicer to perform or observe any other agreement contained in the Servicing Agreement.

The Servicing Agreement is governed by, and construed in accordance with, the laws of England and Wales.

UCS Parent Undertaking

KM Invest (the “UCS Parent”), the owner of 100% of the issued and outstanding capital stock of the Servicer, has entered into an undertaking (as amended from time to time, the “Original UCS Parent Undertaking”) dated 1 November 2004, as supplemented by a supplemental agreement to the Original UCS Parent Undertaking, dated on or about 4 February 2005 (the “Supplemental Agreement to the UCS Parent Undertaking”, and together with the Original UCS Parent Undertaking, the “UCS Parent Undertaking”), in favour of the Trustee for the benefit of the Secured Creditors as to certain activities of itself and the Servicer, to support the obligations of the Servicer to the Issuer and the Trustee under the Servicing Agreement and ensure that the Servicer’s merchant voucher acquiring business continues to be committed to the generation of Receivables that will form part of the Note Collateral.

In the UCS Parent Undertaking, the UCS Parent agrees not to merge or consolidate without meeting certain conditions designed to ensure that any successor company remains fully obligated in respect of the UCS Parent Undertaking and the UCS Parent Pledge. The UCS Parent also covenants to ensure that the Servicer shall use ROSBANK as its exclusive settlement bank with respect to the Receivables Obligors, and to ensure that the Servicer shall not act for other members of one of the Receivables Obligors Card Programmes nor otherwise conduct its business in a manner that would result in receivables due from any Receivables Obligor pursuant to the Card Programmes being generated by and payable to any Person other than ROSBANK. However, while a Bankruptcy Event of ROSBANK is pending, it would not be a breach of the UCS Parent Undertaking if the Servicer does use another bank (a “new settlement bank”) as its exclusive or non-exclusive settlement bank, provided that in consideration of (and prior to) the new settlement bank becoming a settlement bank

of the Servicer, such new settlement bank directs all resulting payments due to it from the Receivables Obligors to the Collateral Accounts for application (consistent with the application of Receivables) in accordance with the Trust Deed, and enters into any relevant agreements to effect the foregoing.

In addition, the UCS Parent agrees not to transfer any of the UCS Pledged Shares, except for a transfer of all but not part of the UCS Pledged Shares to a newly-incorporated Russian company that is wholly-owned by KM Invest (“NewCo”). There are various conditions to the transfer to NewCo, principally to ensure that NewCo will be bound by agreements in the same manner as the UCS Parent is under the UCS Parent Undertaking and the UCS Parent Pledge at the time NewCo becomes the owner of the UCS Pledged Shares.

Following the transfer to NewCo, the UCS Parent may transfer its shares in NewCo only to the following types of shareholders (“Eligible Shareholders”): (i) employees of UCS or ROSBANK or a company owned solely by such employees and formed and operated solely for the purpose of holding such shares in NewCo, (ii) any third party shareholders up to an aggregate maximum for such third-party shareholders of 20% of the shares in NewCo, (iii) ROSBANK, (iv) an entity owning 20% or more of the shares in ROSBANK, and (v) any entity that is an affiliate of the UCS Parent at the time of the transfer by the UCS Parent of NewCo shares to such entity.

Transfers of shares in NewCo by the UCS Parent are required to be made pursuant to agreements in which the Eligible Shareholders agree in turn to transfer such shares only to other Eligible Shareholders and to comply with the transfer procedures described with respect to the UCS Parent in the next sentence. Concurrently with each transfer by the UCS Parent of shares in NewCo to an Eligible Shareholder, the UCS Parent shall provide (i) notice thereof to the Trustee, (ii) a written certification that such new owner of NewCo shares is an Eligible Shareholder, (iii) supporting documents to evidence that such shareholder is an Eligible Shareholder, and (iv) an updated copy of the share register.

In the event of a breach of the UCS Parent Undertaking by the UCS Parent or other events including a Bankruptcy Event of ROSBANK, the Servicer or the UCS Parent (“Parent Defaults”), remedies are available to the Trustee in respect of the UCS Parent Undertaking. Provided that following a Parent Default, a Loan Event of Default is also declared, ROSBANK is obliged to pay the Termination Amount under the Loan Agreement. In the event a portion of such Termination Amount remains unpaid by ROSBANK, the UCS Parent would then be able to transfer all of the UCS Pledged Shares to the Trustee in order to avoid itself becoming liable to the Trustee for such unpaid portion of the Termination Amount. Under this voluntary transfer remedy, the Trustee may then pursuant to the Trust Deed take the necessary steps to sell the UCS Pledged Shares (under applicable law). Upon such a sale, the Trustee will apply the sale proceeds to the unpaid Termination Amount. The Trustee is not required to proceed with such sale unless the Trustee is indemnified or secured to its satisfaction. No assurance is given as to the monetary value that may be realized from this process. If the proceeds of the sale of the UCS Pledged Shares are not sufficient to pay the unpaid Termination Amount in full, there is no further recourse to the UCS Parent nor to any other assets of the UCS Parent. However, if the UCS Parent does not make this voluntary transfer of the UCS Pledged Shares to the Trustee and does not pay the unpaid Termination Amount, the Trustee may exercise its remedies under the UCS Parent Pledge.

Enforcement under the UCS Parent Pledge involves levy and execution in Russia and potentially through Russian courts, leading to a sale at a public auction of the UCS Pledged Shares, with the proceeds to be applied to the unpaid Termination Amount. The Trustee is not required to enforce the UCS Parent Pledge unless the Trustee is indemnified or secured to its satisfaction. Enforcement under Russian law is subject to numerous contingencies, and the timing of receipt or value of any public sale proceeds cannot be estimated. If the proceeds of the sale of the UCS Pledged Shares upon this enforcement are not sufficient to pay the unpaid Termination Amount in full, there is no further recourse to the UCS Parent nor to any other assets of the UCS Parent. See “Certain Legal Aspects of the Transaction.”

The UCS Parent Undertaking is governed by, and construed in accordance with, the laws of England.

UCS Parent Pledge

In connection with the UCS Parent Undertaking, the UCS Parent has pledged 100% of its equity interests in the Servicer (the “Pledged Shares”) in favour of the Trustee, and granted a security interest in the Pledged Shares for the benefit of the Secured Creditors pursuant to a pledge agreement dated 1 November 2004 (as amended from time to time, the “Original UCS Parent Pledge”) as supplemented by a supplemental agreement to the Original UCS Parent Pledge, dated on or about 4 February 2005 (the “Supplemental Agreement to the UCS Parent Pledge”, and together with the Original UCS Parent Pledge, the “UCS Parent Pledge”).

The pledge created under and in accordance with the UCS Parent Pledge secures the fulfilment of the obligations of the UCS Parent to pay the Termination Amount that has not been paid by ROSBANK in accordance with terms and conditions of the UCS Parent Undertaking.

Application of Proceeds

Any amount received by the Trustee as a result of any levy of execution under the UCS Parent Pledge in a currency other than Dollars may be converted by the Trustee to Dollars at the relevant official exchange rate established by the Central Bank of the Russian Federation or the market exchange rate available to the Trustee. All proceeds received by the Trustee in respect of the Pledged Shares as a result of any levy of execution under the UCS Parent Pledge shall be applied to discharge the unpaid Termination Amount in accordance with the Trust Deed. Any surplus remaining after the application of such moneys in accordance with the UCS Parent Pledge in the unconditional and irrevocable discharge in full of all such obligations of the UCS Parent to the satisfaction of the Trustee shall be paid to the UCS Parent, to the bank account specified by the UCS Parent in writing to the Trustee.

The UCS Parent Pledge is stated to be governed by, and construed in accordance with, the laws of Russia.

Obligor Notices and Consents

Pursuant to the Obligor Notices and Consents, the Borrower and the Issuer have notified the Receivables Obligor of the grant of a security interest by ROSBANK in the Receivables in favour of the Issuer, and secondly of the grant of security and assignment (by way of security) by the Issuer of its interest in the Receivables to the Trustee for the benefit of the Secured Creditors. Furthermore, the Receivables Obligor has acknowledged the grants being made of security by each of ROSBANK and the Issuer and agree to pay the Receivables directly to the USD Collateral Account and indirectly (via the HSBC Account) to the Euro Collateral Account until a date that is after the 2004 Repayment Date. The Receivables Obligor agrees to make such payments on the Receivables without set-off other than in respect of incidental charges, which represent chargebacks and other processing fees and errors and are more fully defined in the Obligor Notices and Consents. Deductions from the Receivables in respect of such incidental charges may also be made against the Collateral Accounts up to the Reserve Fund Amount on a daily basis. The Obligor Notices and Consents do not override the rights of the Receivables Obligor to take action under the documents governing the Card Programmes, which can include termination of the membership and other rights of ROSBANK and UCS in certain circumstances. In particular, the Receivables Obligor has the right to take remedial action in the event that ROSBANK, UCS, the Issuer, or the Trustee were engaged in money-laundering activities or were ineligible to receive payments from the Receivables Obligor under US law. In such events, cure periods and replacement rights are provided in order to mitigate the effects of such events. However, in the event of material breaches of the card programme documents or the Obligor Notices and Consents, the Receivables Obligor could exercise their rights to suspend or terminate ROSBANK’s or UCS’s participation in the relevant card programme, which would lead to no further Receivables being generated and a Loan Event of Default. In addition, the Receivables Obligor retains the right to terminate ROSBANK’s or UCS’s participation in the relevant card programmes in the event of their bankruptcy.

Certain Defined Terms

Unless otherwise defined in this Offering Circular, the following terms shall have the meanings indicated below:

“2004 Drawdown Date” means 3 November 2004.

“2004 Repayment Date” means the Payment Date occurring in September 2009.

“2005 Drawdown Date” means the date on which the Further Class 2004 Notes are issued as may be specified in the Conditions of such Notes.

“Affiliate” means, with respect to any specified Person, any other Person controlling or controlled by or under common control with such specified Person. For the purposes of this definition, “control” when used with respect to any specified Person means the right or power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Amended and Restated Master Definitions Schedule” means the Master Definitions Schedule as amended and restated on or about the Closing Date and signed for the purposes of identification by, *inter alios*, the Issuer, the Trustee, the Servicer, the Account Bank, ROSBANK, and the Agents.

“Applicable Law” means, as to any Person, the certificate of incorporation, by-laws, memorandum of association, articles of association or other organisational or governing documents of such Person and any law, treaty, rule, regulation, executive order or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“Bankruptcy Event” means, with respect to any person, that (i) such person shall commence a voluntary case, proceeding or other action (A) under any applicable law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganisation, suspension of payments or relief of debtors seeking to have an order for relief entered with respect to it or seeking to adjudicate it bankrupt or insolvent or seeking reorganisation, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, liquidator, custodian, conservator or other similar official of it or for any substantial part of its property, (ii) an involuntary case, proceeding or other action of a nature referred in clause (i) shall be commenced against such person that (A) shall result in the entry of an order for relief or any such adjudication or appointment or (B) shall remain undismissed, undischarged, unstayed or unbonded for a period of at least 30 days, (iii) an involuntary case, proceeding or other action shall be commenced against any such person that seeks issuance of a warrant of attachment, execution, restraint or similar process against any substantial part of such person’s assets that shall result in the entry of an order for any such relief and shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof, (iv) there is commenced against such person any intervention proceedings under any applicable bank regulatory or other applicable insolvency laws or rules of Russia, the United States, England and Wales or Luxembourg (in each case, including any political subdivision thereof), (v) any such person shall admit in writing its inability to pay its debts as they become due, or (vi) any such person shall make a general assignment for the benefit of its creditors.

“Card Programme Documents” means the documents governing the Card Programmes.

“CJSC Interros Estate” means CJSC Interros Estate, a company organised under Russian law.

“Issuance Date” means, with respect to any Class of Notes, the date on which such Notes are issued as may be specified in the Conditions of such Class of Notes.

“Issuing Bank” means any bank or other entity located outside of Russia issuing MasterCard credit or debit cards, VISA credit or debit cards or Maestro debit cards.

“Liability” means any loss, damage, cost charge, claim, demand, expense, judgment, action, proceedings or other liability whatsoever (including without limitation, in respect of taxes, duties, levies, imposts and other charges) and including any value added tax or similar tax charged or chargeable in respect thereof and fees and expenses of any legal advisers or accounting or investment banking firms employed by the Trustee pursuant to the Trust Deed on a full indemnity basis and “Liabilities” shall be constructed accordingly.

“Lien” means, as applied to property or assets, real or personal, tangible or intangible, any pledge, mortgage, lien, charge, security interest or encumbrance of any kind thereon (including any

conditional sale or other title retention agreement, any lease in the nature thereof or the interest of the lessor under any capitalised lease).

“Loan Collateral” means collectively (i) the “Collateral” as defined in Section 2 (*Grant of Security Interest*) of the Rosbank Security Agreement, (ii) the security granted to the Issuer under the Bank Account Assignment, and (iii) any other security that is or may be granted by Rosbank securing the Rosbank Secured Obligations.

“Monthly Compliance Report” means the monthly compliance report that ROSBANK is required to submit pursuant to the Loan Agreement.

“Notice Parties” means the Trustee and each Rating Agency and any Person designated as an “Additional Notice Party” pursuant to any supplemental trust deed.

“Officers’ Certificate” means in the case of the Issuer, the Servicer or ROSBANK, a certificate signed by two Authorised Officers of such entity and in the case of the Trustee or any of the Agents, a certificate signed by two Responsible Officers of such entity.

“Parent Default” has the meaning ascribed thereto in the UCS Parent Undertaking.

“Priority of Payments” has, in relation to the Class 2004 Notes, the meaning set out in Condition 6(a)(i) (*Priority of Payments*) and, in relation to any Further Notes, the equivalent provision in the applicable Conditions.

“Receivables Files” means the documents, dates and records referred to in the Servicing Agreement.

“ROSBANK Secured Obligations” means all obligations of ROSBANK in respect of the Loan Agreement and the other Transaction Documents to which ROSBANK is a party.

“ROSBANK/UCS Agreement” means the agreement dated 1 October 1998 between ROSBANK and UCS, as amended, varied or supplemented from time to time.

“Same-Day Funds” means US Dollar funds settled through the New York Clearing House Interbank Payment System or such other funds for payment in US dollars as the Issuer may at any time determine to be customary for the settlement of international transactions in New York City of the type contemplated hereby.

“Taxes” means deduction or withholding for any current or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by (or on behalf of) any relevant taxing authority.

TERMS AND CONDITIONS OF THE FURTHER CLASS 2004 NOTES

The following is the text of the terms and conditions of the Further Class 2004 Notes and will be incorporated by reference into a Global Note Certificate representing the Further Class 2004 Notes and into the Further Class 2004 Notes in definitive form (if any) issued in exchange for the Global Note Certificate.

The issue of US\$75 million Further Class 2004 9.75 per cent. Fixed Rate Notes (the “Further Class 2004 Notes”) of Russia International Card Finance S.A. (the “Issuer”) was authorised by a resolution of the board of directors of the Issuer passed on 3 February 2005 and is constituted and secured by a trust deed dated 1 November 2004 (the “Original Trust Deed”) as supplemented by a first supplemental trust deed expected to be dated on or about 4 February 2005 (the “Supplemental Trust Deed” and, together with the Original Trust Deed, as amended from time to time, the “Trust Deed”) between, *inter alios*, the Issuer and The Bank of New York, London Branch as the trustee of the Further Class 2004 Notes (the “Trustee”, which expression shall include all persons for the time being the trustee or trustees in respect of the Further Class 2004 Notes under the Trust Deed). On the Payment Date (as defined below) falling in March 2005, the Further Class 2004 Notes will be consolidated and form a single series with the US\$225 million Class 2004 Notes issued on 3 November 2004 (the “Original Class 2004 Notes” and, together with the Further Class 2004 Notes, the “Class 2004 Notes”). The Class 2004 Notes and each issuance of Further Notes are each separately referred to herein as a “Class” of Notes.

Condition 19 (*Further Issues*) contemplates the issue, subject to certain conditions, of further notes (the “Further Notes”) by the Issuer without the consent of the Noteholders (as defined below). The Further Notes shall be constituted by a deed supplemental to the Trust Deed and shall, along with the Class 2004 Notes, be secured by the security over the Note Collateral created by the Issuer pursuant to the Issuer Security Documents. Any Further Notes, together with the Class 2004 Notes, shall be referred to herein as the “Notes”.

These Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement (as defined below). The Noteholders are entitled to the benefit of, bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions of the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof One Canada Square, London E14 5AL, England and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below. The following agreements have been entered into in relation to the Notes (such agreements are governed by English law unless otherwise stated).

Agency Agreement

The Issuer has entered into an Agency Agreement dated 1 November 2004 (the “Original Agency Agreement”) as supplemented by a supplemental agency agreement dated on or about 4 February 2005 (the “Supplemental Agency Agreement”, and together with the Original Agency Agreement, as amended from time to time, the “Agency Agreement”) with, *inter alios*, ROSBANK, The Bank of New York, London Branch in its capacity as the calculation agent (the “Calculation Agent”, which expression shall include any successor to The Bank of New York, London Branch in its capacity as such) and as the principal paying agent (the “Principal Paying Agent”, which expression shall include any successor to The Bank of New York, London Branch in its capacity as such), The Bank of New York (Luxembourg) S.A. as the Luxembourg paying agent (the “Luxembourg Paying Agent”, which expression shall include any successor to The Bank of New York (Luxembourg) S.A. in its capacity as such and together with the Principal Paying Agent, the “Paying Agents”), The Bank of New York, New York as the registrar (the “Registrar”, which expression shall include any successor to The Bank of New York, New York in its capacity as such) and as the transfer agent (the “Transfer Agent”, which expression shall include any successor to The Bank of New York, New York in its capacity as such) The Bank of New York, London Branch in its capacity as account bank (the “Account Bank”, which expression shall include any successor to The Bank of New York, London Branch in its capacity as such), and the Trustee. The Paying

Agents, the Registrar, the Transfer Agent and the Calculation Agent are collectively referred to as the “Agents”.

Loan Agreement

The Issuer has entered into a Loan Agreement dated 1 November 2004 (the “Original Loan Agreement”) as supplemented by a first supplemental loan agreement dated on or about 4 February 2005 (the “Supplemental Loan Agreement” and, together with the Original Loan Agreement, as amended from time to time, the “Loan Agreement”) with ROSBANK (OJSC JSCB) (in its capacity as borrower, the “Borrower” or “ROSBANK”) pursuant to which the Issuer has lent and ROSBANK has borrowed the 2005 Advance in a principal amount equal to the initial principal amount of the Further Class 2004 Notes. On 3 November 2004, the Issuer lent and ROSBANK borrowed the 2004 Advance in a principal amount equal to the initial principal amount of the Original Class 2004 Notes. Unless the context otherwise requires, the 2004 Advance and the 2005 Advance are referred to in these Conditions as the “Advance”. Pursuant to the Loan Agreement, ROSBANK may borrow Further Advances, each in a principal amount equal to the initial principal amount of the related Class of Further Notes.

Servicing Agreement

The Issuer has entered into a Servicing Agreement (as amended from time to time, the “Servicing Agreement”) dated 1 November 2004 with United Card Service Private Company, (in its capacity as servicer, “UCS” or the “Servicer”) pursuant to which the Servicer has agreed to administer and service the processing of Receivables.

UCS Parent Undertaking

KM Invest has entered into an undertaking (as amended from time to time, the “Original UCS Parent Undertaking”) dated 1 November 2004, as supplemented by a supplemental agreement to the Original UCS Parent Undertaking, dated on or about 4 February 2005 (the “Supplemental Agreement to the UCS Parent Undertaking”, and together with the Original UCS Parent Undertaking, the “UCS Parent Undertaking”), in favour of the Trustee for the benefit of the Secured Creditors as to certain activities of itself and the Servicer.

UCS Parent Pledge

In connection with the UCS Parent Undertaking, KM Invest has pledged 100 per cent. of its equity interests in the Servicer in favour of the Trustee for the benefit of the Secured Creditors pursuant to a pledge agreement dated 1 November 2004 (as amended from time to time, the “Original UCS Parent Pledge”) as supplemented by a supplemental agreement to the Original UCS Parent Pledge, dated on or about 4 February 2005 (the “Supplemental Agreement to the UCS Parent Pledge”, and together with the Original UCS Parent Pledge, the “UCS Parent Pledge”). The UCS Parent Pledge is governed by, and construed in accordance with, the laws of Russia.

Interpretation

Certain statements in these terms and conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents, copies of which are available for inspection at the specified offices of the Agents. Noteholders are entitled to the benefit of, and are deemed to have notice of, all the provisions contained in the Transaction Documents. References herein to the “Conditions” shall be to these terms and conditions, or where the context allows, the terms and conditions of any Further Notes.

1. Form, Denomination, Title and Transfer

(a) Form and Denomination

The Class 2004 Notes are in registered form, without interest coupons attached, in the denomination of US\$100,000 and integral multiples of US\$1,000 in excess thereof (each, an “Authorised Holding”). The Class 2004 Notes will be represented by a Global Note Certificate (as defined below), without coupons attached. Class 2004 Notes will only be exchanged into individual

note certificates (“Individual Note Certificates”) in the limited circumstances described in the Global Note Certificate. The Further Class 2004 Notes are issued with an initial principal amount of US\$75 million (together with the principal amount of the Original Class 2004 Notes and each Class of Further Notes as specified in the applicable Conditions, each, a “Principal Amount”).

(b) Title

The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Global Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Global Note Certificate) and no person shall be liable for so treating such Holder.

(c) Register

The Registrar will maintain a register (the “Register”) in respect of the Class 2004 Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “Holder” of a Note means the Person (as defined below) 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 “Global Note Certificate”) will be issued to each Noteholder in respect of its registered holding. Each Global Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(d) Transfers

- (i) Subject to Conditions 1(d)(iv) and 1(d)(v), a Class 2004 Note may be transferred upon surrender of the relevant Global Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however*, that a Class 2004 Note may not be transferred unless the principal amount of Class 2004 Notes transferred and (where not all of the Class 2004 Notes held by a holder are being transferred) the principal amount of the balance of Class 2004 Notes not transferred are Authorised Holdings.
- (ii) Within five business days of the surrender of a Global Note Certificate in accordance with Condition 1(d)(i), the Registrar will register the transfer in question and deliver a new Global Note Certificate of a like principal amount to the Class 2004 Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 1(d)(ii), “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 (as the case may be) the relevant Transfer Agent has its Specified Office.
- (iii) The transfer of a Class 2004 Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such 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.
- (iv) 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 Class 2004 Notes.
- (v) All transfers of Class 2004 Notes and entries on the Register are subject to the detailed regulations concerning the transfer of the Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

2. Status and Controlling Class

(a) Status

The Class 2004 Notes are (and any Further Notes issued pursuant to Condition 19 (*Further Issues*) will be) secured, limited recourse obligations of the Issuer, secured in the manner described in Condition 4 (*Security*) and recourse in respect of which is limited in the manner described in Condition 12 (*Limited Recourse, Non-Petition and Enforcement*). The Class 2004 Notes will rank *pari passu* and rateably amongst themselves. Further Notes may either be *Pari Passu* Notes or Subordinated Notes.

(b) Controlling Class

The Controlling Class may (where specified in the Conditions and the Trust Deed) request the Trustee to take the actions contemplated in the Conditions and the Trust Deed by means of a written request to the Trustee.

The Security will become enforceable upon the Trustee giving an Enforcement Notice (as defined in Condition 11 (*Note Events of Default*)) to the Issuer, the Agents and, so long as any of the Outstanding Notes are rated, the Rating Agencies, subsequent to the occurrence of a Note Event of Default or as otherwise provided in the Trust Deed. The Trustee shall not be bound to give any Enforcement Notice, to take any steps or institute any proceedings to enforce the Note Collateral or to enforce payment of any amount due and payable under or pursuant to the Notes of any Class unless it shall have been so requested by the Controlling Class and has been secured and/or indemnified to its satisfaction.

The Trustee will only be obliged to, where the interests of the Controlling Class conflict with those of the other Secured Creditors (including, without limitation, any other Class of Noteholders), consider the interests of such Controlling Class over the interests of the other Secured Creditors and shall not be obliged to take into account the interests of such other Secured Creditors or Class of Noteholders, as the case may be.

3. Covenants and Restrictions on the Issuer

(a) Covenants of the Issuer

As more fully described in the Trust Deed, for so long as any of the Notes are Outstanding, the Issuer covenants to the holders of such Outstanding Notes that it will, *inter alia*:

- (i) take such steps as are reasonable to enforce all its rights under the Note Collateral and the Transaction Documents;
- (ii) comply with its obligations under the Transaction Documents, which are expressed to be binding on it and its constitutional documents;
- (iii) keep proper books of account, including financial reports;
- (iv) at all times maintain its centre of main interests (within the meaning of Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings) in Luxembourg and its residence for the purposes of taxation outside the United Kingdom and the United States, and will not establish a permanent establishment or place of business or register as a company in the United Kingdom;
- (v) pay its debts generally as they fall due;
- (vi) do all such things as are necessary to maintain its corporate existence;
- (vii) use its best endeavours to obtain and maintain a listing of the Class 2004 Notes on the Luxembourg Stock Exchange to the extent applicable. If however, it is unable to do so, having used such endeavours, or if the maintenance of such listing is agreed by the Trustee to be unduly onerous and the Trustee is satisfied that the interests of the holders of the Class 2004 Notes would not thereby be materially prejudiced, the Issuer will instead use all reasonable endeavours promptly to obtain and thereafter to maintain a listing for such Class 2004 Notes on such other stock exchange(s) located in the European Economic Area as it may (with the approval of the Trustee) decide or failing such decision as the Trustee may determine; and

(viii) supply such information to the Rating Agencies and the Trustee as each may require.

(b) Restrictions on the Issuer

In addition, so long as any of the Notes remain outstanding, the Issuer will not, save to the extent permitted or contemplated herein or by the Transaction Documents without the prior written consent of the Trustee:

- (i) engage in any business (other than acquiring and holding the Note Collateral, issuing the Notes, entering into the Loan Agreement and the other Transaction Documents, making the 2004 Advance and the Further Advances, acquiring and holding other assets which impose no obligations on the Issuer and are capable of being effectively charged in favour of the Trustee or held on trust by the Issuer in favour of the Trustee, issuing Further Notes pursuant to Condition 19 (*Further Issues*), performing its obligations and exercising its rights thereunder and under the other agreements entered into by it in connection with the issue of the Notes and the Transaction Documents and any Further Notes and such further matters reasonably incidental thereto, as required or contemplated under the Transaction Documents or its organisational documents);
- (ii) have any employees or premises;
- (iii) declare or pay any dividend or make any distribution in respect of its share capital or issue any additional shares;
- (iv) incur or permit to subsist any other Indebtedness for borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness other than issuing Further Notes, and provided that the Trustee is satisfied that such Further Notes are:
 - (A) issued on terms prescribed in Condition 19 (*Further Issues*); and
 - (B) secured on the assets for the existing Class of such Notes on a *pari passu* or subordinated basis, as applicable;
- (v) sell or otherwise dispose of the Eligible Investments or any interest therein or agree or purport to do so;
- (vi) create or permit to exist upon or affect any of the Eligible Investments any security interest whatsoever other than as contemplated by the Security Documents and other than liens routinely imposed by clearing or settlement systems;
- (vii) take any corporate action or agree to take any steps for its liquidation, dissolution or administration;
- (viii) amend its organisational structure without prior written notification to the Rating Agencies;
- (ix) permit the validity or effectiveness of the Trust Deed, any guarantee arrangements executed in relation to the issue of Notes or the priority of the security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of such security to be released from such obligations;
- (x) create, acquire or have any subsidiaries;
- (xi) amend its constitutional documents;
- (xii) agree to any amendment to any provision of or grant any waiver or consent under any Transaction Document other than as specifically contemplated by the Transaction Documents;
- (xiii) make any investment other than as specifically contemplated by the Transaction Documents;
- (xiv) consolidate or merge with or into any other person (except pursuant to the Transaction Documents);
- (xv) sell, lease, mortgage, charge or otherwise transfer, directly or indirectly, all or any part of its assets to any other person; or

- (xvi) take, or knowingly permit to be taken, any action that would terminate, or discharge or prejudice the validity or effectiveness of, any of the Transaction Documents or its organisational documents or the validity, effectiveness or priority of the Security created thereby.

(c) **Negative Pledge**

In addition, in the Trust Deed the Issuer has covenanted that while any Notes are Outstanding it will not, without the prior written consent of the Trustee:

- (a) create or suffer to exist any charge or security on the Note Collateral or any of its other assets other than pursuant to or in respect of the Transaction Documents; or
- (b) sell, assign, lease, transfer or otherwise dispose of any interest in the Note Collateral, except pursuant to the Transaction Documents or upon the written direction of the Trustee in connection with the enforcement of its rights under the Transaction Documents.

The Trustee shall be entitled (but shall not be bound) to rely absolutely (without incurring any liability) on a certificate signed by any director of the Issuer in relation to any matter relating to such restrictions and to accept without liability any such certificate as sufficient evidence of the relevant fact or matter in question.

4. Security

The Trust Deed provides that the obligations of the Issuer to the Trustee on behalf of the Secured Creditors in respect of the Issuer Secured Obligations are secured in favour of the Trustee for the benefit of the Secured Creditors by the following security interests (the “Security”):

- (a) a first fixed charge over all of the Issuer’s rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to the monies from time to time standing to the credit of the Euro Collateral Account and including any interest accrued or accruing thereon;
- (b) an assignment by way of security, of all of the Issuer’s rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to the Euro Collateral Account and all sums derived therefrom;
- (c) an assignment by way of security, of all of the Issuer’s rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to any Debt Service Reserve LC (for which the Issuer is named as beneficiary) and all sums derived therefrom; and
- (d) an assignment, by way of security, of all of the Issuer’s rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to the Loan Agreement, the Bank Account Assignment and the Servicing Agreement (to the extent not specifically secured above) and any other document, agreement, deed or instrument entered into by the Issuer in connection with the Transaction Documents (which is governed by the laws of England and Wales).

Additionally, as continuing security for all monies and other liabilities payable or owing by the Issuer to the Secured Creditors under the Trust Deed, the Trust Deed provides that the obligations of the Issuer to the Trustee on its own behalf and on behalf of the Secured Creditors are secured in favour of the Trustee by a first-ranking floating charge granted in favour of the Trustee over the whole of its undertaking and assets that are not charged by way of any fixed charge (other than the Issuer’s rights under the Management Agreement and the amount representing the Issuer’s paid-up share capital). The floating charge created by the Issuer pursuant to this clause is a “qualifying floating charge” for the purposes of paragraph 14.2(a) of Schedule B1 to the Insolvency Act 1986. Paragraph 14 of Schedule B1 to the Insolvency Act 1986 shall apply to these Conditions.

The obligations of the Issuer under the Trust Deed and the Notes are also secured in favour of the Trustee, by the Issuer pursuant to the Issuer Security Agreement by a pledge and a charge in favour of the Trustee of a security interest in and assignment (by way of security) of all of the Issuer’s rights, title and interest (both present and future) (and all other benefits relating thereto, both present and future) in and to the Rosbank Security Agreement, the Receivables, the Collateral

Accounts, all securities and other investment property credited to such accounts, any Debt Service Reserve LC (except to the extent secured pursuant to the Trust Deed) and all proceeds of the foregoing.

In addition, as further security, KM Invest, as parent of the Servicer, has entered into the UCS Parent Undertaking and the UCS Parent Pledge. Pursuant to the UCS Parent Pledge KM Invest has pledged 100 per cent. of its equity interests in the Servicer in favour of the Trustee for the benefit of the Secured Creditors. The enforcement of this pledge is subject to the UCS Parent Undertaking in which KM Invest undertakes to the Trustee to ensure that the Servicer's merchant voucher acquiring business continues to be committed to the generation of Receivables that will form part of the Note Collateral.

Any monies received by the Trustee upon enforcement of the Note Collateral and the UCS Parent Pledge shall be applied in accordance with Condition 6 (*Application of Amounts*).

5. Accounts

Pursuant to the Agency Agreement, the Trustee, on behalf of the Issuer, has established the USD Collateral Account, the Euro Collateral Account, the 2004 Collateral Sub-account, and the 2004 Debt Service Reserve Account with the Account Bank, as well as a Reserve Fund within the USD Collateral Account in relation to the Notes.

(a) Collateral Accounts

(i) Deposits into Collateral Accounts

Pursuant to the Agency Agreement, the following amounts shall be deposited (where such amounts are denominated in Dollars) into the USD Collateral Account and (prior to an Early Amortisation Event, where such amounts are denominated in Euro, into the Euro Collateral Account), as and when received by or on behalf of the Issuer:

- (A) all amounts in respect of the Receivables that each Receivables Obligor is obliged to pay to ROSBANK pursuant to the Obligor Notices and Consents;
- (B) all amounts received in respect of Eligible Investments from time to time (unless reinvested in accordance with these Conditions);
- (C) all amounts (if any) received from ROSBANK in respect of interest, principal, Additional Amounts or any other amounts pursuant to the Loan Agreement or the other Transaction Documents;
- (D) all interest earned on the Collateral Accounts; and
- (E) all amounts analogous to those described in items (A) to (D) above, or any other amounts, received in relation to any Further Notes.

(ii) Allocation of amounts standing to the credit of the USD Collateral Account

Pursuant to the Agency Agreement, the Account Bank is required to allocate and apply amounts held in Dollars and deposited in the USD Collateral Account during any Collection Period pursuant to Condition 5(a)(i) (*Deposits into Collateral Accounts*) in accordance with the Priority of Payments.

(iii) Eligible Investments

The Agency Agreement provides that, pending application in accordance with the Trust Deed and these Conditions, amounts in the Collateral Accounts shall be invested by the Account Bank (on behalf of the Issuer) in Eligible Investments.

(iv) Reserve Fund

- (A) Pursuant to the Priority of Payments, funds on deposit in the USD Collateral Account in the amount of the Reserve Fund Amount shall be allocated to the Reserve Fund, and such funds (a) may be drawn upon from time to time by the Receivables Obligors for the payment of Incidental Charges (to the extent such Incidental Charges were not deducted from Collections prior to their deposit into the Collateral Accounts) pursuant to Condition 5(a)(iv)(B) below and (b) on each

Business Day shall be replenished up to the amount of the Reserve Fund Amount pursuant to, and in accordance with the priorities prescribed by clause *first* of the Priority of Payments (as defined in Condition 6(a)(i) below) from Collections deposited in the USD Collateral Account.

- (B) On any Business Day that is a settlement date for a Card Programme related to a Receivables Obligor, such Receivables Obligor shall have the right to withdraw from amounts on deposit in the Reserve Fund on such Business Day an amount equal to the lesser of (x) the Reserve Fund Amount on such day (less any amounts drawn, but not replenished, on or prior to such day) and (y) the aggregate amount of unpaid Incidental Charges under the Card Programme related to such Receivables Obligor.
- (C) If the amount requested to be withdrawn by a Receivables Obligor pursuant to the Condition 5(a)(iv)(B) exceeds the Reserve Fund Amount, then the Issuer shall procure that the amount of the shortfall is paid to such Receivables Obligor from subsequent Collections deposited in the USD Collateral Account in the manner contemplated by clause *first* of the Priority of Payments. Any withdrawal from the Reserve Fund by a Receivables Obligor pursuant to Condition 5(a)(iv)(B) shall reduce the Reserve Fund by the amount of such withdrawal, and any such reduction in the Reserve Fund shall be replenished (in the manner contemplated in Clause 6(a)(i) *first*) from funds deposited in the USD Collateral Account in the manner contemplated by clause *first* of the Priority of Payments. All withdrawals from the Reserve Fund by a Receivables Obligor pursuant to Condition 5(a)(iv)(B) shall be paid by the Account Bank on behalf of the Issuer and subject to the receipt of necessary funds by the Issuer in the order of the Account Bank's receipt of the notices from a Receivables Obligor related thereto, or, if any such notices shall be received contemporaneously, *pro rata* according to the amounts requested in such notices.
- (D) The Receivables Obligors may pursuant to the Obligor Notices and Consents together with ROSBANK reasonably determine a new amount in Dollars as the Reserve Fund Amount (the "New Reserve Fund Amount") and shall notify such new amount to the Issuer, the Trustee and the Account Bank. Upon receipt of such notice specifying the determination of the New Reserve Fund Amount and subject to the receipt of necessary funds, the Issuer shall, or shall procure that the Account Bank shall, either (x) if the New Reserve Fund Amount exceeds the former Reserve Fund Amount, deposit sufficient funds to the Reserve Fund such that the balance thereof equals the New Reserve Fund Amount, or (y) if the former Reserve Fund Amount exceeds the New Reserve Fund Amount, deposit the positive difference between the New Reserve Fund Amount and the former Reserve Fund Amount in the USD Collateral Account for distribution in accordance with the Priority of Payments. Any deposit or withdrawal from the Reserve Fund contemplated by the preceding sentence shall not diminish or modify the obligation to replenish the Reserve Fund Amount (to the extent of such amount from time to time) in the manner set out at Condition 5(a)(iv)(A) and the Priority of Payments.

(b) 2004 Debt Service Reserve Account and 2004 Debt Service Reserve LC

(i) 2004 Debt Service Reserve Account and 2004 Debt Service Reserve LC

Pursuant to the Agency Agreement, the Trustee has established the 2004 Debt Service Reserve Account in respect of the Class 2004 Notes, into which ROSBANK shall deposit the 2004 Required Reserve Amount or, in respect of which it shall deliver to the Trustee a 2004 Debt Service Reserve LC.

If (i) the termination date of the 2004 Debt Service Reserve LC is not extended for at least an additional 364 day-period at least 40 Business Days before such termination date (which extension ROSBANK is required to confirm to the Trustee in writing and provide any requested evidence thereof), or (ii) the issuing bank for the 2004 Debt Service Reserve LC is not substituted within the 30-day period set forth in the definition of "Debt Service Reserve LC", the Issuer (or the Trustee on its behalf) shall immediately draw (unless a new 2004 Debt Service Reserve LC in respect thereof has

been delivered to the Trustee before a drawing is made) the full amount thereof and deposit such proceeds in the 2004 Debt Service Reserve Account. Thereafter and so long as any amounts remain on deposit in the 2004 Debt Service Reserve Account, amounts therein shall be transferred to the 2004 Collateral Sub-account pursuant to Condition 6(b)(iii) (*2004 Debt Service Reserve Accounts*) in lieu of drawing under the 2004 Debt Service Reserve LC.

(ii) Replacement LCs

ROSBANK may at any time and from time to time substitute a new letter of credit (the “Replacement LC”) for the 2004 Debt Service Reserve LC (an “Existing LC”) or obtain the release of any funds then on deposit in the 2004 Debt Service Reserve Account in accordance with the procedures set forth below. Upon the satisfaction of the following conditions, the Trustee shall return the Existing LC to ROSBANK or shall transfer the funds then held in or to the credit of the 2004 Debt Service Reserve Account to ROSBANK, as the case may be:

- (A) ROSBANK shall have notified the Trustee in writing at least fifteen Business Days before a proposed substitution that it intends to do so;
- (B) on or before the date of substitution, ROSBANK shall have delivered to the Trustee an Officers’ Certificate to the effect that (among other things) the Replacement LC is a letter of credit which falls within the definition of the 2004 Debt Service Reserve LC, and that the proposed substitution is otherwise permitted under the Conditions; and
- (C) on or before the date of substitution, the Trustee shall have received Rating Agency Confirmation in respect of such substitution.

(iii) 2004 Debt Service Reserve Account; Eligible Investments

Amounts on deposit in the 2004 Debt Service Reserve Account shall be invested in Eligible Investments in accordance with the Agency Agreement. On each Calculation Date, the Account Bank shall pay to the USD Collateral Account the amount if any by which the amount on deposit in the 2004 Debt Service Reserve Account exceeds the 2004 Required Reserve Amount. If, on any Payment Date and only after giving effect to all transfers that occur on such date, the Outstanding Principal Amount of the Class 2004 Notes and all interest and Additional Amounts in relation thereto and all other amounts due to any of the Class 2004 Noteholders, or any other Secured Creditor in respect thereof have been paid in full, any remaining amounts on deposit in the 2004 Debt Service Reserve Account shall be transferred to the USD Collateral Account and applied in accordance with the Priority of Payments.

6. Application of Amounts

(a) Allocation of Amounts in the USD Collateral Account

(i) Priority of Payments

Available Funds received in the USD Collateral Account during a Collection Period shall be allocated on a daily basis to the applicable Collateral Sub-account for each class of Notes or otherwise as set forth below in the following order of priority (together with any analogous order of priority set out in the applicable Conditions of any Further Notes, the “Priority of Payments”):

first, for deposit (if necessary) on each day on which funds are deposited in the Collateral Accounts, in the Reserve Fund until the amount standing to the credit of the Reserve Fund shall be equal to the Reserve Fund Amount;

second, all remaining amounts will be allocated (i) first to pay the Trustee’s fees and other Administrative Expenses due to the Trustee which are due and payable; and (ii) secondly, *pro rata*, to pay all remaining Administrative Expenses due and payable, in connection with each Class of Notes, on the immediately following Payment Date;

third, all remaining amounts will be allocated *pro rata* in accordance with the respective aggregate amounts of (i) Interest Amounts due and payable for the then current Interest Period with respect to each Class of Pari Passu Notes on the immediately following Payment Date and, (ii)

Interest Amounts on each Class of Pari Passu Notes due and unpaid with respect to any prior Payment Date;

fourth, all remaining amounts will be allocated *pro rata* in accordance with the respective Additional Amounts due and payable in respect of interest on each Class of Pari Passu Notes;

fifth, all remaining amounts will be allocated *pro rata* in accordance with (i) the respective Amortisation Amounts due and payable with respect to each Class of Pari Passu Notes on the following Payment Date, and (ii) any respective Amortisation Amounts on each Class of pari passu due and unpaid with respect to any prior Payment Date;

sixth, all remaining amounts will be allocated *pro rata* in accordance with the respective Additional Amounts (if any) due and payable in respect of principal on each Class of Pari Passu Notes;

seventh, all remaining amounts shall be paid to the extent necessary in order that the applicable Required Reserve Amount is on deposit in the Debt Service Reserve Account established for the relevant Class of Pari Passu Notes;

eighth, if the Early Amortisation Period shall have commenced and is continuing, all remaining amounts shall be allocated *pro rata* in accordance with the respective outstanding principal balances of each Class of Pari Passu Notes;

ninth, all remaining amounts will be allocated *pro rata* in accordance with (i) the respective indemnification amounts payable pursuant to the Transaction Documents, (ii) Expense Amounts (to the extent not already paid directly by ROSBANK), and (iii) any other obligations of the Issuer or ROSBANK or the Servicer under the Transaction Documents due and payable with respect to each Class of Pari Passu Notes;

tenth, all remaining amounts will be allocated *pro rata* in accordance with the respective (i) amounts of interest due and payable with respect to each Class of Subordinated Notes (if any) on the following Payment Date and (ii) amounts of interest on each Class of Subordinated Notes (if any) due and unpaid with respect to any prior Payment Date;

eleventh, all remaining amounts will be allocated *pro rata* in accordance with the respective Additional Amounts due and payable in respect of interest on each Class of Subordinated Notes (if any);

twelfth, prior to the commencement of the Early Amortisation Period, all remaining amounts will be allocated *pro rata* in accordance with (i) the respective Amortisation Amounts due and payable with respect to each Class of Subordinated Notes (if any) on the immediately following Payment Date, and (ii) any respective Amortisation Amounts due and unpaid with respect to each Class of Subordinated Notes (if any) any prior Payment Date;

thirteenth, all remaining amounts will be allocated *pro rata* in accordance with the respective Additional Amounts owing in respect of principal on each Class of Subordinated Notes (if any);

fourteenth, if the Early Amortisation Period shall have commenced and is continuing, all remaining amounts shall be allocated *pro rata* in accordance with the respective outstanding principal balances of each Class of Subordinated Notes (if any);

fifteenth, all remaining amounts will be allocated *pro rata* in accordance with the respective indemnification amounts payable pursuant to the Transaction Documents and Expense Amounts (to the extent not already paid directly by ROSBANK) due and payable owing with respect to each Class of Subordinated Note (if any) on the immediately following Payment Date;

sixteenth, all remaining amounts will be allocated *pro rata* (to the extent not already paid) to payment of the Servicer Annual Fee; and

seventeenth, provided that if (i) there is no overdue Monthly Compliance Report that has not been delivered to the Trustee, (ii) the Trustee has not received an Enforcement Notice pursuant to Condition 11 (*Note Events of Default*) or written notice (that has not been waived or rescinded) that an Early Amortisation Event, Incipient Early Amortisation Event, Event of Default or Potential Event of Default has occurred and (in the case of an Incipient Early Amortisation Event or Potential Event of Default, provided that such event is continuing) and (iii) once the Calculation Agent has

determined there are sufficient funds deposited in the aggregate in the USD Collateral Account and the Collateral Sub-accounts to pay all amounts due on the next Payment Date under Clauses *first* to *sixteenth* above (the “Quarterly Required Amount”), then (a) all remaining Collections will be remitted to ROSBANK on the following London Business Day, by or on behalf of the Issuer, from both the Euro Collateral Account and from the USD Collateral Account, on a daily basis until the last day of the Collection Period, otherwise (b) all remaining Collections will be retained in the USD Collateral Account to be distributed on the next Distribution Date along with Available Funds received in the USD Collection Account (and not credited to the Reserve Fund) during the immediately following Calculation Period in accordance with the above Priority of Payments.

(ii) Euro Collections

Prior to the commencement of an Early Amortisation Period, any Collections received directly from the Receivables Obligors in Euros will be held in Euros in the Euro Collateral Account until the Quarterly Required Amount is on deposit in the USD Collateral Account. However, such Collections in Euros will be converted into Dollars by the Account Bank, (at the spot rate determined by the Calculation Agent on the Calculation Date) if on any Quarterly Calculation Date, or on any other date on which payment is required to be made on the Notes hereunder, the amount in Dollars on deposit in the USD Collateral Account is determined by the Account Bank to be insufficient to pay in full the amounts required to be paid under Clauses *first* through *sixteenth* of the Priority of Payments on the Payment Date in such month (or on such other date). Otherwise, all such Collections denominated in Euros, either held on the Euro Collateral Account or thereafter deposited in the Euro Collateral Account will be remitted to ROSBANK in the same manner and subject to the same conditions and on the same terms as all amounts payable under Clause *seventeenth* of the Priority of Payment once the Quarterly Required Amount is on deposit in the USD Collateral Account. During an Early Amortisation Period, all Collections received directly in Euros will be converted by the Account Bank upon receipt into Dollars at the then prevailing rate of exchange and transferred from the Euro Collateral Account to the USD Collateral Account and applied in accordance with the Priority of Payments.

(b) Applications of Funds in Collateral Sub-account

(i) 2004 Collateral Sub-account Priority of Payments

On each Payment Date, the Issuer shall, or shall procure that the Account Bank shall, apply or transfer amounts on deposit in the 2004 Collateral Sub-account at the end of the most recent Collection Period (including in specified circumstances any funds withdrawn from the 2004 Debt Service Reserve Account or drawn under the Debt Service Reserve LC) in the following order of priority (the “2004 Collateral Sub-account Priority of Payments” together with any analogous order of priority set out in the Conditions of any Further Notes, the “Collateral Sub-account Priority of Payments”):

first, an amount equal to the Administrative Expenses payable with respect to the Class 2004 Notes on such date shall be applied (i) firstly to pay those Administrative Expenses due to the Trustee which are due and payable in respect of the Class 2004 Notes and (ii) secondly, *pro rata*, to pay all remaining Administrative Expenses due and payable in connection with the Class 2004 Notes to the respective Persons entitled to such amounts;

second, an amount equal to the amount of all Interest Amounts due and payable in respect of the Class 2004 Notes on such Payment Date (including Interest Amounts due but not paid on a previous Payment Date);

third, any Additional Amounts (if any) due and payable in respect of interest on the Class 2004 Notes;

fourth, an amount equal to the Amortisation Amount due and payable in respect of Class 2004 Notes on such Payment Date;

fifth, any Additional Amounts (if any) due and payable in respect of principal on the Class 2004 Notes;

sixth, following the commencement of the Early Amortisation Period, (i) the Applicable Cash Sharing Percentage of the remaining amounts will be distributed pursuant to clauses *seventh* and

eighth below and (ii) the remaining amounts after the distribution described in the preceding sub-clause (i) shall be distributed *pro rata* in redeeming to the extent possible the outstanding principal balance of the Class 2004 Notes;

seventh, all remaining amounts in the 2004 Collateral Sub-account shall be applied, *pro rata*, to pay (i) indemnification amounts payable pursuant to the Transaction Documents, (ii) Expense Amounts (to the extent not already paid directly by ROSBANK) and (iii) any other obligations of ROSBANK, the Issuer or the Servicer under the Transaction Documents, in each case in respect of the Class 2004 Notes; and

eighth, provided that if (i) there is no overdue Monthly Compliance Report that has not been delivered to the Trustee, and (ii) the Trustee has not received an Enforcement Notice pursuant to Condition 11 (*Note Events of Default*) or written notice (that has not been waived or rescinded) that an Early Amortisation Event, Incipient Early Amortisation Event, Event of Default or Potential Event of Default has occurred and (in the case of an Incipient Early Amortisation Event or Potential Event of Default, provided that such event is continuing), then the remaining amounts in the 2004 Collateral Sub-account shall be remitted to ROSBANK (on behalf of the Issuer).

(ii) 2004 Debt Service Reserve Account

If, on any Calculation Date in a month in which a Payment Date occurs, the amount standing to the credit of the 2004 Collateral Sub-account is less than the amount required to pay all amounts owing in accordance with Collateral Sub-account Priority of Payments in respect of the Class 2004 Notes in respect of the following Payment Date, the Issuer shall:

- (A) withdraw from the 2004 Debt Service Reserve Account an amount equal to the lesser of (a) the aggregate of such deficiency and (b) the amount standing to the credit of the 2004 Debt Service Reserve Account; or
- (B) following replacement in whole or part of the 2004 Debt Service Reserve Account with a 2004 Debt Service Reserve LC, draw upon the 2004 Debt Service Reserve LC in an amount equal to the lesser of (a) the aggregate of any remaining deficiency, and (b) the amount available to be drawn thereunder.

Amounts withdrawn from the 2004 Debt Service Reserve Account in accordance with (A) above and amounts drawn upon the 2004 Debt Service Reserve LC in accordance with (B) above shall be deposited in the 2004 Collateral Sub-account and shall be applied in accordance with the applicable Collateral Sub-account Priority of Payments.

On each Quarterly Calculation Date prior to the Early Amortisation Period, any funds in excess of the 2004 Required Reserve Amount for the following Collection Period on deposit in the 2004 Debt Service Reserve Account will be withdrawn from such account by the Trustee and deposited in the USD Collateral Account for application in accordance with the Priority of Payments.

7. Interest

(a) Accrual of interest

The Further Class 2004 Notes bear interest from (and including) the Closing Date. Interest on the Notes will be payable quarterly in arrear on each Payment Date, subject as provided in Condition 7(b)(*Rate of Interest*) and Condition 9 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due surrender of the Global Note Certificate, payment of principal is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Class 2004 Notes up to that seventh day (except to the extent that there is any subsequent default in payment).

(b) Rate of Interest

The Class 2004 Notes shall bear interest at a rate of 9.75 per cent. per annum (the “2004 Interest Rate”).

(c) Calculation of Interest Amounts

The Calculation Agent will, on the final day of each Interest Period, calculate the amount of interest payable in respect of the Class 2004 Notes, for the next Interest Period (such amount, the “Interest Amount”) in the manner set out as follows:

The Interest Amount payable in respect of each of the Class 2004 Notes shall be the sum of:

- (i) the product of applying the 2004 Interest Rate to the average daily Outstanding Principal Amount of the Class 2004 Notes for each day of such Interest Period, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed; and
- (ii) if applicable, the product of applying the 2004 Interest Rate to the amount of any interest accrued but unpaid in respect of each Class 2004 Note on any previous Payment Date, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

(d) Determination or Calculation by Trustee

If the Calculation Agent does not at any time for any reason so determine the applicable Interest Rate or calculate any Interest Amount payable, in respect thereof for any Interest Period, the Trustee (or a person appointed by it for such purpose) shall do so and such determination or calculation shall be deemed to have been made by the Calculation Agent and shall be binding on the Noteholders. In doing so, the Trustee, or such person appointed by it, shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances and in reliance on such persons as it has appointed for such purpose. The Trustee shall have no liability to any person in connection with any determination or calculation it is required to make pursuant to this Condition 7(d).

(e) Notifications

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Interest*) by the Calculation Agent or the Trustee will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Trustee and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. Redemption

(a) Redemption on the Final Payment Date and during the Scheduled Amortisation Period

(i) Final Payment Date

Save to the extent previously redeemed and cancelled, the Class 2004 Notes will be redeemed on the Final Payment Date in an amount equal to the Outstanding Principal Amount of such Class 2004 Notes together with all interest and other amounts payable accrued to such date. The Expected Maturity Date of the Notes is the Payment Date occurring in September 2009.

(ii) Interest Only Period

No principal will be payable in respect of the Class 2004 Notes during the period (such period the “2004 Interest-Only Period”) from and including the 2004 Closing Date to but excluding the earliest of: (a) the Payment Date occurring in December 2005, (b) the first Payment Date falling in an Early Amortisation Period, (c) the date upon which an Enforcement Notice is delivered pursuant to Condition 11 (*Note Events of Default*) and (d) the date on which principal in respect of the Class 2004 Notes becomes payable as a result of an Optional Redemption or a Mandatory Redemption.

(iii) Scheduled Amortisation

On each Payment Date during the Scheduled Amortisation Period, in addition to Interest Amounts and any Additional Amounts, Amortisation Amounts in respect of each of the Class 2004 Notes will be due and payable in the amounts and on the Payment Dates set forth on Schedule A hereto (subject, in each case, to the non-occurrence of an Early Amortisation Event or Event of Default).

(b) Mandatory Redemption in respect of a Loan Event of Default

Following a Loan Event of Default and acceleration of the loan pursuant to the Loan Agreement, the Issuer shall redeem the Notes at an amount equal to the 2004 Redemption Amount subject to, and in accordance with, the Priority of Payments.

(c) Mandatory Redemption of the Class 2004 Notes upon an Illegality Event

Following an Illegality Event, and subject to receipt by the Issuer of confirmation from the Account Bank that there are sufficient funds standing to the credit of the USD Collateral Account and/or the Collateral Sub-account (taking into account any conversion pursuant to Condition 6(a)(ii) (*Euro Collections*)), the Issuer shall redeem the Class 2004 Notes at an amount equal to the 2004 Redemption Amount subject to, and in accordance with, the Priority of Payments. On the fifth Business Day prior to the date fixed for Mandatory Redemption, the Trustee will notify ROSBANK of the balance on deposit in the USD Collateral Account, and on the second Business Day prior to such date, ROSBANK is required to make an additional deposit to the USD Collateral Account such that the balance on deposit in the USD Collateral Account is equal to the 2004 Redemption Amount.

(d) Optional Redemption of the Class 2004 Notes upon a Tax Event

(i) Optional Redemption upon a Tax Event

Within 60 days of a Tax Event, at the request of ROSBANK (subject to the notice requirements in Condition 8(d)(ii) (*Notice of Tax Redemption*)) the Issuer shall redeem the Class 2004 Notes on any Payment Date at an amount in Dollars equal to the 2004 Redemption Amount (as defined at Condition 8(e)(iii) (*Payment of 2004 Redemption Amount*)), subject to the prior deposit by ROSBANK of the full amount of the 2004 Redemption Amount in the 2004 Collateral Sub-account.

(ii) Notice of Tax Redemption

Upon receipt of notice from the Issuer of any such tax redemption, the Trustee shall, not less than 15 days nor more than 30 days before the proposed redemption date, give the Noteholders notice thereof in accordance with Condition 16 (*Notices*), stating the amount at which such Notes are to be redeemed and the proposed Redemption Date.

(e) Redemption at the Option of ROSBANK

(i) Optional Redemption

The Issuer may, at the request of ROSBANK, on any Payment Date which falls after the first anniversary of the 2004 Closing Date, redeem the Class 2004 Notes in whole but not in part (subject to the notice requirements in Condition 8(e)(ii) (*Notice of Optional Redemption*)). The redemption price payable upon any such redemption shall be an amount in Dollars equal to the 2004 Redemption Amount, subject to the prior deposit by ROSBANK of the full amount of the 2004 Redemption Amount in the 2004 Collateral Sub-account.

(ii) Notice of Optional Redemption

Upon receipt of notice from the Issuer of any optional redemption in accordance with Condition 8(e)(i) (*Optional Redemption*), the Trustee shall, not less than 15 days nor more than 30 days before the proposed redemption date, give the Noteholders notice thereof in accordance with Condition 16 (*Notices*), setting out the 2004 Redemption Amount, and the proposed Redemption Date.

(iii) Payment of 2004 Redemption Amount

If notice of optional redemption has been given in accordance with Condition 8(d)(ii) (*Notice of Tax Redemption*) or Condition 8(e)(ii) (*Notice of Optional Redemption*), the Class 2004 Notes shall become due and payable in accordance with such notice in the amount equal to the 2004 Redemption

Amount. Upon receipt by the Account Bank, on behalf of the Issuer, of the 2004 Redemption Amount in respect of the Class 2004 Notes, such 2004 Redemption Amount shall be applied in accordance with the Priority of Payments.

For the purposes of these Conditions:

“2004 Redemption Amount” means, as of any date of determination, an amount in Dollars equal to the sum of:

- (a) the Outstanding Principal Amount of the Class 2004 Notes;
- (b) all accrued and unpaid interest on the Outstanding Principal Amount of the Class 2004 Notes calculated pursuant to Condition 7(c) (*Calculation of Interest Amounts*) up to but including the date set for redemption pursuant to Condition 8(d) (*Optional Redemption of the Class 2004 Notes upon a Tax Event*) or Condition 8(e) (*Redemption at the Option of ROSBANK*) (the “Optional Redemption Date”);
- (c) all unpaid Additional Amounts (if any) with respect to the Class 2004 Notes;
- (d) subject as provided below, the Make-whole Premium for the Class 2004 Notes, (where applicable) calculated as of the Optional Redemption Date; and
- (e) all other amounts then due and payable under the Transaction Documents in relation to the Class 2004 Notes which would otherwise be payable from the Collections in accordance with the Priority of Payments,

provided however that where such 2004 Redemption Amount relates to an Optional Redemption arising from a Tax Event or a Mandatory Redemption arising from an Illegality Event, it shall not include the Make-whole Premium referred to at sub-paragraph (d) of this definition.

(f) Early Amortisation Events

If an Early Amortisation Event occurs then the Controlling Class, by notice then given in writing to the Issuer and the Trustee, may declare that the Early Amortisation Period has commenced in which case an Early Amortisation Period shall commence; provided that the Early Amortisation Period shall commence automatically without such notice being given by the Controlling Class upon the occurrence of an event described in paragraph (a), (h) or (i) of the definition of Early Amortisation Event.

Notwithstanding anything herein or in the other Transaction Documents to the contrary, should any Notes of any Class (or beneficial interests therein) be owned by ROSBANK or any Affiliate of ROSBANK, any vote to be taken in respect of such Class of Notes shall exclude from such voting the vote relating to (and principal amount of) Notes (or beneficial interests therein) owned by ROSBANK or such Affiliate.

(g) Cancellation

Class 2004 Notes to be redeemed pursuant to this Condition 8 (*Redemption*) shall be cancelled forthwith. Any Class 2004 Notes so cancelled may not be reissued or resold and the obligations of the Issuer in respect of any such Class 2004 Notes shall be discharged.

Class 2004 Notes may not be redeemed other than in accordance with this Condition 8 (*Redemption*) and the provisions of the Trust Deed described herein and Condition 11 (*Note Events of Default*).

9. Payments

(a) Method of Payment

Payments of principal shall be made by US dollar cheque drawn on, or, upon application by a Holder of a Class 2004 Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a US 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 Global Note Certificates at the Specified Office of any Paying Agent.

Payments of interest shall be made by US dollar cheque drawn on, or upon application by a Holder of a Class 2004 Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a US 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 Individual Note Certificates at the Specified Office of any Paying Agent.

Where payment is to be made by transfer to a US dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by US dollar cheque, the cheque will be mailed (a) (in the case of payments or principal and interest payable on redemption) on the later of the due date for payment and the day on which the Global Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (b) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for a payment not being a business day or (ii) a cheque mailed in accordance with this Condition 9 (*Payments*) arriving after the due date for payment or being lost in the mail. In this Condition 9(a), “business day” means any day on which banks are open for business (including dealings in foreign currencies) in New York, London and Luxembourg and, in the case of surrender (or, in the case of part payment only, endorsement) of the Global Note Certificate, in the place in which the Global Note Certificate is surrendered (or, as the case may be, endorsed).

(b) Payments Subject to Fiscal Laws

All payments are subject in all cases to any applicable fiscal or other laws, regulations and directives, but without prejudice to the provisions of Condition 10 (*Taxation*). No commission shall be charged to the Noteholders.

(c) Paying Agents

The names of the initial Agents and their initial specified offices are set out below. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that it will maintain (i) a Principal Paying Agent and (ii) Paying Agents and/or Transfer Agent(s) having specified offices in at least two major European cities approved by the Trustee (including Luxembourg for so long as any of the Class 2004 Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require) and shall at all times procure that it shall at all times maintain an Account Bank, Registrar and a Calculation Agent (which in the case of the Account Bank, shall at all times be a Qualified Bank). The Calculation Agent may not resign until a replacement Calculation Agent has been appointed and accepts its appointment. If the EU Savings Tax Directive (Directive 2003/48/EC) or any other directive implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 takes effect the Issuer will also maintain a Paying Agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to such directive, or any law implementing or complying with, or introduced in order to comply with, such directive, in each case as approved by the Trustee. Notice of any change in any Agents or their specified offices or in the Account Bank will promptly be given to the Noteholders by the Issuer in accordance with Condition 16 (*Notices*) and to the Luxembourg Stock Exchange.

10. Taxation

All payments in respect of the Class 2004 Notes, whether of interest or otherwise, will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature imposed, levied, collected, withheld or assessed by the taxing authorities in any Relevant Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by applicable law. In that event, the Issuer, shall pay such Additional Amounts as will result in the receipt by the Class 2004 Noteholders of such amounts as would have been received by them if no such withholding or deducting had been required, except that no such Additional Amounts shall be payable in respect of any Class 2004 Note:

- (a) the Holder of which is liable to such taxes, duties, assessments or governmental charges in respect of such Class 2004 Notes by reason of its having some connection with such Relevant Jurisdiction other than the mere holding of such Note;
- (b) where (in the case of payment of principal or interest on final redemption) the relevant Class 2004 Note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such Additional Amounts if it had surrendered the relevant Note on the last day of such period of 30 days;
- (c) where taxes are required to be deducted or withheld by any Paying Agent from a payment on a Class 2004 Note, if such payment can be made without deduction or withholding by any other Paying Agent in a Member State of the European Union; or
- (d) where taxes imposed on a payment to an individual are required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

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 New York by the Principal Paying Agent 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 Class 2004 Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 10.

If the Issuer becomes subject at any time to any taxing jurisdiction(s) other than the Relevant Jurisdictions, references in these Conditions to the Relevant Jurisdictions shall be construed as references to the Relevant Jurisdictions and/or such other jurisdiction(s). Pursuant to the Loan Agreement, if Collections available for distribution pursuant to Clauses fourth and sixth, for so long as any Pari Passu Notes are Outstanding or, provided that all Pari Passu Notes have been redeemed in full, Clauses *eleventh* and *thirteenth* of the Priority of Payments for as long as any Subordinated Notes are Outstanding (or, in the case of any Further Notes, all or any analogous clauses in the applicable Priority of Payments) are insufficient to pay any Additional Amounts, ROSBANK has agreed to pay the amount of such deficiency to or on behalf of the Issuer.

11. Note Events of Default

(a) Note Events of Default

Subject to Condition 11(c) (*Trustee Right to Enforce Security*) below, the Trust Deed provides that with respect to the Notes the Trustee at its discretion may, and, if so requested in writing by the Controlling Class, shall (subject, in each case, to being indemnified and/or secured to its satisfaction in respect of any actions contemplated in this Condition 11), give notice (an “Enforcement Notice”) to the Issuer that the Notes are, and they shall accordingly immediately become, due and repayable, at their Outstanding Principal Amount together with accrued interest to the date of payment and any Additional Amounts and the Security constituted by the Security Documents shall become enforceable (as provided in the relevant Security Documents) and subject to Condition 8 (*Redemption*) above the proceeds of the enforcement of the Security shall be applied as specified in Condition 6 (*Application of Amounts*) upon the occurrence of any of the following events (each a “Note Event of Default”):

- (i) if the Issuer fails to pay any interest or any Additional Amounts in relation thereto due in respect of the Outstanding Principal Amount of any of the Pari Passu Notes for so long as any Pari Passu Notes are Outstanding or, provided that all Pari Passu Notes have been redeemed in full, the Subordinated Notes, when the same becomes due and payable provided that any such failure to pay such principal or Additional Amount in relation thereto continues for a period of five days; or

- (ii) if the Issuer fails to pay any principal or any Additional Amounts in relation thereto when the same becomes due and payable with respect to the Outstanding Principal Amount of any of the Pari Passu Notes for so long as any Pari Passu Notes are Outstanding or, provided that all Pari Passu Notes have been redeemed in full, the Subordinated Notes when the same becomes due and payable provided that any such failure to pay such interest continues for a period of five days; or
- (iii) if the Issuer fails to pay any Termination Payment which becomes due and payable with respect to any of the Pari Passu Notes for so long as any Pari Passu Notes are Outstanding or, provided that all Pari Passu Notes have been redeemed in full, the Subordinated Notes; or
- (iv) if any order shall be made by any competent court or any resolution passed for the winding-up or dissolution of the Issuer or an order is made for the bankruptcy (or any analogous proceedings of the Issuer) save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms approved by the Trustee; or
- (v) if (A) any other proceedings are initiated against the Issuer under any applicable liquidation, bankruptcy, insolvency, composition, reorganisation, readjustment or other similar laws (but excluding the presentation of any application for an administration order) and such proceedings are not being disputed in good faith and if such proceedings are involuntary proceedings, are not dismissed within 30 days, or (B) an administrative receiver or other receiver, administrator or other similar official (not being an administrative receiver or other receiver or manager appointed by the Trustee pursuant to the Trust Deed) is appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or (C) an encumbrancer (not being the Trustee or any receiver or manager appointed by the Trustee) shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or (D) a distress or execution or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer (other than, in any such case, by the Trustee or pursuant to any of the Transaction Documents) and in any of the foregoing cases (other than in relation to the circumstances described in (A) where the grace period set out therein shall apply) such order, appointment, possession or process (as the case may be) is not discharged or stayed or does not cease to apply within 14 days; or
- (vi) if the Issuer initiates or consents to judicial proceedings relating to itself (except in accordance with paragraph (iv) above) under any applicable liquidation, bankruptcy, insolvency, composition, reorganisation, readjustment or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally; or
- (vii) if any event occurs with respect to the Issuer which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (iv), (v) and (vi) above; or
- (viii) if it becomes unlawful for the Issuer to comply with any of its obligations under the Notes or the Transaction Documents; or
- (ix) if the Issuer becomes insolvent or is adjudicated or found bankrupt;
- (x) the Issuer fails to perform any of its obligations under any of the Transaction Documents and such failure by the Issuer remains unremedied for at least 30 days (or 5 days with respect to the failure to make any payment or deposit as and when required by any of the Transaction Documents) following actual knowledge of the Issuer, or the delivery to the Issuer of written notice of such failure by the Trustee; or
- (xi) any of the representations and warranties of the Issuer in the Transaction Documents, proves to have been false or incorrect in any respect on the date when made or deemed made; or

- (xii) the Issuer shall, or shall purport to, sell, assign, convey, pledge or otherwise encumber or dispose of any of the Note Collateral other than pursuant to, or as otherwise permitted by, the Transaction Documents; or
- (xiii) the Issuer grants any interest in the Receivables to any person other than to the Trustee; or
- (xiv) a final judgment or judgments is or are rendered for the payment of money against the Issuer in excess of US\$10,000 (or the equivalent in any currency) in the aggregate; and such judgment is not discharged or execution thereon is not stayed pending appeal within 30 days after the entry thereof, or, in the event of such a stay, such judgment is not discharged within 30 days after such stay expires and provided however that such judgment has a Material Adverse Effect; or
- (xv) any authorisation, licence, consent, registration or approval required under or by the laws of Russia, New York, England or Luxembourg, to enable the Issuer to perform its obligations under the Transaction Documents to which it is a party ceases to be in full force and effect and such situation shall have continued for a period of 30 days; or
- (xvi) any governmental interference by the Russian, United States, the State of New York, or Luxembourg government shall occur in connection with, or any legislative, judicial or other action (including without limitation adverse judicial or administrative interpretations of the law) is taken in Russia, the United States, the State of New York, or Luxembourg which interferes with the Issuer, and such interference constitutes a Material Adverse Effect; or
- (xvii) the commencement of, or the subsequent occurrence of an adverse development in, any litigation or administrative proceeding against the Issuer which constitutes a Material Adverse Effect; or
- (xviii) the occurrence of an event defined as a Note Event of Default in the conditions of any other Class of Notes.

(b) **Written Confirmation of No Note Event of Default**

The Issuer shall provide written confirmation to the Trustee and the Rating Agencies, on an annual basis at any time upon written request by the Trustee, that no Note Event of Default or Potential Note Event of Default or other matter which is required to be brought to the Trustee's attention has occurred.

(c) **Trustee Right to Enforce Security**

In the event of the Note Collateral constituted by the Security Documents becoming enforceable following an acceleration of the Notes as provided in this Condition 11 (*Note Events of Default*), the Trustee shall, but in each case without any liability as to the consequence of such action and without having regard to the effect of, or being required to account for, such action to, the Secured Creditors, have the right to enforce its rights under the Transaction Documents (in relation to the Note Collateral and the Notes only), provided that the Trustee shall not be required to take any action that would involve the Trustee in any personal liability or expense unless it has been indemnified and/or secured to its satisfaction.

12. Limited Recourse, Non-Petition and Enforcement

The Trust Deed provides that notwithstanding any other provision of the Conditions or otherwise, prior to and upon enforcement of the Note Collateral all amounts due from the Issuer to the Noteholders and the other Secured Creditors shall at all times be paid in accordance with the Priority of Payments. If, on any day, following the enforcement of the Note Collateral constituted by the Security Documents, the monies available to the Issuer are less than the aggregate amount payable by the Issuer to the Noteholders and to the other Secured Creditors, (such negative amount being referred to herein as a "shortfall"), the obligations of the Issuer to the Noteholders in respect of the Notes and its obligations to the other Secured Creditors in such circumstances will be limited to such available monies which shall be applied in accordance with the Priority of Payments. In such circumstances the Issuer will not be obliged to pay, and the other assets (if any) of the Issuer will not be available for payment of, such shortfall, which shortfall shall be borne by the relevant Noteholders

and other Secured Creditors in accordance with the Priority of Payments, the rights of such persons to receive any further amounts in respect of such obligations shall be extinguished, no debt shall be owed by the Issuer to any of such persons in respect of such shortfall, and none of the Noteholders or the other Secured Creditors may take any further action to recover, such amounts and any failure to make any payment in respect of such shortfall shall in no circumstances constitute a Note Event of Default under Condition 11 (*Note Events of Default*).

No Secured Creditor may institute against, or join any person in instituting against, the Issuer any bankruptcy, winding-up, re-organisation, arrangement, insolvency or liquidation proceeding (except for the appointment of a receiver and manager pursuant to the terms of the Trust Deed) or other proceeding under any similar law for so long as any Notes are Outstanding or for two years and a day after the latest date on which any Note is due to mature. The Secured Creditors accept and agree that the only remedy of the Trustee against the Issuer after any of the Class 2004 Notes have become due and payable pursuant to Condition 11 (*Note Events of Default*) is to enforce the Security for the Notes created by and pursuant to the provisions of the Trust Deed.

Only the Trustee may pursue the remedies available under the Trust Deed, the Conditions and the Transaction Documents and enforce the rights of the Secured Creditors in relation to the Note Collateral. No Noteholder or other Secured Creditor is entitled to proceed directly against the Issuer or any assets of the Issuer unless the Trustee, having become bound to proceed in accordance with the terms of the Security Documents, fails or neglects to do so within a reasonable period and such failure or neglect is continuing and then only a Noteholder of the Controlling Class may be so entitled. However, the Trustee shall not be bound to enforce the Note Collateral or pursue the remedies available under the Trust Deed, the Conditions and/or any of the Transaction Documents unless it is indemnified and/or secured to its satisfaction and has, if so required by the Trust Deed, been requested to do so by the Controlling Class.

13. Prescription

Claims against the Issuer for payment in respect of the Class 2004 Notes shall be prescribed and become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect thereof.

14. Replacement of Individual Note Certificates

If any Individual Note 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 Registrar or Transfer Agent upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require. Mutilated or defaced Individual Note Certificates must be surrendered before replacements will be issued.

15. Meetings of Noteholders; Modification and Waiver; Authorisation; Substitution; Entitlement of Trustee

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider matters affecting their interests, including the modification by Extraordinary Resolution of the Conditions or the provisions of the Trust Deed. In addition, no matters shall be agreed between the Issuer and the Noteholders nor any resolution of the Noteholders passed without the consent of the Controlling Class in relation thereto. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50% of the Outstanding Principal Amount of the Pari Passu Notes for the time being outstanding, or, at any adjourned such meeting, two or more persons being or representing each Class of Noteholders, whatever the Outstanding Principal Amount of each Class of Pari Passu Notes so held or represented, except that, *inter alia*, the terms of the security and certain terms concerning the amount and currency and the postponement of the due dates of payment of the Class 2004 Notes may be modified (other than pursuant to the Conditions) only by resolutions passed at a meeting the quorum at which shall be two or more persons holding or representing three quarters, at any adjourned such meeting, not less than one quarter, in Outstanding Principal Amount of the Class 2004 Notes for the time being

outstanding. In addition, a resolution in writing signed by or on behalf of 75% of the Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they were present at such meeting. The Trustee may, without consulting the Secured Creditors, determine that an event which would otherwise be an Early Amortisation Event or an Event of Default shall not be so treated but only if and in so far as in its opinion (i) firstly, the interests of the Controlling Class shall not be materially prejudiced thereby and (ii) secondly, the interests of the other Noteholders shall not be materially prejudiced thereby.

The Trustee shall be entitled to (but not be bound to) assume, for the purposes of exercising any power, trust, authority, duty or discretion under or in relation to the Notes, the Trust Deed or any of the other Transaction Documents, that such exercise will not be materially prejudicial to the interests of holders of a particular Class of Notes if it has received a Rating Agency Confirmation in relation thereto.

(b) Modification and Waiver

The Trustee may agree, without the prior consent of the Secured Creditors, to:

- (i) any modification of any of the provisions of the Transaction Documents which is of a formal, minor or technical nature or is made to correct a manifest error; and
- (ii) any other modification (except as mentioned in the Trust Deed) and any waiver or authorisation of any breach or proposed breach of any of the provisions of the Transaction Documents which, in the opinion of the Trustee, is not materially prejudicial to the interests of the Secured Creditors.

Any such modification, authorisation or waiver shall be binding on the Secured Creditors and, unless the Trustee agrees otherwise, such modification shall be notified to the Secured Creditors and the Luxembourg Stock Exchange (for so long as the Class 2004 Notes are listed on the Luxembourg Stock Exchange) as soon as practicable thereafter.

(c) Entitlement of the Trustee

In connection with the exercise of its powers, trusts, authorities or discretions (including but not limited to those in relation to any proposed modification, waiver, authorisation or substitution as aforesaid) the Trustee shall not have regard to the consequences of such exercise for individual Secured Creditors, resulting from such Secured Creditor being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory and the Trustee shall not be entitled to require, nor shall any Secured Creditor be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Secured Creditors.

16. 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. In addition (for so long as the Class 2004 Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require) published in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort* or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe) and in a manner which complies with the rules and regulations of any listing authority, stock exchange and/or quotation system on which the Class 2004 Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Notices to be given by any Noteholder shall be in writing and given by lodging the same with the Agent.

17. Trustee and Agents

The Trust Deed contains provisions for indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking any action including taking proceedings to enforce repayment unless indemnified and/or secured to its satisfaction. The Trustee or any of its Affiliates is entitled to enter into business transactions with the Issuer, any issuer or guarantor of (or other obligor in respect of) any of the securities or other assets, rights and/or benefits comprising the Eligible Investments or the Secured Creditors or any of their respective subsidiaries or associated companies without accounting to the Secured Creditors for any profit resulting therefrom.

The Trustee, in the absence of negligence or wilful default, is exempted from any liability in respect of any loss, diminution in value or theft of all or any part of the Eligible Investments, from any obligation to insure all or any part of the Eligible Investments (including, in either such case, any documents evidencing, constituting or representing the same or transferring any rights, benefits and/or obligations thereunder) or to procure the same to be insured or monitoring the adequacy of any insurance arrangements and from any claim arising if all or any part of the Eligible Investments (or any such document aforesaid) are held in an account with any similar clearing system in accordance with that system's rules or otherwise held in safe custody by the Account Bank or a bank or other custodian selected by the Trustee. The Trustee will incur no liability, vicarious or otherwise, for any actions or inactivity of the Account Bank or any such bank or custodian. Under the Trust Deed, the Trustee may resign at any time on giving not less than two months' prior written notice to the Issuer without giving any reason and without being responsible for any liabilities incurred by reason of such retirement. The holders of the Notes who are the Controlling Class may by Extraordinary Resolution remove the Trustee on not less than 90 days' written notice. The Issuer undertakes in the Trust Deed that in the event of the Trustee giving notice of resignation or being removed by Extraordinary Resolution of the holders of the Notes who are the Controlling Class, it will use its best endeavours to procure that a new trustee is appointed as soon as reasonably practicable thereafter. The retirement or removal of any such Trustee shall not become effective until a successor trustee approved by Extraordinary Resolution of the holders of the Notes who are the Controlling Class is appointed. Notice of the retirement or removal of the Trustee will be given to the Noteholders pursuant to Condition 16 (*Notices*).

In acting under the Agency Agreement and in connection with the Class 2004 Notes and any Further Notes issued by the Issuer, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and the Agents do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial specified offices are listed below. The Agency Agreement includes provisions providing for the termination and the appointment of any Agent and the appointment of a successor principal paying agent and additional or successor paying agents; *provided, however*, that the Issuer shall at all times maintain: (a) a principal paying agent and an agent bank, (b) a paying agent in any city required pursuant to the listing rules of any exchange on which the Class 2004 Notes and any Further Notes are listed from time to time and (c), if the EU Savings Tax Directive (Directive 2003/48/EC) takes effect, a paying agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to such directive or any law implementing or complying with, or introduced to conform to, such directive.

Notice of any change in any of the Agents or in their specified offices shall promptly be given to the Noteholders pursuant to Condition 16 (*Notices*).

18. Governing Law and Submission to Jurisdiction

(a) Governing Law

The Class 2004 Notes and the Trust Deed and all matters arising from or connected with the Class 2004 Notes and the Trust Deed are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The Issuer has in the Trust Deed, (i) irrevocably agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have jurisdiction to settle any dispute (a "Dispute")

arising from or connected with the Class 2004 Notes; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient; and (iii) designated a person in England to accept service of any process on its behalf. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute (“Proceedings”) in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

(c) Third Party Rights

No person shall have any right to enforce any term or condition of the Class 2004 Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

19. Further Issues

The Issuer may from time to time without the consent of the Class 2004 Noteholders create and issue further securities (the “Further Notes”) (provided always that the Issuer is able to procure any necessary consent to such activity from any appropriate regulatory authority) which may rank *pari passu* with the Class 2004 Notes (together with the Class 2004 Notes, the “Pari Passu Notes”) or be subordinated to the Class 2004 Notes (the “Subordinated Notes”), and shall use the proceeds of sale thereof to fund further Advances pursuant to the Loan Agreement, provided the following conditions are met:

- (a) in the case of any Further Notes which are Pari Passu Notes, the Rating Agencies (i) shall have rated such Further Notes (without taking into account any third-party credit enhancement) no lower than the then prevailing highest rating of the Notes Outstanding immediately prior to the issuance of such Further Notes, and (ii) shall have provided Rating Agency Confirmation;
- (b) no Early Amortisation Event, Incipient Early Amortisation Event, Note Event of Default or Potential Note Event of Default in respect of the Class 2004 Notes or any other Class of Notes shall have occurred and be continuing prior to or after giving effect to such proposed issuance;
- (c) any Further Notes which are Pari Passu Notes shall be issued on such terms and conditions as the Issuer may elect provided however that such Further Notes shall have terms and conditions which correspond to, and are the same in all material respects as, Condition 2 (*Status and Controlling Class*) and 7(a) (*Accrual of Interest*) of the Class 2004 Notes;
- (d) where, in connection with an issue of Further Notes, the Issuer provides covenants, undertakings or representations (the “Enhanced Terms”) over and above those provided to the Holders of the Class 2004 Notes and/or the Trustee on their behalf in the Conditions or Transaction Documents relating to the Class 2004 Notes, the Issuer shall, with the consent of the Trustee, but without the consent of the Class 2004 Noteholders, take all steps which the Trustee considers necessary or desirable to amend the Conditions and/or the Transaction Documents so as to make such Enhanced Terms available to the holders of the Class 2004 Notes or the Trustee on its behalf; and
- (e) the conditions to the making of the Related Advance from the proceeds of such Class of Further Notes on the relevant Drawdown Date shall have been satisfied.

Any Further Notes shall be constituted by a deed supplemental to the Trust Deed and shall, along with Class 2004 Notes, be secured by the security over the Note Collateral created by the Security Documents.

20. Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below.

“2004 Advance” means the advance so designated under the Loan Agreement and financed by the Issuer from the issuance of the Original Class 2004 Notes.

“2004 Closing Date” means 3 November 2004.

“2004 Collateral Sub-account” means the account number 1660548400, “BNY New York as Trustee for RICF SA/ROSBANK 2004 Collateral Sub-A/C” established pursuant to the Agency Agreement.

“2004 Debt Service Reserve Account” means account number 1660528400, “BNY New York as Trustee for RICF SA/ROSBANK 2004 Debt Service Reserve A/C” established pursuant to the Agency Agreement.

“2004 Debt Service Reserve LC” means the Debt Service Reserve LCs in relation to the Original Class 2004 Notes and the Further Class 2004 Notes.

“2004 Interest Rate” with respect to the 2004 Advance, 2005 Advance and the Class 2004 Notes has the meaning ascribed to it in Condition 7(b) (*Rate of Interest*).

“2004 MCM Amendment Letter” means the letter dated on or about 4 February 2005 sent by Rosbank and the Issuer and countersigned by MasterCard, MasterCard Europe, Maestro, the Trustee, the Account Bank, the Paying Agents, the Servicer, Merrill Lynch International and Credit Suisse First Boston (Europe) Limited.

“2004 MCM Consent and Agreement” means the Consent and Agreement, dated on or before 3 November 2004, executed by MasterCard, MasterCard Europe and Maestro and delivered to the Trustee, ROSBANK, the Issuer and UCS in relation to the Class 2004 Notes, as amended by the 2004 MCM Amendment Letter.

“2004 MCM Notice and Consent” means the 2004 MCM Notice of Assignment and the 2004 MCM Consent and Agreement, collectively.

“2004 MCM Notice of Assignment” means the Notice of Assignment by Way of Security, dated on or before 3 November 2004, to be executed by ROSBANK, UCS, the Issuer, and the Trustee and delivered to MasterCard, MasterCard Europe and Maestro in relation to the Class 2004 Notes, as amended by the 2004 MCM Amendment Letter.

“2004 Required Reserve Amount” means (i) at such time as ROSBANK’s long term foreign currency bank deposit rating from Moody’s is “B1” (stable) or above, the aggregate Interest Amount due and payable in respect of the Class 2004 Notes on the next Payment Date or in the case of the March 2005 Payment Date only, the aggregate Interest Amount due and payable in respect of the Original Class 2004 Notes and the Further Class 2004 Notes on the March 2005 Payment Date (assuming in the case of the March 2005 Payment Date that the initial Interest Period for the Further Class 2004 Notes were a full three-month period), calculated in accordance with Condition 7 (*Interest*) of the Original Class 2004 Notes and Condition 7 (*Interest*) of the Further Class 2004 Notes (as appropriate), and (ii) at such time as ROSBANK’s long term foreign currency bank deposit rating from Moody’s is “B1” (on review for possible downgrade) or below, three times the aggregate interest amount due and payable in respect of the Class 2004 Notes on the next Payment Date or in the case of the March 2005 Payment Date only, three times the aggregate Interest Amount due and payable in respect of the Original Class 2004 Notes and the Further Class 2004 Notes on the March 2005 Payment Date (assuming in the case of the March 2005 Payment Date that the initial Interest Period for the Further Class 2004 Notes were a full three-month period) calculated in accordance with Condition 7 (*Interest*) of the Original Class 2004 Notes and Condition 7 (*Interest*) of the Further Class 2004 Notes (as appropriate). During the Early Amortisation Period, the 2004 Required Reserve Amount will remain the amount in effect immediately prior to the start of such Early Amortisation Period except to the extent increased pursuant to clause (ii) above.

“2004 VISA Amendment” means Amendment No.1 to the Notice of Assignment and Consent Agreement dated on or about 4 February 2005 between, *inter alios*, Visa, Rosbank and the Trustee.

“2004 VISA Consent and Agreement” means the Consent and Agreement, dated the 2004 Closing Date, executed by VISA and delivered to the Trustee, the Account Bank, ROSBANK, the Issuer and UCS in relation to the Class 2004 Notes, as amended by the VISA Amendment.

“2004 VISA Notice and Consent” means the 2004 VISA Notice of Assignment and the 2004 VISA Consent and Agreement, collectively.

“2004 VISA Notice of Assignment” means the Notice of Assignment, dated 1 November 2004, to be executed by ROSBANK, UCS, the Issuer, the Account Bank and the Trustee and delivered to VISA, as amended by the VISA Amendment.

“2005 Advance” means the advance so designated under the Loan Agreement and financed by the Issuer from the issuance of the Further Class 2004 Notes.

“Accounts Control Agreement” means the accounts control agreement dated on or about 1 November 2004, between ROSBANK, the Issuer and The Bank of New York.

“Additional Amounts” means, in respect of the Class 2004 Notes, the additional amounts payable under Condition 10 (*Taxation*) and, in relation to any Further Notes, any additional amounts expressed to be payable under any equivalent Condition.

“Administrative Expenses” means, collectively:

- (a) the compensation that shall be payable to the Trustee or any receiver for all services rendered and to be rendered by the Trustee or such receiver in connection with the execution of the trust created under the Trust Deed and the exercise and performance of any of the powers and duties there under and under the other Transaction Documents, together with all expenses, disbursements and advances (provided they are accompanied by appropriate documentation): (i) incurred or made by the Trustee or such receiver in the exercise and performance of any of the powers and duties of the Trustee under the Transaction Documents (including the fees and expenses of its agents and counsel provided they are accompanied by appropriate documentation), except for any such expense, disbursement or advance as may arise from the negligence or wilful misconduct of the Trustee or such receiver, and (ii) invoiced in writing to the Issuer and ROSBANK;
- (b) the reasonable and documented compensation for all services rendered and to be rendered by the Administrator pursuant to the Management Agreement in connection with the transactions contemplated by the Transaction Documents, together with (but only to the extent contemplated by the Management Agreement) all reasonable and documented expenses, disbursements and advances: (i) incurred or made by the Administrator in the performance of the duties of the Administrator pursuant to the Management Agreement in connection with the transactions contemplated by the Transaction Documents (including the reasonable fees and expenses of its agents and counsel), except for any such expense, disbursement or advance as may arise from the negligence or wilful misconduct of the Administrator, and (ii) invoiced in writing to the Issuer and ROSBANK; and
- (c) the reasonable and documented compensation of the Rating Agencies for all services rendered, and to be rendered, by the Rating Agencies in connection with the rating of the Notes and the ongoing monitoring of the ratings from time to time assigned by them to the Notes; and
- (d) the compensation for all services rendered and to be rendered by the Agents pursuant to the Agency Agreement in connection with the transactions contemplated by the Transaction Documents, together with (but only to the extent contemplated by the Agency Agreement) all expenses, disbursements and advances (provided they are accompanied by appropriate documentation): (i) incurred or made by any Agent in the performance of the duties of the Agents pursuant to the Agency Agreement in connection with the transactions contemplated by the Transaction Documents (provided they are accompanied by appropriate documentation) (including the fees and expenses of their agents and counsel), except for any such expense, disbursement or advance as may arise from the negligence or wilful misconduct of any Agent, and (ii) invoiced in writing to the Issuer and ROSBANK; and
- (e) the compensation for all services rendered and to be rendered by the Account Bank pursuant to the Agency Agreement in connection with the transactions contemplated by the Transaction Documents, together with (but only to the extent contemplated by the

Agency Agreement) all expenses, disbursements and advances (provided they are accompanied by appropriate documentation): (i) incurred or made by the Account Bank in the performance of the duties of the Account Bank pursuant to the Agency Agreement in connection with the transactions contemplated by the Transaction Documents (provided they are accompanied by appropriate documentation) (including the fees and expenses of its agents and counsel), except for any such expense, disbursement or advance as may arise from the negligence or wilful misconduct of the Account Bank, and (ii) invoiced in writing to the Issuer and ROSBANK.

“Administrator” means TMF Management Luxembourg S.A., or any other entity engaged by the Issuer to perform administrative and other services for the Issuer, pursuant to the Management Agreement.

“Amortisation Amount” means (i) for any Scheduled Payment Date, the Scheduled Amortisation Amount (if any) due on such date, and (ii) for any Early Amortisation Payment Date, the Early Amortisation Amount due on such date.

“Applicable Cash Sharing Percentage” with respect to any Payment Date during the Early Amortisation Period means the cash sharing percentage derived from the table set forth below based on the Debt Service Coverage Base Ratio as of the most recent Calculation Date prior to such Payment Date.

| <i>Debt Service Coverage Base Ratio as of the most recent Calculation Date prior to such Payment Date</i> | <i>% of Available Collections utilised for principal payments during Early Amortisation Period</i> | <i>Cash Sharing Percentage</i> |
|---|--|--------------------------------|
| 6.5 (or above) | 54% | 46% |
| 6.0 – 6.49 | 58% | 42% |
| 5.5 – 5.99 | 64% | 36% |
| 5.0 – 5.49 | 70% | 30% |
| 4.5 – 4.99 | 79% | 21% |
| 4.0 – 4.49 | 88% | 12% |
| 3.5 – 3.99 | 94% | 6% |
| below 3.5 | 100% | 0% |

“Assumed Interest Rate” means the rate specified as such for any series of Further Notes that are floating-rate notes in the applicable Further Notes Supplemental Trust Deed.

“Authorised Officer” means (a) in the case of the Issuer, ROSBANK or the Servicer, the Persons (which may include directors of the Issuer, ROSBANK or the Servicer, as the case may be) specified by each such Person as such on the Closing Date or, thereafter, in an Officers’ Certificate delivered from time to time to the Trustee, (b) in the case of the Trustee or any of the Agents, a Responsible Officer or such other Persons as may from time to time be designated as such by the Trustee or any of the Agents in writing to the Issuer and ROSBANK or (c) in the case of any other Person, the chairman of the board, chief executive officer, chief financial or accounting officer, any vice president, or any corporate trust officer of such Person.

“Available Funds” means at any time, in relation to a Class of Notes the sum of:

- (i) all amounts in respect of Receivables standing to the credit of the Collateral Accounts;
- (ii) amounts deposited in the Collateral Accounts by ROSBANK in respect of interest, principal, Additional Amounts or any other amounts pursuant to the Loan Agreement or the other Transaction Documents;
- (iii) all amounts received in respect of Eligible Investments from time to time (unless reinvested in accordance with the applicable Conditions);
- (iv) interest received by the Issuer on any of the Collateral Accounts; and

- (v) all amounts analogous to those described at (i) to (iv) above, or any other amounts, received in relation to any Further Notes.

“Bank Account Assignment” means the bank account assignment dated 1 November 2004, between ROSBANK and the Issuer.

“Business Day” means any day on which commercial banks and foreign exchange markets settle payments in New York, London and Luxembourg (other than a Saturday or Sunday).

“Calculation Date” means, (i) for any month in which a Payment Date occurs, the Quarterly Calculation Date and (ii) for each intervening month, the numerically equivalent day to the next Quarterly Calculation Date, or if such numerically equivalent day is not a Business Day the preceding Business Day.

“Calculation Period” means the period commencing on a Calculation Date (or on the Closing Date in the case of the initial Calculation Period) and ending on and including the day prior to the following Calculation Date.

“Card Programmes” means the MasterCard Credit Card Programme, the VISA Card Programme and the Maestro Card Programme, collectively.

“Central Bank” means the Central Bank of Russia or any successor thereto.

“Class” means each separate class of Notes issued pursuant to the Trust Deed.

“Class 2004 Noteholders” means the holder(s) of the Class 2004 Notes.

“Class 2004 Notes” means the U.S.\$225 million Class 2004 9.75 per cent. Structured Receivables Notes due 2010 together with the U.S.\$75 million Further Class 2004 9.75 per cent. Structured Receivables Notes due 2010 of the Issuer.

“Clearing System” means, where the context admits, any or all of Euroclear, Clearstream, Luxembourg and any other clearing system approved by the Issuer, the Trustee and the Principal Paying Agent.

“Clearstream, Luxembourg” means Clearstream Banking, *société* anonyme and any successor in relation thereto.

“Closing Date” means 9 February 2005 (or such other time as may be agreed in writing between the Managers, Rosbank and the Issuer, such time and date not being later than 23 February 2005).

“Collateral Accounts” means the USD Collateral Account, any Collateral Sub-account, the Euro Collateral Account, the Debt Service Reserve Account and the HSBC Account.

“Collateral Sub-accounts” means the 2004 Collateral Sub-accounts and each other sub-account of the USD Collateral Account relating to a specific Class of Further Notes established and maintained by the Issuer with the Account Bank pursuant to the Agency Agreement.

“Collections” means the payments received in respect of the Receivables pursuant to the Obligor Notices and Consents through deposit into the Collateral Accounts.

“Collection Period” means the period commencing on (and including) a Quarterly Calculation Date (or on the Closing Date in the case of the initial Collection Period) and ending approximately three months later on and including the day before the next Quarterly Calculation Date.

“Combined Base Amount” means, as of any date of determination, the highest amount of potential debt service on any single future Payment Date, computed as the sum of:

- (a) the aggregate amount of principal on all Classes of Notes (based upon the Scheduled Amortisation Amount for each such Class of Notes) scheduled to be paid (without giving effect to any adjustment as a result of an Early Amortisation Period) on any one Payment Date on or after such date of determination, *plus*
- (b) the aggregate amount of interest scheduled to be paid on all Classes of Notes on such Payment Date (calculated for each Class of Notes as the product of: (i) the Interest Rate corresponding to such Class of Notes (or, for any Classes of Floating Rate Notes, the Assumed Interest Rate for such Class), (ii) the Outstanding Principal Amount of Notes of

such Class scheduled to be in effect on such Payment Date immediately before the payment of principal scheduled to be paid on such Payment Date and (iii) (x) in the case of a Class of Floating Rate Notes, the actual number of days in the applicable Interest Period divided by 360; and (y) in the case of a Class of Notes which accrues interest on a fixed rate basis, the actual number of days in the applicable Interest Period (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) divided by 360.

“Controlling Class” means the holders of all Classes of Notes which are Pari Passu Notes or, following redemption and payment in full of the Pari Passu Notes, the holders of the Classes of Notes which are Subordinated Notes, in each case acting:

- (a) in all circumstances other than those referred to in paragraph (b) below, by ordinary resolution or upon the written direction of the holders of 51 per cent. of the Outstanding Principal Amount of the Pari Passu Notes or the Subordinated Notes, as the case may be; or
- (b) where required under the Conditions or the Transaction Documents by Extraordinary Resolution of the Outstanding Principal Amount of the Pari Passu Notes or the Subordinated Notes, as the case may be.

“Debt Service Coverage Base Ratio” means (i) the aggregate amount of Collections credited to the Collateral Accounts by the Receivables Obligors during the Calculation Period just ended to (ii) one-third of the Combined Base Amount; provided, that for the initial Calculation Period such Collections shall be multiplied by a fraction the numerator of which is 30 and the denominator of which is the number of days from the 2004 Closing Date to the last day of the initial Calculation Period (inclusive).

“Debt Service Coverage Ratio” means as of any Calculation Date, the three-month rolling average of the Debt Service Coverage Base Ratios on such Calculation Date and the two most recently preceding Calculation Dates; provided that on the first Calculation Date, it shall mean the Debt Service Coverage Base Ratio for such Calculation Date, and on the second Calculation Date it shall mean the average of the Debt Service Coverage Base Ratios for such Calculation Date and the prior Calculation Date.

“Debt Service Coverage Test” means a test to be computed each Calculation Date by ROSBANK, and which will be satisfied if the Debt Service Coverage Ratio is greater than 3.00 to 1.00.

“Debt Service Reserve LC” means a letter of credit issued for the account of ROSBANK in relation to any Class of Notes by a Qualified Bank in a face amount (denominated and payable in Dollars) at least equal to the applicable Required Reserve Amount; and *provided further* that if the bank issuing the relevant Debt Service Reserve LC ceases to be a Qualified Bank, ROSBANK shall substitute such bank with a Qualified Bank within 30 days of the earlier of: (a) the Issuer’s or ROSBANK’s obtaining knowledge of such bank’s ceasing to be a Qualified Bank (it being understood that the Issuer shall notify ROSBANK promptly after obtaining such knowledge); and (b) the delivery to the Issuer and ROSBANK by the Trustee or any Secured Creditor of written notice of such bank’s ceasing to be a Qualified Bank. Each Debt Service Reserve LC shall have an initial term of 364 days or more, name the Trustee or the Issuer as the beneficiary thereof and if the Issuer is named as beneficiary then either: (i) contain an acknowledgment that the Issuer’s rights thereunder are enforceable by the Trustee or (ii) name the Trustee as a separate beneficiary thereof. The Trustee shall maintain possession of each Debt Service Reserve LC, any replacement thereof and any confirmations relating thereto. Each Debt Service Reserve LC (and any confirmation thereof) shall be irrevocable and governed by the laws of the State of New York or England and Wales.

“Dollar”, “\$”, “US dollar”, or “US\$” means the lawful currency of the United States.

“Early Amortisation Amount” means one-third of the Scheduled Amortisation Amount due on the Expected Maturity Date.

“Early Amortisation Event” means each or any of the events described as such in the Loan Agreement.

“Early Amortisation Payment Date” means the 24th day of each calendar month commencing on the first 24th day of a month occurring after the occurrence of such Early Amortisation Event (or if such day is not a Business Day, the following Business Day).

“Early Amortisation Period” means, with respect to any Note, the period beginning on the date on which an Early Amortisation Event is declared to have commenced or automatically commences with respect to such Note and continuing to and including the earlier to occur of (i) the date on which such Early Amortisation Event shall have been waived and (ii) the date on which all principal of and interest (including any Additional Amounts) on such Note and all other amounts due from the Issuer pursuant to the Transaction Documents have been paid in full in accordance with their terms.

“Eligible Investments” means the JP Morgan Fleming USD Treasury Fund STIF (ISIN: X9X9USDJPMU3) or similar investments as agreed by the Trustee and ROSBANK subject to Rating Agency Confirmation.

“Enhanced Terms” shall have the meaning given to such term in Condition 19 (*Further Issues*).

“EUR”, “euro”, “Euro” and “€” means the single currency introduced at the start of the Third Stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended.

“Euro Collateral Account” means account number 2318439780, “BNY London as Trustee for RICF SA/ROSBANK Euro Collateral A/C” established pursuant to the Agency Agreement.

“Euroclear” means Euroclear Bank S.A./N.V. as operator of the Euroclear System and any successor in relation thereto.

“Event of Default” means any Loan Event of Default or Note Event of Default.

“Expected Maturity Date” means the Payment Date occurring in September 2009.

“Expense Amount” means for any Payment Date, expenses owing pursuant to the Loan Agreement, or the relevant section of any other agreement relating to the Notes for which the Trustee has received notice from the payee.

“Extraordinary Resolution” means in relation to any Class of Noteholders, a resolution passed (at a meeting of such Class of Noteholders duly convened and held in accordance with the Trust Deed) by a majority of at least 75 per cent. of the votes cast.

“Final Maturity Date” means 24 September 2010.

“Fitch” means Fitch Ratings, Ltd.

“Further Advance” means an advance made in accordance with Clause 3.2 (*Further Advance*) of the Loan Agreement subsequent to the 2004 Advance.

“Further Class 2004 Notes” means the U.S.\$75 million 9.75 per cent. Structured Receivables Notes due 2010 of the Issuer issued on the Closing Date.

“Further Notes Supplemental Trust Deed” means any trust deed supplemental to the Trust Deed, entered into in connection with the constitution of Further Notes.

“Governmental Authority” means any nation or government (including Russia, the United Kingdom, Luxembourg, and the United States), any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any supranational entity (e.g., the European Union and the European Customs Union).

“HSBC Account” means the account of ROSBANK at HSBC Bank Plc, account number 5861616.

“Holders” and “Noteholders” means the holder of each Class of Notes.

“IFRS” means, with respect to financial statements of ROSBANK, the International Financial Reporting Standards published from time to time by the International Accounting Standards Committee.

“Illegality Event” means any event which satisfies the requirements set out in Clause 5.4 (*Illegality*) of the Loan Agreement.

“Incidental Charges” means, collectively, MasterCard Incidental Charges and VISA Incidental Charges.

“Incipient Early Amortisation Event” means any event or other occurrence that, with the delivery of notice, the passing of time or both, would constitute an Early Amortisation Event.

“Indebtedness” means, of any Person at any date (without duplication): (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, (b) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument, (c) all obligations of such Person under any lease of property under which the obligations by the lessee are required to be capitalised on a balance sheet of the lessee, (d) all obligations of such Person in respect of acceptances issued or created for the account of such Person and (e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

“Interest Amount” with respect to the 2004 Advance, 2005 Advance, the Class 2004 Notes and the Further Class 2004 Notes (as the case may be) has the meaning given to that term in Condition 7(c) (*Calculation of Interest Amounts*) of the Original Class 2004 Notes and Condition 7(c) (*Calculation of Interest Amounts*) of the Further Class 2004 Notes (as appropriate), and, in relation to any Further Notes, the equivalent provision in the applicable Conditions.

“Interest Rate” means in relation to the Class 2004 Notes and the Further Class 2004 Notes, the 2004 Interest Rate, and in relation to Further Notes the rate specified in the applicable Conditions.

“Interest Period” means, (i) in relation to the 2005 Advance and the Further Class 2004 Notes each period beginning on (and including) the Closing Date or any Payment Date and ending on (but excluding) the next Payment Date provided however that, notwithstanding the definition of “Payment Date”, such Payment Dates for the purposes of this definition of Interest Period only shall be determined without adjustment for non-Business Days or (ii) in relation to any Further Notes, the period specified in the applicable Conditions.

“Investment Company Act” means the United States Investment Company Act of 1940, as amended.

“Issuer Management Account” means the account of the Bank of New York, London Branch held with Barclays Bank Plc in account number 7364819780 into which the amount of the Issuers paid-up share capital has been credited.

“Issuer Secured Obligations” means all monies, debts and obligations of the Issuer owing to each of the Secured Creditors pursuant to the Transaction Documents.

“Issuer Security Agreement” means an agreement (as amended from time to time) dated 1 November 2004 between the Trustee and the Issuer pursuant to which the Issuer has granted a first priority security interest in, and has assigned to the Trustee all of its rights under the Rosbank Security Agreement and which is governed by the laws of the State of New York.

“Issuer Security Documents” means the Issuer Security Agreement, the Trust Deed, the Bank Account Assignment and the Accounts Control Agreement.

“KM Invest” means Closed Joint Stock Company ZAO KM Invest, a company organised under Russian law.

“Licence Agreements” means the MasterCard Agreement, the VISA Agreement and the Maestro Agreement.

“Loan Event of Default” has the meaning assigned to such term in Clause 12.2 (*Loan Events of Default*) of the Loan Agreement.

“Maestro” means the Maestro Regional Licensors collectively administering the Maestro Card Programme and Maestro International Incorporated.

“Maestro Agreement” means the licence agreements executed between ROSBANK and Maestro, or any Person with the authority to legally bind Maestro, relating to Paper cleared for the Maestro Card Programme through the MasterCard debit switch system and, in each case, any Replacement Agreement entered into with Maestro or any of its Affiliates.

“Maestro Card Operating Regulations” means the MasterCard International Incorporated operations manual in effect from time to time, as the same may be amended, modified, updated or supplemented from time to time.

“Maestro Card Programme” means the debit and ATM card programme administered by Maestro pursuant to the Maestro Agreement, the agreements between each Maestro Regional Licensor and Maestro International Incorporated, the agreements between each Maestro Regional Licensor and its members, the rules, policies and by-laws of the Maestro Regional Licensors and Maestro International Incorporated (and any other agreements or arrangements with MasterCard under the MasterCard Credit Card Programme) regulating the rights, duties and obligations of Maestro and its members with respect to the procedures administered by Maestro for the clearing and settlement of Paper, in each case as the same may be amended, modified or supplemented from time to time.

“Maestro Regional Licensor” means each of Maestro USA Inc., Maestro Canada, Inc., Maestro Latin America, Inc., Maestro Middle East/Africa, Inc., and Maestro Asia/Pacific, Ltd., each a Delaware corporation and MasterCard Europe.

“Make-whole Premium” (a) in relation to the Class 2004 Notes, as of any date of determination, shall be an amount (not to be less than zero) equal to (i) the present value to such date of the remaining principal and interest on the Class 2004 Notes being redeemed, discounted at a *per annum* rate equal to the then current bid side yield (as most recently published in the New York edition of *The Wall Street Journal*) on the US Treasury Note having a maturity date closest to the remaining weighted average life on the Class 2004 Notes calculated at the time of the repayment, *plus 0.50 per cent. per annum, minus* (ii) the aggregate Outstanding Principal Amount of the Class 2004 Notes (or portion thereof) to be redeemed on such date or (b) in relation to any Further Notes which accrue interest on a fixed rate basis, such other amount which may be specified in the applicable Conditions.

“Management Agreement” means the Management Agreement, dated as of on or about 1 November 2004 between the Issuer and the Administrator, as the same may be amended, supplemented or otherwise modified from time to time.

“Master Definitions Schedule” means the amended and restated master definitions schedule signed for the purposes of identification on or about the Closing Date by the Issuer, the Trustee, the Servicer, the Account Bank, ROSBANK, and the Agents.

“MasterCard” means MasterCard International Incorporated, a Delaware non-stock membership corporation.

“MasterCard Agreement” means the Trademark Licence Agreements between ROSBANK and MasterCard and/or MasterCard Europe and any agreement or arrangement, written or otherwise, with MasterCard binding upon ROSBANK, in each case as the same may be amended, modified or supplemented from time to time including any Replacement Agreement entered into with MasterCard and/or MasterCard Europe or any of their Affiliates.

“MasterCard By-Laws” means the by-laws of MasterCard in effect on the date of the 2004 MCM Notice of Assignment, as the same may be amended, modified or supplemented from time to time.

“MasterCard Credit Card Programme” means the credit and debit card programme administered by MasterCard pursuant to (i) the MasterCard By-Laws, MasterCard Rules, MasterCard Operating Regulations and MasterCard Agreement and (ii) any other agreements or arrangements regulating the rights, duties and obligations of MasterCard and its members with respect to the procedures administered by MasterCard for the clearing and settlement of Paper, in each case as such MasterCard By-Laws, MasterCard Rules, MasterCard Operating Regulations, MasterCard Agreement

and other agreements or arrangements may be amended, modified or supplemented from time to time.

“MasterCard Debit Switch Operation Manual” means the MasterCard Debit Switch Operation Manual in effect on the date of the 2004 MCM Notice of Assignment, as the same may be amended from time to time.

“MasterCard Europe” means MasterCard Europe sprl, a Belgian corporation.

“MasterCard Europe Card Programme” means the credit and debit card programme administered by MasterCard Europe pursuant to (i) the MasterCard By-Laws, MasterCard Rules, MasterCard Operating Regulations and MasterCard Agreement and (ii) any other agreements or arrangements regulating the rights, duties and obligations of MasterCard and its members with respect to the procedures administered by MasterCard Europe for the clearing and settlement of Paper, in each case as such MasterCard By-Laws, MasterCard Rules, MasterCard Operating Regulations, MasterCard Agreements and other agreements or arrangements may be amended, modified or supplemented from time to time.

“MasterCard Incidental Charges” means “Incidental Charges” as defined in the 2004 MCM Notice of Assignment.

“MasterCard Operating Regulations” means the MasterCard International Incorporated Operations Manual, the MasterCard International Incorporated Settlement Manual and the European Regional Clearing and Settlement Guide, each as in effect on the date of the 2004 MCM Notice of Assignment, as the same may be amended, modified, updated or supplemented from time to time.

“MasterCard Rules” means the MasterCard International Incorporated Rules in effect on the date of the 2004 MCM Notice of Assignment, as amended, modified or supplemented from time to time.

“MasterCard Settlement System” means the MasterCard general clearing management system and the European Region consolidated clearing settlement system, as described in the MasterCard Operating Regulations and/or the MasterCard Debit Switch, as described in the Maestro Card Operating Regulations or the MasterCard Debit Switch, as the case may be.

“Material Adverse Effect” means an event which is or could reasonably be expected to be materially adverse (as determined by the Trustee) to any of the following:

- (a) the business, performance, results of operations, condition (financial or otherwise) or prospects of ROSBANK;
- (b) the amount of Receivables generated;
- (c) the ability to calculate the Receivables or collect them;
- (d) the card voucher processing business of ROSBANK and the Servicer;
- (e) the ability of ROSBANK, the Issuer, the Servicer or any Receivables Obligor to perform their respective material obligations under the Transaction Documents; or
- (f) the bankruptcy remote status of the Issuer or the validity of the Issuer’s or the Trustee’s interest in the Receivables.

“MCM Notices and Consents” means the 2004 MCM Notice and Consent and any equivalent notices and consents executed in connection with any Further Notes.

“Monthly Compliance Report” means the monthly compliance report that ROSBANK is required to submit pursuant to the Loan Agreement.

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

“Notes” means each of the Class 2004 Notes and any Further Notes.

“Note Collateral” means the assets of the Issuer on which the Notes are secured.

“Note Event of Default” has the meaning ascribed thereto in Condition 11 (*Note Events of Default*).

“Obligor Notices and Consents” means the MCM Notices and Consents and the VISA Notices and Consents, collectively.

“Offering Circular” means the offering circular dated on or about the Closing Date issued by the Issuer in respect of the Further Class 2004 Notes.

“Officers’ Certificate” means in the case of the Issuer, the Servicer or ROSBANK, a certificate signed by two Authorised Officers of such entity and in the case of the Trustee or any of the Agents, a certificate signed by two Responsible Officers of such entity.

“Optional Redemption” means redemption pursuant to Condition 8(d) (*Optional Redemption of the Class 2004 Notes upon a Tax Event*) or Condition 8(e) (*Redemption at the Option of ROSBANK*).

“Optional Redemption Date” has the meaning set out in Condition 8(e) (*Redemption at the Option of ROSBANK*).

“Original Class 2004 Notes” means the US\$225 million 9.75 per cent. Structured Receivables Notes due 2010.

“Outstanding” means, in relation to Notes of a Class, all the Notes of such Class issued other than:

- (a) those Notes to the extent that they have been redeemed in part pursuant to the Conditions;
- (b) those Notes which have been redeemed in full or purchased and cancelled pursuant to the Conditions;
- (c) those Notes in respect of which the date for redemption in full in accordance with their terms has occurred and the redemption moneys whereafter (including all interest payable thereon) have been duly paid to the Trustee or to the Principal Paying Agent in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the relevant Noteholders in accordance with the terms of such Notes) and remain available for payment against presentation of the relevant Notes;
- (d) those Notes which have been forfeited or have become void under their terms or claims in respect of which have become prescribed under the Conditions;
- (e) those mutilated or defaced Individual Note Certificates which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to their terms;
- (f) (for the purpose only of ascertaining the principal amount of the Individual Note Certificates outstanding and without prejudice to the status for any other purpose of the relevant Individual Note Certificates) those Individual Note Certificates which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to their terms; and
- (g) any portion of the Global Note Certificate to the extent that it has been exchanged for Individual Note Certificates.

provided that for the purposes of Schedule 3 (*Provisions for Meetings of the Noteholders of each Class*) to the Trust Deed and the relevant Conditions, those Notes which are held by, or on behalf of, the Issuer and not cancelled shall (unless and until ceasing to be so held) be deemed not to remain outstanding.

“Outstanding Principal Amount” means, at any time, in relation to a Class of Notes, the Outstanding Principal Amount of such Class as adjusted from time to time in accordance with the Conditions. On the 2004 Closing Date of the Original Class 2004 Notes, the Outstanding Principal Amount of the Original Class 2004 Notes was US\$225,000,000 and on the Closing Date of the Further Class 2004 Notes the Outstanding Principal Amount of the Further Class 2004 Notes is US\$75,000,000.

“Paper” means:

- (i) with respect to MasterCard and Maestro, means “Paper” or “paper draft” as defined in the MasterCard Operating Regulations and/or the Maestro Card Operating Regulations, where ROSBANK is the acquirer of the Paper or paper draft pursuant to a valid agreement with the applicable merchant and for which ROSBANK has executed and delivered a Net Settlement Agreement with MasterCard or MasterCard Europe, directly

that payments in settlement of such Paper or paper draft in the European Region (as defined in the MasterCard Operating Regulations) be made to the Intra-Europe Settlement Bank in Euros, but in any event, shall not include, with respect to ROSBANK, any Paper or paper draft (a) in respect of the issuance, cashing, honouring or refunding of travellers' cheques, through MasterCard, MasterCard Europe or Maestro, (b) for which ROSBANK has not provided to MasterCard, MasterCard Europe, and Maestro, as applicable the member ID or ICA number to be used by MasterCard, MasterCard Europe, and Maestro in carrying out the payment instructions set forth in the Notice of Assignment and the 2004 Consent and Agreement or (c) generated by MasterCard or Maestro credit or debit cards issued by a bank or other financial institution that are settled within the Intra-Currency Settlement service, as defined in the MasterCard Operation Regulations;

- (ii) with respect to MasterCard and Maestro, "Paper" or "paper draft" as defined in the MasterCard Operating Regulations and/or the Maestro Card Operating Regulations, where ROSBANK is the acquirer of the Paper or paper draft pursuant to a valid agreement with the applicable merchant and for which ROSBANK has executed and delivered a Net Settlement Agreement with MasterCard or MasterCard Europe, directing that payments in settlement of such Paper or paper draft be made to the Trustee in US Dollars but, in any event, shall not include, with respect to ROSBANK, any Paper or paper draft (a) in respect of the issuance, cashing, honouring or refunding of travellers' checks, through MasterCard or Maestro, (b) for which ROSBANK has not provided to MasterCard, MasterCard Europe, and Maestro, as applicable, the member ID or ICA number to be used by MasterCard, MasterCard Europe, and Maestro in carrying out the payment instructions set forth in the Notice of Assignment and the 2004 Consent and Agreement or (c) generated by MasterCard or Maestro credit or debit cards issued by a bank or other financial institution that are settled within the Intra-Currency Settlement Service, as defined in the MasterCard Operating Regulations; and
- (iii) with respect to VISA, an International Transaction Receipt, as defined in the VISA Operating Regulations, entered into the VISA Settlement System by ROSBANK or UCS or any Processor to ROSBANK or UCS, but shall not include: (a) Transaction Receipts with respect to Wire Transfer Transactions or (b) any Transaction Receipt: (1) with respect to the issuance, cashing, honouring or refunding of travellers cheques through VISA, (2) generated by VISA credit or debit cards issued by banks located in Russia or (3) generated with respect to Transactions outside Russia (all of the capitalised terms in this clause (iii) having the meanings ascribed to them in the VISA Operating Regulations).

"Pari Passu Notes" shall have the meaning set out in Condition 19 (*Further Issues*).

"Payment Date" means (i) prior to the occurrence of an Early Amortisation Event, the 24th day of each March, June, September and December of each year, beginning on 24 December 2004 (or in each case the first Business Day thereafter, if any date specified is not a Business Day); and (ii) after the occurrence of an Early Amortisation Event, each Early Amortisation Payment Date.

"Person" means any individual, corporation, company, partnership, joint venture, trust, estate, unincorporated association, Governmental Authority or other entity of whatever nature.

"Potential Note Event of Default" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition would constitute a Note Event of Default.

"Presentation Date" means a day which (subject to Condition 13 (*Prescription*)):

- (a) is a Business Day;
- (b) is or falls after the relevant due date for payment, if the due date is not or was not a Business Day in the place of presentation, is or falls after the next following Business Day which is a Business Day in the place of presentation; and
- (c) is a Business Day in the place of the specified office of the relevant Paying Agent.

“Qualified Bank” means a bank located outside Russia that has a foreign currency short-term unsecured debt or deposit rating of at least “F1” by Fitch and “P-1” by Moody’s and is not on any negative credit watch or similar list of either Rating Agency, or is otherwise approved by each Rating Agency.

“Quarterly Calculation Date” means each date that is seven Business Days prior to a Payment Date.

“Quarterly Required Amount” means the amount determined by the Calculation Agent to be required to pay all amounts to be due and owing under Clauses *First* to *Sixteenth* inclusive of Condition 6(a)(i) on the next Payment Date, assuming that there is no Early Amortisation Event, Incipient Early Amortisation Event, Event of Default or Potential Event of Default prior to such next Payment Date.

“Rating Agency” means either Moody’s or Fitch *provided* that if at any time Moody’s or Fitch cease to provide rating services, any other nationally recognised investment rating agency selected by the Issuer and satisfactory to the Trustee (a “Replacement Rating Agency”) and “Rating Agencies” means both Moody’s and Fitch, or any Replacement Rating Agency as applicable. In the event that at any time a Rating Agency is replaced by a Replacement Rating Agency, references to rating categories of the original Rating Agency in the Trust Deed shall be deemed instead to be references to the equivalent categories of the relevant Replacement Rating Agency as of the most recent date on which such other rating agency published ratings for the type of security in respect of which such Replacement Rating Agency is used.

“Rating Agency Confirmation” means with respect to any specified action or determination, receipt of written confirmation by the Rating Agencies (unless otherwise specified herein), for so long as any Notes are Outstanding and rated by the Rating Agencies, that such specified action or determination will not result in the reduction or withdrawal of the then-current ratings of such Notes.

“Receivables” means all existing and after-acquired rights to receive amounts owed or to be owed to or for the account of ROSBANK by:

- (i) MasterCard, MasterCard Europe or Maestro in connection with the settlement under the MasterCard Credit Card Programme, the MasterCard Europe Card Programme or the Maestro Card Programme (in each case as modified by any MCM Notices and Consents) of Paper (as described in clauses (i) and (ii) of the definition thereof) presented by or on behalf of ROSBANK into the MasterCard Settlement System administered by MasterCard, MasterCard Europe or Maestro;
- (ii) VISA, in connection with the settlement under the VISA Card Programme (as modified by any VISA Notices and Consents) of Paper (as described in clause (iii) of the definition thereof) presented by or on behalf of ROSBANK into the VISA Settlement System.

“Receivables Obligor” means each of MasterCard, MasterCard Europe, VISA and Maestro.

“Redemption Amount” means, with respect to the Class 2004 Notes, the 2004 Redemption Amount set forth in Condition 8(e)(iii) (*Payment of 2004 Redemption Amount*) and with respect to any Class of Further Notes has the meaning set forth in the applicable Conditions.

“Redemption Date” means, in respect of any Class of Notes, any Business Day on which the Notes of such Class are either (i) redeemed and cancelled in whole, or (ii) become due and prepayable, pursuant to the terms and conditions of such Class of Notes.

“Related Advance” means with respect to any Class of Notes, the Advance under the Loan Agreement that is funded by such Class of Notes.

“Relevant Jurisdiction” means Russia, the United States, the United Kingdom and Luxembourg.

“Replacement Agreement” means any agreement or arrangement, written or otherwise, binding upon ROSBANK at any time with VISA, MasterCard, MasterCard Europe, Maestro or any of their respective Affiliates that shall provide, or shall be intended to provide, a replacement to any agreement or arrangement governing the MasterCard Credit Card Programme, the MasterCard Europe Card Programme, the Maestro Card Programme or the VISA Card Programme, as the case may be, at the time such agreement or arrangement is entered into.

“Required Reserve Amount” means, in relation to the Class 2004 Notes, the 2004 Required Reserve Amount or, in relation to any Further Notes, such other amount as may be specified in the applicable Conditions.

“Reserve Fund” means the reserve fund established by the Issuer within the USD Collateral Account.

“Reserve Fund Amount” means US\$50,000 or such other amount as shall be reasonably determined by ROSBANK and the Receivables Obligors from time to time.

“Responsible Officer” means, with respect to the Trustee or any Agent, any officer within the specified office of the Trustee or, as the case may be, such Agent, having direct responsibility for the administration of all matters arising in connection with the Notes, including the president, any vice president, any assistant vice president, assistant treasurer or any other officer of the Trustee or such Agent customarily performing functions similar to those performed by any of the above designated officers and also, with respect to a particular matter, any other officer to whom such matter is referred because of such officer’s knowledge of and familiarity with the particular subject.

“Russia” means the Russian Federation and any regional or municipal subdivisions or agencies thereof or therein and “Russian” shall be construed accordingly.

“Scheduled Amortisation Amount” means an amount for each Payment Date during the Scheduled Amortisation Period as set forth on Schedule A to these Conditions.

“Scheduled Amortisation Period” means, (i) the period commencing on the first Payment Date after the 2004 Interest-Only Period and ending on the earlier of: (a) the date on which the Class 2004 Notes have been paid in full, (b) the commencement of the Early Amortisation Period, and (c) the date upon which an Enforcement Notice is delivered pursuant to Condition 11 (*Note Events of Default*) and (ii) in respect of any Further Notes, any such period specified in the applicable Conditions.

“Scheduled Payment Date” means a Payment Date during the Scheduled Amortisation Period.

“Secured Creditors” means each of the Trustee, the Agents, the Transfer Agents, the Account Bank, the Administrator and the Noteholders.

“Securities Act” means the United States Securities Act of 1933, as amended, or any similar statute then in effect, and all regulations relating thereto.

“Security Documents” means the Trust Deed, the Issuer Security Agreement and any other security documents entered into between the Issuer and the Trustee from time to time.

“Servicer Annual Fee” means a fee of US\$20,000 to be paid each year to UCS by the Issuer in accordance with Condition 6(a)(i) (*Priority of Payment*) of the Original Class 2004 Notes.

“Servicer Default” has the meaning set forth in Section 3.1 of the Servicing Agreement.

“Servicing Agreement” means an agreement dated on 1 November 2004 between UCS, the Trustee and the Issuer pursuant to which UCS agrees to service the Receivables.

“Tax Event” means (i) the occurrence after the 2004 Closing Date of any change (other than any such changes or amendments enacted on or before the 2004 Closing Date but not yet effective) in, or amendment to, the laws, rules, treaties or regulations (or in the official interpretation or application thereof) of Russia, the United States, the United Kingdom or Luxembourg or (ii) any Person (after the 2004 Closing Date) becoming subject to, or ceasing to be exempt from, any such laws, rules, treaties or regulations (or official interpretation or application thereof), that results in the Issuer becoming obligated to pay Additional Amounts or (iii) Rosbank becomes obligated to make certain tax payments or other increased costs in respect of the Loan, permitting prepayment of the Loan, as set forth in the Loan Agreement.

“Termination Amount” means the aggregate of all amounts owing by ROSBANK under the Loan Agreement upon acceleration as set forth in the Loan Agreement.

“Transaction Documents” means the Loan Agreement, the Agency Agreement, the Trust Deed, the Rosbank Security Agreement, the Issuer Security Agreement, the Accounts Control Agreement, the Servicing Agreement, the Obligor Notices and Consents, the UCS Parent Undertaking, the UCS

Parent Pledge, the Subscription Agreement, the Bank Account Assignment, the Notes and any Debt Service Reserve LCs and any supplement thereto or any other agreement, deed or documentation entered into or executed in relation to any Further Notes.

“USD Collateral Account” means account number 1660558400 “BNY New York as Trustee for RICF SA/ROSBANK USD Collateral A/C” established pursuant to the Agency Agreement.

“VISA” means VISA International Service Association.

“VISA Agreement” means the Membership and Trademark Licencing Agreement, effective since 5 March 1999, between ROSBANK and VISA International, as amended from time to time, including any agreement or arrangement written or otherwise, binding upon ROSBANK at any time with VISA or any of its Affiliates which replaces or is intended to replace such Agreement.

“VISA Base II Regulations” means the VISA Base II Clearing and Settlement System Edit Package User’s Manual, as amended from time to time.

“VISA By-Laws” means the VISA International By-Laws and Regional Board Delegations, dated November 15, 2003, as amended from time to time.

“VISA Card Programme” means the credit and debit card programme administered by VISA pursuant to the VISA By-Laws, VISA Operating Regulations, VISA Base II Regulations, VISA Agreement and any other agreements or arrangements governing the rights, duties and obligations of VISA and its members with respect to the procedures administered by VISA for the clearing and settlement of Paper, in each case as such VISA By-Laws, VISA Operation Regulations and VISA Base II Regulations may be amended from time to time.

“VISA Incidental Charges” means “Incidental Charges” as defined in the 2004 VISA Notice of Assignment.

“VISA Notices and Consents” means the 2004 VISA Notice and Consent and any equivalent notice and consent executed in connection with any Further Notes.

“VISA Operating Regulations” means the VISA International Operating Regulations, dated November 15, 2003, as amended from time to time.

“VISA Settlement System” means Base II, as defined in the VISA Operating Regulations.

SCHEDULE A

Scheduled Amortisation Amounts in relation to the Further Class 2004 Notes

| <i>Amortisation Date</i> | <i>Amortisation Amount</i> |
|--------------------------|----------------------------|
| 24-Dec-05 | USD 3,888,894 |
| 24-Mar-06 | USD 3,983,686 |
| 24-Jun-06 | USD 4,080,788 |
| 24-Sep-06 | USD 4,180,257 |
| 24-Dec-06 | USD 4,282,151 |
| 24-Mar-07 | USD 4,386,528 |
| 24-Jun-07 | USD 4,493,450 |
| 24-Sep-07 | USD 4,602,978 |
| 24-Dec-07 | USD 4,715,175 |
| 24-Mar-08 | USD 4,830,108 |
| 24-Jun-08 | USD 4,947,842 |
| 24-Sep-08 | USD 5,068,445 |
| 24-Dec-08 | USD 5,191,989 |
| 24-Mar-09 | USD 5,318,543 |
| 24-Jun-09 | USD 5,448,183 |
| 24-Sep-09 | USD 5,580,982 |

SUMMARY OF PROVISIONS RELATING TO THE FURTHER CLASS 2004 NOTES IN GLOBAL FORM

The Further Class 2004 Notes will be represented by a Global Note Certificate which will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee for, and deposited with, a common depository for Euroclear and Clearstream, Luxembourg.

The Global Note Certificate will become exchangeable in whole, but not in part, for individual note certificates (“Individual Note Certificates”) if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) the Issuer fails to pay an amount in respect of the Class 2004 Notes within five days of the date on which such amount became due and payable under the Conditions. Thereupon the Holder may give notice to the Issuer of its intention to exchange the Global Note Certificate for Individual Note Certificates.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, Luxembourg, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person’s holding) against the surrender of the Global Note Certificate at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Class 2004 Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, the Global Note Certificate will contain provisions which modify the Terms and Conditions of the Further Class 2004 Notes as they apply to the Further Class 2004 Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Notices: Notwithstanding Condition 16 (*Notices*), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an “Alternative Clearing System”), notices to Holders of Further Class 2004 Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System; *provided, however, that*, so long as the Class 2004 Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Payment: To the extent that the Issuer has actually received the relevant funds from the Bank, payments in respect of Class 2004 Notes represented by a Global Note Certificate will be made against presentation for endorsement and, if no further payment of principal or interest is to be made in respect of the Class 2004 Notes, against presentation and surrender of such Global Note Certificate to or to the order of the Registrar. Upon payment of any principal, the amount so paid shall be endorsed by or on behalf of the Registrar on behalf of the Issuer on the schedule to the Global Note Certificate. Payment while Class 2004 Notes are represented by a Global Note Certificate will be made in accordance with the procedures of Euroclear and Clearstream, Luxembourg or any alternative clearing system as appropriate.

USE OF PROCEEDS

The gross proceeds received from the issue of the Further Class 2004 Notes of US\$75 million will be used by the Issuer to fund the 2005 Advance to ROSBANK in an amount equal to the par value of the Further Class 2004 Notes and amounts in excess thereof, in satisfaction of transaction expenses. ROSBANK will use such proceeds for general corporate purposes. The net proceeds will be equal to the amount of the 2005 Advance.

DESCRIPTION OF THE ISSUER

The Issuer was incorporated as a *société anonyme* on 8 October 2004 for an unlimited duration with limited liability under the laws of the Grand Duchy of Luxembourg. It qualifies as a securitisation company under the Securitisation Law. Its Articles of Incorporation were published in the Mémorial, Recueil des Sociétés et Associations on 15 December 2004. It is registered with the Register of Commerce and Companies, Luxembourg under number B103464. Its registered office is located at 33, Boulevard du Prince Henri, L-1724, Luxembourg.

The Issuer's subscribed share capital amounts to euro 31,000 divided into 3,100 registered shares with a par value of euro 10 each. All of the shares are fully paid up. The Issuer is owned by two entities; 1,550 shares are owned by Stichting RICF 1, a foundation duly incorporated and validly existing under the laws of the Netherlands, having its registered office at 1 Parnassustoren, 1076 AZ Amsterdam, The Netherlands, and 1,550 shares are owned by Stichting RICF 2, a foundation duly incorporated and validly existing under the laws of the Netherlands, having its registered office at 1 Parnassustoren, 1076 AZ Amsterdam, The Netherlands. Neither Stichting RICF 1 nor Stichting RICF 2 is owned or controlled by ROSBANK or any of its affiliates.

The Issuer has a Board of Directors, currently consisting of three directors. The directors at present are:

1. TMF Corporate Services SA;
2. TMF Administrative Services SA; and
3. TMF Secretarial Services SA.

TMF Luxembourg S.A. is the domiciliation agent of the Issuer. Its duties include the provision of certain administrative and related services. Its appointment may be terminated and it may retire upon two months prior notice subject to the appointment of an alternative domiciliation agent.

The corporate object of the Issuer, as described in Article 4 of its Articles of Incorporation, is:

- (i) to securitise (a) receivables from private enterprises, national or international banks and institutions as well as from any other legal entities and (b) assets of any other type or nature;
- (ii) to issue debentures and other securities of any nature and in any currency and to borrow and raise funds for the acquisition, management and the disposal of the assets referred to above;
- (iii) to enter into swap agreements;
- (iv) to pledge, mortgage or otherwise create security interests in or over its assets, property and rights to secure the payment of any amounts payable under any bond, note, debenture or other debt instrument issued by the Issuer;
- (v) to exceptionally and exclusively for the purpose of achieving securitisation transactions, grant loans to other companies; and
- (vi) to transfer its receivables pursuant to and in accordance with agreements it may enter with its investors and creditors.

In general, the Issuer may take any controlling and supervisory measures and carry out any financial, commercial or industrial operations which it may deem useful in the accomplishment and development of its purpose.

Deloitte S.A., having its registered office at 560 rue de Neudorf L-2220 Luxembourg, has been appointed to act as external auditor to the Issuer.

Pursuant to the Securitisation Law, a securitisation company may create compartments whose assets and liabilities are segregated from any other assets and liabilities of such company and any other compartments that it may have created. The rights of creditors against a securitisation company whose claims have arisen in relation to a specific compartment of such company are, unless otherwise provided, strictly limited to the net assets of such compartment without any recourse to other assets

of the company or any other compartment of the company and, correlatively, the assets of a compartment are exclusively available to the creditors whose rights are related to such compartment.

In the resolutions adopted by its board of directors on October 27, 2004, the Issuer has created a compartment corresponding to the assets and liabilities arising from the issue of the Original Class 2004 Notes and related transactions, in accordance with article 8 of its Articles of Incorporation. The assets and liabilities arising from the issue of the Further Class 2004 Notes and the related transactions will be lodged in the same compartment, which to date is the only compartment created by the Issuer.

Capitalisation

The following table sets forth the unaudited capitalisation of the Issuer as of the date of this Offering Circular and as adjusted to reflect the issuance and sale of the Further Class 2004 Notes:

| | <i>Actual</i> | <i>As Adjusted</i> |
|--|--------------------|--------------------|
| | <i>(euros)</i> | |
| Class 2004 Notes..... | 172,268,586 | 172,268,586 |
| Further Class 2004 Notes | 0 | 57,422,862 |
| Share capital (issued 3,100 Ordinary Shares of euro 10 each) | 31,000 | 31,000 |
| | <hr/> | <hr/> |
| Total Capitalisation | <u>172,299,586</u> | <u>229,691,448</u> |

On 2 February 2005 the European Central Bank reference exchange rate for US\$ was €1=US\$1.3061.

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

Financial Statements

Since its date of incorporation, no financial statements of the Issuer have been prepared. The Issuer intends to publish its first financial statements in respect of the year ending on 31 December 2004. Any future published financial statements prepared by the Issuer (which will be in respect of the period ending on 31 December in each year) will be available from the Paying Agent in Luxembourg. The Issuer will not produce interim financial statements.

DESCRIPTION OF ROSBANK'S AND UCS'S MERCHANT VOUCHER BUSINESS

Overview

UCS is Russia's oldest and largest credit and debit card processing company and acts as a processing agent and servicer for ROSBANK. UCS is engaged in all aspects of the operation of the VISA International, MasterCard International, Diners Club, and JCB credit and debit card programmes, as well as other card programmes in Russia, including marketing, merchant affiliation and transaction authorisation. UCS is 100% owned by KM Invest, an Interros Group company.

UCS employs over 400 personnel, and most of its senior management have been working in the credit and debit card processing industry for 15 years or more. In addition to its head office in Moscow, UCS has a branch in St. Petersburg covering operations in St. Petersburg and the north-western region of Russia, and a branch in Sochi covering the southern regions of Russia. In keeping with its strategy of expanding its merchant base by utilising its branch network, UCS opened branches in Nizhny Novgorod and Samara in 2003 and in Kazan, Volgograd, Rostov-on-Don, Ekaterinburg, Ufa and Saratov during the year 2004. Additionally, UCS is planning to open branches in Krasnodar and Krasnoyarsk during 2005. Overall, UCS serves merchants in 75 cities in Russia and a further eight cities in other CIS states. UCS plans to open six to eight additional branches during 2005.

UCS establishes relationships with merchants and banks and puts in place infrastructure (software and hardware) to enable such merchants and banks to accept VISA, MasterCard, Diners Club and JCB credit and debit cards in Russia for the payment of goods and services, received, as well as to facilitate ATM and bank withdrawals. UCS provides merchants with high quality documentary processing of card transactions, card approval and authorisation services, point of sale ("POS") technology and prompt fund transfers carried out by its exclusive settlement bank, ROSBANK. While UCS does not provide processing or settlement services to American Express ("AMEX"), it provides voice authorisation, data capture and a number of other services for AMEX, some of which are provided on an exclusive basis. No processors in Russia provide processing or settlement services for AMEX, as AMEX provides these services directly to merchants. Although UCS faces competition for the provision of its credit and debit card processing services for merchants accepting VISA, MasterCard, and Diners Club in Russia, UCS is currently the exclusive credit and debit card processor in Russia for merchants accepting JCB cards, which is strategically important as a number of luxury hotels are required to accept JCB cards in order to retain 5-star status from many hotel rating organisations.

With respect to international and domestic credit and debit card transactions, UCS acts as a processing centre for both the card issuing bank (the bank that makes the payment for the cardholder) and the settlement bank, ROSBANK. As a principal member of VISA, MasterCard, Diners Club, JCB and STB (a Russian domestic payment system recently acquired by the Interros Group) (collectively, the "Payment Systems"), ROSBANK (i) acquires at a discount credit, debit and ATM card merchant vouchers, or computer records, evidencing a right to payment arising from the use of debit and credit cards issued by Russian and non-Russian financial institutions (together, "merchant vouchers") and (ii) obtains a payment of the corresponding face amounts, less a commission, from the relevant Payment System. (In this Offering Circular, references to "Merchant Vouchers" relate only to merchant vouchers generated through the use of VISA or MasterCard debit and credit cards issued by non-Russian financial institutions.)

For the purpose of this Offering Circular, the term "domestic transactions" relates to credit, debit and ATM card transactions made in Russia by holders of VISA, MasterCard, Diners Club, JCB and STB credit and debit cards issued by Russian financial institutions. The term "international transactions" relates to credit, debit and ATM card transactions made in Russia by holders of VISA, MasterCard, Diners Club and JCB credit and debit cards issued by non-Russian financial institutions. Only international transactions involving VISA or MasterCard credit or debit cards will give rise to the Merchant Vouchers and Receivables that are being assigned by ROSBANK to the Issuer for purposes of the offering of the Class 2004 Notes. Transactions involving ATMs do not give rise to Merchant Vouchers or Receivables that are being assigned by ROSBANK to the Issuer for purposes of the offering of the Class 2004 Notes. UCS estimates that its share of the international and

domestic merchant voucher processing markets in Russia is 90% and 50%, respectively, as measured by the value of merchant vouchers processed. While UCS believes that its share of the international merchant voucher processing market is relatively stable, its share of the domestic merchant voucher processing market has been decreasing.

For the year ended 31 December 2003, UCS processed over 1.8 million Merchant Vouchers, and as of the end of that year UCS had over 1,500 merchant customers accepting VISA and MasterCard credit and debit cards in Russia with ROSBANK acting as the exclusive settlement bank.

For the year ended 31 December 2004, UCS processed over 2 million Merchant Vouchers, and as of the end of that year UCS had over 2,000 merchant customers accepting VISA and MasterCard credit and debit cards in Russia with ROSBANK acting as the exclusive settlement bank.

History

UCS was created in 1992 as a joint venture between Intourservice (49% stake), Commercial Bank Credo Bank (“Credo Bank”) (39% stake), and Inpass Ltd. (“Inpass”) (12% stake). Prior to 1992, most of the management of what is currently UCS worked for a department of Intourservice which dealt with the processing of all credit and debit cards issued by non-Russian financial institutions for the few Russian businesses catering to tourists and accepting payments in hard currency at that time. The original objective of Intourist and Intourservice, UCS’s predecessors, established in 1969 by the State Committee for Foreign Tourism, was to increase hard currency earnings in the former Soviet Union by servicing credit cards used by foreign visitors at state-owned hotels, shops and restaurants and other tourist or business travel related establishments. UCS was created to take over the responsibilities of Intourservice, effectively creating the market for international credit and debit card processing in Russia. As a result, UCS focused on merchants with significant volumes of hard currency merchant vouchers (such as large, high quality hotels and retail chains and superstores), which has led to strong historical relationships with premier merchants and the ability to provide the high quality service demanded by such businesses. Until 1993, UCS was the sole credit and debit card processor in Russia with the exception of Open Joint Stock Company Aeroflot (“Aeroflot”).

In 1993, Intourservice sold its entire stake in UCS to a Russian bank, Commercial Bank Most Bank (“Most Bank”). Inpass sold its stake in UCS to Credo Bank, making Credo Bank the majority shareholder. In 1995, Credo Bank, then a settlement bank for UCS’s operations, began to experience liquidity problems which caused recurrent late payments to merchants. In August 1996, Uneximbank, which had become a member of both VISA and Europay/MasterCard in 1995, acquired Credo Bank’s 51% stake in UCS and became a majority shareholder in UCS and it also became the settlement bank for UCS’s credit and debit card processing business.

In January 1997, Uneximbank and Most Bank agreed to create a holding company for UCS, MultiCarta LLC, in which each bank held an equal stake. During the course of 1997, Most Bank and Uneximbank sold their respective shares in UCS to MultiCarta, making MultiCarta the 100% owner of UCS. In April 1998, MultiCarta sold its 100% interest in UCS to Uneximbank. Uneximbank subsequently sold to Most Bank its 50% stake in MultiCarta, which became a processing agent for Most Bank, similar to and in competition with UCS. In September 1998, Uneximbank sold its 100% stake in UCS to KM Invest, an Interros Group company. Following the sale of UCS to KM Invest, ROSBANK was appointed as UCS’s settlement bank. For a description of the relationship agreement between UCS and ROSBANK, see “—The UCS/ROSBANK Relationship Agreement”.

Strategy

Currently, UCS is the market leader in the credit and debit card processing market in Russia as measured by value and volume of merchant vouchers processed. UCS plans to maintain its market leadership position by improving product quality while remaining price competitive. In order to attain that goal UCS’s management is focusing on the following strategic initiatives:

Improved Levels and Range of Customer Service

UCS intends to improve the quality of the service it provides to its merchant clients by increasing the speed at which its services are delivered and by tailoring its services to the individual needs of its clients. UCS will continue to upgrade and re-engineer its POS technology in order to increase the speed for the completion of the authorisations for credit and debit card transactions, and will work in conjunction with ROSBANK to increase the speed for reimbursing merchants. UCS will also continue to develop flexible commission structures which are tailored to each client's business, and will prepare its merchant data reports in a manner which is most useful to the merchant for analyzing its credit and debit card sales. Going forward, UCS's management will continue developing new ways to improve the service it provides to its merchant customers.

Expansion of Credit Card Processing Business and Merchant Base

UCS believes that credit and debit card usage in Russia will increase as more cards issued by Russian financial institutions enter circulation. More widespread domestic card usage is expected to result in an increasing number of medium-sized merchants (merchants with a monthly card transaction turnover of between US\$10,000 and US\$100,000) generating the volume and value of transactions necessary for UCS to be able to service them profitably. However, UCS currently faces a challenge with respect to servicing medium-sized merchants, as they often prefer to work with processing agents that can directly provide retail banking and payment services as well as card processing services. In order to better target these merchants, UCS plans to further maximise the benefits of its partnership with ROSBANK and, in the future, with OVK, by introducing these prospective clients to the broad corporate and retail banking products and services offered by both banks, and by expanding its own branch network. UCS expects that this collaborative effort will result in the addition of medium-sized merchant clients while simultaneously promoting ROSBANK's other banking services. In addition, UCS is in the process of merging the operations of STB Card, a subsidiary of OVK, with its own operations, thereby significantly increasing the scope of its credit and debit card processing business and expanding its merchant base. See “—ABG Card Technology and STB Card”.

Limited Product Expansion

UCS is taking a cautious approach to the expansion of its product lines and has not attempted to enter businesses unrelated to the credit and debit card market. However, it aims to increase revenues from related services such as managing credit card issuance programmes for smaller Russian banks. UCS is also working with ROSBANK to offer enhanced ATM services to cardholders.

Improved Technology

UCS believes that certain large foreign banks will continue to expand their Russian card issuing businesses and will introduce the latest global technological innovations into the Russian card processing industry. UCS has in the past and intends to continue to reduce costs and thereby enhance profitability by making greater use of the latest technological improvements in the market, both at UCS's and at the merchants' premises. Internally, UCS has begun to replace its paper storage facilities with data image storage systems, and at merchant sites it has continued to focus on replacing imprinter machines with electronic POS machines, currently generating approximately 95% of the total value of transactions processed by UCS. Also, UCS is in the process of integrating the operations of ABG Card Technology (“ABG”) with its own operations, as described in “-ABG Card Technology and STB Card”. As a result of this integration, UCS will be able to provide directly all technical aspects of its credit and debit card processing business to its merchant customers, including software development and installation, POS terminal installation and maintenance, and the development, installation and maintenance of other related equipment utilised by UCS's merchant customers. UCS will continue to keep abreast of new technological developments as they are introduced, and is committed to the upgrade of its IT systems as necessary to ensure that it and its customers are using equipment that is among the most advanced in the market.

The UCS/ROSBANK Relationship Agreement

ROSBANK and UCS are parties to an agreement dated 1 October 1998 as amended from time to time, governing their respective rights and obligations with respect to, *inter alia*, the processing and settlement of merchant vouchers resulting from domestic and international transactions (the “Relationship Agreement”). Under the Relationship Agreement, ROSBANK acts as the exclusive settlement bank of UCS and that receives funds from the Payment Systems, or from other banking institutions receiving funds from their systems, and effects the corresponding payments to merchants based on payment information provided by UCS. UCS functions as a processing centre and provides authorisation services and collects information on merchant transactions which is forwarded to the Payment Systems and ROSBANK. Under the terms of the Relationship Agreement, UCS is responsible for developing relationships with merchants and entering into card services agreements with merchants covering the installation of equipment, personnel training and cardholder security, including the provision of “stop-lists” which help prevent fraudulent transactions. ROSBANK receives commissions under the terms of the Relationship Agreement equal to the difference between (a) the aggregate of (i) the commissions withheld from merchants and (ii) commissions received from credit card issuers and (b) the combined commissions paid to the Payment Systems and the credit card issuers. ROSBANK currently pays UCS 40% of its processing commissions with respect to VISA transactions and 70% with respect to MasterCard transactions. The parties may not assign their rights and obligations under the Relationship Agreement without the prior written consent of the other party. The Relationship Agreement expires on 1 January 2010, which is beyond the expected maturity date of the Class 2004 Notes.

ABG Card Technology and STB CARD

ABG Card Technology

UCS is in the final stages of integrating the operations of ABG, an Interros Group owned entity, with its own operations. ABG was established under the name of JSC ABG Card Technology in 1992 by TGTT Systems (Consulting) Limited and OOO ABG Technologies (“ABG Technologies”) as an IT development company with the purpose of providing UCS and its merchants with software services and products. ABG has developed a dual software and hardware system which provides authorisation and processing services for international and domestic credit card transactions. ABG also owns, installs and provides maintenance services with respect to the POS electronic terminals, various electronic facilities, data-capturing and other related equipment rented to merchants by UCS. In addition, ABG provides UCS with basic card processing services.

In connection with the integration of ABG into UCS, the majority of ABG’s employees have already been transferred to UCS, and UCS expects to obtain in the near future the rights and obligations of ABG under its various property leasing agreements, as well as to arrange for the transfer of certain property owned by ABG to UCS. Management of UCS believes this consolidation will further increase the operating efficiencies of UCS, as it will enable UCS to carry out its core business functions within a single corporate structure.

STB CARD

STB CARD, a member of the OVK Group, is among the largest domestic credit and debit card processing companies in Russia. STB CARD services 1.8 million credit and debit cards with over 120,000 transactions per day. UCS is in the final stages of merging the operations of STB CARD with those of UCS. As of the date of this Offering Circular, the majority of the employees of STB CARD have been transferred to UCS, and UCS is in the process of acquiring the majority of the assets of STB CARD and transferring STB CARD’s leased property to UCS. The merger of STB CARD into UCS has been formally completed and the technological integration is expected to be completed during 2005.

UCS’s and ROSBANK’s Relationship with the Payment Systems

UCS cannot be a principal member of the Payment Systems as it is not a credit institution. Instead, it is an “official processor”, while ROSBANK acts as the merchant voucher acquirer and

UCS's exclusive settlement bank. Currently, UCS processes international and domestic transactions for VISA, MasterCard, Diners Club and JCB, and provides a range of associated services for AMEX.

VISA

UCS's and ROSBANK's relationship with VISA was established by a 1974 agreement between VISA International and Intourist (although Intourist was not a Principal Member of VISA). In 1988, Intourist's successor, Intourservice, was elected as a Principal Member.

UCS's and ROSBANK's current relationship with VISA is governed by the Membership Agreement dated 19 February 2002 between ROSBANK, UCS and VISA International Service Association (the "VISA Membership Agreement"). In addition, the VISA By-Laws and the VISA Operating Regulations (collectively, the "VISA Regulations") set forth detailed procedures that govern each step in the merchant voucher settlement process. ROSBANK is a Principal Member of the VISA Association in Russia, while UCS is ROSBANK's processing agent, recognised by VISA as a Third Party Processor for ROSBANK.

MasterCard

UCS's and ROSBANK's relationship with MasterCard was established by a 1975 agreement between Intourist and Eurocard Nord AB (the Swedish Member of Eurocard International).

In 1988, Europay International, the predecessor of MasterCard International, elected Vnesheconombank as a Principal Member. In 1991, the Europay relationship was transferred to Credo Bank when Credo Bank became a member of Europay. Uneximbank became a member of Europay in 1995 and ROSBANK became a member of Europay in 1999.

UCS's and ROSBANK's current relationship with MasterCard is governed by the Membership and Licence Agreement dated 27 May 1999 between ROSBANK and MasterCard International (the "MasterCard Agreement"). The MasterCard By-Laws and the MasterCard Operating Regulations (the "MasterCard Operating Regulations") set forth detailed procedures that govern each step in the merchant voucher settlement process. ROSBANK is a Member of Europay International in Russia, while UCS is ROSBANK's processing agent, recognised by MasterCard as a Member Service Provider for ROSBANK.

Diners Club

UCS's relationship with Diners Club was established by a 1969 agreement between Intourservice and Diners Club (Austria), a Diners Club International franchisee. In 1993, UCS entered into a new agency agreement with Diners Club International under which processing support was provided by Diners Club UK.

UCS's current relationship with Diners Club is governed by an agency agreement dated 1 October 1997 between UCS and Diners Club Russia and acknowledged by Diners Club International Ltd.

JCB

UCS is the primary processor and ROSBANK is the sole acquirer for JCB in Russia. UCS's relationship with JCB was established by an initial 1985 agreement between JCB and Intourservice granting Intourservice rights to service international card payments for merchants in the former Soviet Union. A subsequent licence agreement was entered into by JCB International and UCS on 22 August 1995. UCS understands that JCB is currently in the process of negotiating an agreement with another bank for the processing of JCB transactions in St. Petersburg.

American Express

Currently, AMEX does not use any Russian company or bank for credit and debit card acquiring operations in Russia. It pays merchants directly, although it uses Russian credit and debit card processing companies to enter into agreements with merchants and install POS terminals, as well as for authorisations and information processing.

In 1994, UCS became a service provider for AMEX for electronic authorisations and data capture. In 1997, in connection with a global reorganisation of AMEX aimed at cost reduction,

AMEX delegated the responsibility for certain additional services to UCS, including voice authorisation, manual data capture and distribution of AMEX contracts. While UCS provides a full range of technical services to AMEX, including the negotiation of contracts with merchants, AMEX has the legal relationships with all of the merchants and AMEX settles payments with these merchants directly.

Merchant Voucher Acquiring and Processing Business

International and Domestic Merchant Voucher Settlement

International Merchant Voucher Settlement

International merchant voucher transactions include purchases made using credit and debit cards, as well as ATM cash withdrawals from ROSBANK's ATM network in Russia and "cash on the card transactions" which involve the withdrawal of cash from a bank branch by presentation of a credit or debit card. In connection with the settlement of international transactions, ROSBANK acquires from merchants in Russia the rights represented by the corresponding merchant vouchers and becomes obligated to pay the merchants the face value amount of such merchant vouchers, less a commission. Merchants located in Russia are generally paid by ROSBANK in roubles, while merchants outside Russia (including territories of the former Soviet Union) generally receive payments from ROSBANK in US dollars. Certain selected Russian merchants, such as duty free shops, are also permitted to receive payments in US dollars. On average, these payments occur on the same day as the receipt of funds by ROSBANK from the Payment Systems, and ROSBANK guarantees payments within three days of the transaction. In order to ensure timely payments to merchants, ROSBANK allows up to US\$5 million worth of payments to be made to merchants before funds are received from the Payment Systems. In addition, all Principal Members are required to post security with the Payment Systems to cover credit exposures. ROSBANK posts security of approximately US\$0.75 million with MasterCard and approximately US\$0.40 million with VISA to cover its performance as an acquirer of merchant vouchers, and US\$0.25 million with MasterCard and US\$3.0 million with VISA to cover its obligations as an issuer of credit cards.

In the case of a credit card transaction, the cardholder typically has a pre-assigned credit limit from its card issuing bank, which, upon authorisation of the transaction, becomes responsible for payment in US\$ or euro to the relevant Payment System and assumes the credit risk of its cardholder. In a debit card transaction, the approval of the transaction results in an automatic debit of the cardholder's account with its issuing bank or institution.

When acquiring merchant vouchers relating to international transactions, ROSBANK only assumes the credit risk of the relevant Payment Systems, as they are the only parties legally responsible for making payments to ROSBANK. The Payment Systems deposit an amount in US dollars or euro into ROSBANK's international correspondent bank accounts to cover all amounts due to ROSBANK. In the case of VISA and MasterCard, these accounts are with The Bank of New York in New York (US dollars) and HSBC Bank plc in London (euro), respectively. In respect of payments to merchants required to be made in roubles, ROSBANK converts US dollars and euros received into roubles within one day of the relevant transaction using the US\$/rouble CBR spot rate and euro/rouble rate in the foreign currency markets on the settlement date.

In 2004, UCS processed US\$430 million worth of Merchant Vouchers, which represented 38% of the total value (US\$1,131.5 million) of all merchant vouchers processed by UCS in that year.

Domestic Merchant Voucher Settlement

In connection with the settlement of domestic transactions, UCS's role is substantially similar to its role in the settlement of international transactions. In domestic transactions, however, payments are made to ROSBANK in roubles instead of US dollars or euro, and such payments are made by the Russian clearing banks of each of the Payment Systems into ROSBANK's correspondent accounts at the Moscow branches of Citibank and Sberbank.

Merchant Voucher Processing

Under UCS's merchant voucher processing system, merchants are supplied with POS machines (either manual or electronic) which accept any of the cards processed by UCS and settled by

ROSBANK. Merchants are given a single telephone number to call for voice authorisations if the transactions are not processed electronically, receive either a single statement of transactions completed or separate statements of transactions per each Payment System and are sent either a single payment for all card transactions or separate payments per each Payment System in respect of each agreed period. Typically, POS equipment is provided by UCS free of charge to merchants with turnover of more than US\$7,000 per month. Merchants with a turnover of less than US\$7,000 per month are typically charged a rental fee of approximately US\$25 per month.

While merchants have a choice of using manual or electronic voucher processing, over 95% of ROSBANK's acquiring volumes are currently processed electronically. If electronic processing is used, transaction details are automatically sent to UCS on a daily basis. Signature slips printed by the POS terminals are retained by the merchant and are submitted to UCS only in the event of a dispute. If manual vouchers are used, the imprinted slips are collected daily or weekly by UCS drivers dedicated for this purpose. The slips are then manually entered into a computer by UCS's Data Capture Department. UCS compiles and submits a daily transaction report for each of the Payment Systems. The daily transaction report distinguishes between domestic transactions and international transactions. UCS compiles a separate report for ROSBANK to enable it to make payments to merchants.

Merchant voucher information is sent by UCS each day to the Payment Systems. The Payment Systems authorise, clear and settle all merchant vouchers relayed by their respective members. Each night, the Payment Systems edit the merchant voucher data and sort issuing bank and acquirer receipts. Merchant vouchers denominated in a currency other than US dollars are converted to US dollars at a rate fixed by the relevant Payment System, which, in the case of VISA, is generally based on the official exchange rate of the CBR on the day of settlement, and, in the case of Mastercard, on rates in the foreign currency markets on the date of settlement, and are assessed a conversion fee. Finally, the Payment Systems calculate and set-off all chargebacks and fees associated with the settlement process and make payment to their respective members.

In the case of VISA and MasterCard, pursuant to the terms of their respective membership agreements, ROSBANK is entitled to receive from VISA International and MasterCard International the aggregate face value of all Merchant Vouchers originated from international transactions which ROSBANK acquires from Russian merchants and submits for processing in compliance with the VISA and MasterCard Regulations. According to their respective agreements with ROSBANK, VISA International and MasterCard International are authorised to set-off certain fees and commissions against the aggregate face value of such Merchant Vouchers.

The Payment Systems require technical compliance with their operating standards, including certification of each stage of transaction processing, from authorisation to financial data exchange. Hardware and software used by UCS is routinely certified by the Payment Systems according to their standard procedures. ROSBANK and UCS have already satisfied the technical requirements of certain of the Payment Systems regarding the introduction of smart card compatible technology which is required to be completed by 2005.

See "Merchant Voucher Generation and Settlement Overview" above for a diagram illustrating the steps involved in the processing and settlement of international transactions by UCS and ROSBANK in respect of VISA and MasterCard credit or debit cards only.

In addition, ROSBANK currently has agreements with a network of approximately 37 agent banks which it uses to settle with merchants that keep accounts with such banks. Agent banks are not direct members of the Payment Systems. Instead, they act as agents for processing centres or other banks which are members of the Payment Systems. Agent banks enter into agreements with merchants and make payments to their accounts but only in the capacity of intermediaries between merchants and the principal bank holding the settlement account into which the Payment Systems make direct fund settlement transfers. ROSBANK settles with agent banks by paying the aggregate amount payable to all merchants serviced by each agent bank to its respective account. Each agent bank then settles with its respective merchants. UCS provides all of the agent banks with the daily settlement amounts for each merchant location and for each of the Payment Systems. Typically, agent banks pay merchants with their own funds prior to the receipt of funds from ROSBANK upon receipt of previous day settlement information from UCS. Some of the agent banks provide

merchants with their own POS devices, which are fully certified by UCS. UCS also has a host-to-host connection with certain agent banks that have a substantial POS network of their own, such as Master-Bank. UCS also works with agent banks as a third party processor of transactions using credit and debit cards issued by domestic and international banks.

Processing of ATM Transactions

As at 31 December 2004, UCS serviced approximately 374 ATMs, of which approximately 129 are owned by ROSBANK. These services are broadly similar to those provided to merchants for their POS terminals (including facilitating card authorisation, managing information flow and handling relevant documentation). Additional ancillary services may include maintenance of ATMs, which is typically sub-contracted, although the responsibility for telecommunications infrastructure always remains with the bank operating the relevant ATM. UCS provides these services to ROSBANK and certain other banks which are not Principal Members of the Payment Systems and which settle through ROSBANK (“sponsored banks”).

Value and Volume of Receivables

The following table provides a breakdown of the total value of payments made to ROSBANK by each of the Payment Systems in respect of international transactions and the total number of such international transactions, for the years ended 31 December 2000, 2001, 2002, 2003 and 2004.

For the year ended 31 December

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|------------------|------------------|------------------|------------------|------------------|
| Value of UIC payments <i>(US\$ thousands)</i> | | | | | |
| VISA..... | 182,537 | 205,758 | 221,737 | 250,318 | 295,565 |
| MasterCard | 93,317 | 107,291 | 110,288 | 122,188 | 134,207 |
| Diners Club | 15,315 | 15,800 | 14,792 | 17,856 | 17,143 |
| JCB..... | 512 | 489 | 463 | 553 | 528 |
| Total..... | <u>291,681</u> | <u>329,338</u> | <u>347,280</u> | <u>390,915</u> | <u>447,443</u> |
| Percentage of Total Value of Payments | | | | | |
| VISA..... | 62.6 | 62.5% | 63.8% | 64.0% | 66.1% |
| MasterCard | 32.0 | 32.6% | 31.8% | 31.3% | 30.0% |
| Diners Club | 5.3 | 4.8% | 4.3% | 4.6% | 3.8% |
| JCB..... | 0.2 | 0.1% | 0.1% | 0.1% | 0.1% |
| Total..... | <u>100.0</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Number of Transactions | | | | | |
| VISA..... | 1,113,900 | 1,279,753 | 1,332,968 | 1,226,614 | 1,495,227 |
| MasterCard | 536,300 | 618,563 | 630,241 | 563,056 | 635,210 |
| Diners Club | 52,500 | 55,984 | 52,052 | 48,629 | 42,563 |
| JCB..... | 3,000 | 2,470 | 2,273 | 2,378 | 2,259 |
| Total..... | <u>1,705,700</u> | <u>1,956,770</u> | <u>2,017,534</u> | <u>1,840,677</u> | <u>2,175,259</u> |
| Percentage of Total Number of Transactions | | | | | |
| VISA..... | 65.3 | 65.4% | 66.1% | 66.7% | 68.7% |
| MasterCard | 31.4 | 31.6% | 31.2% | 30.6% | 29.2% |
| Diners Club | 3.1 | 2.9% | 2.6% | 2.6% | 2.0% |
| JCB..... | 0.2 | 0.1% | 0.1% | 0.1% | 0.1% |
| Total..... | <u>100.0</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

Source: UCS

UCS's Merchant Portfolio

UCS has a relationship with approximately 1,500 merchants that utilize over 5,500 POS terminals, over 3,000 POS integrated cash registers and approximately 374 ATMs for which UCS either processes and settles transactions or provides technical support. A large majority of UCS's merchant customers accepts VISA, MasterCard, Diners Club, AMEX and JCB credit and debit cards. Unless otherwise indicated, the tables within this section reflect only payments made by the Receivables Obligors (i.e., VISA and MasterCard) in connection with Merchant Vouchers generated in international transactions and, accordingly, do not include payments made by JCB or Diners Club to ROSBANK.

Sales by Merchant Category

Historically, most of UCS's transaction volume has been generated by a relatively small percentage of merchants. UCS's management estimates that, as recently as ten years ago, the travel and entertainment sector represented nearly all of UCS's total international transaction processing volume. With the wider acceptance of credit and debit cards in Russia and UCS's expansion of its

merchant base into other sectors in recent years, the sources of UCS's transaction volumes has diversified.

The following table provides a breakdown by merchant category of payments made to ROSBANK by the Receivables Obligors in respect of Receivables generated for the years ended 31 December 2000, 2001, 2002 and 2003.

| Merchant Category | For the year ended 31 December | | | | | | | |
|---|--------------------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | 2000 | | 2001 | | 2002 | | 2003 | |
| | (US\$ thousands) | (%) | (US\$ thousands) | (%) | (US\$ thousands) | (%) | (US\$ thousands) | (%) |
| Lodging..... | 77,791 | 28.2 | 124,562 | 37.8 | 146,526 | 42.2 | 179,460 | 45.9 |
| Supermarkets ⁽¹⁾ | | | | | 45,708 | 13.1 | 51,979 | 13.3 |
| Specialty Retail/Gifts ⁽¹⁾ | 98,756 | 35.8 | 88,016 | 26.7 | 25,108 | 7.2 | 33,017 | 8.4 |
| Specialty apparel ⁽¹⁾ | | | | | 23,244 | 6.7 | 25,512 | 6.5 |
| Dining..... | 32,551 | 11.8 | 31,406 | 9.6 | 31,310 | 9.0 | 30,435 | 7.8 |
| Airlines..... | 11,310 | 4.1 | 16,034 | 4.9 | 16,978 | 4.9 | 18,597 | 4.8 |
| Travel services..... | 6,069 | 2.2 | 9,380 | 2.8 | 10,397 | 3.0 | 14,968 | 3.8 |
| Auto rental..... | 3,310 | 1.2 | 740 | 0.2 | 940 | 0.3 | 1,135 | 0.3 |
| Drug stores..... | — | — | 228 | 0.1 | 236 | 0.1 | 219 | 0.1 |
| All other merchant segments . | 46,068 | 16.7 | 58,972 | 17.9 | 46,833 | 13.5 | 35,593 | 9.1 |
| Total..... | 275,854 | 100.0 | 329,338 | 100.0 | 347,280 | 100.0 | 390,915 | 100.0 |

Source: UCS

Note:

(1) Payments made in respect of transactions relating to supermarkets, speciality retail products and gifts and speciality apparel were aggregated for reporting purposes for the years ended 31 December 2000 and 2001.

Seasonality of Sales

Card use in Russia exhibits limited seasonality, with a slight reduction in cashflows from international transactions from January to March of each year, which is usually a result of the lower purchasing activity in the first three months of a given year following increased sales during the Christmas and New Year's holidays. The following table provides a monthly breakdown of payments made to ROSBANK by the Receivables Obligors in respect of Receivables generated for the years ended 31 December 2000, 2001, 2002, 2003 and 2004.

| | For the year ended 31 December | | | | | | | | | |
|-------------------|--------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|
| | 2000 | | 2001 | | 2002 | | 2003 | | 2004 | |
| | (%) | (US\$ thousands) | (%) | (US\$ thousands) | (%) | (US\$ thousands) | (%) | (US\$ thousands) | (%) | (US\$ thousands) |
| January..... | 5.8 | 16,136 | 6.2 | 20,263 | 6.5 | 22,401 | 5.4 | 21,151 | 5.9 | 26,191 |
| February..... | 6.9 | 18,976 | 6.8 | 22,546 | 7.6 | 26,473 | 6.5 | 25,498 | 7.4 | 33,277 |
| March..... | 7.9 | 21,819 | 8.2 | 26,859 | 9.1 | 31,447 | 7.8 | 30,318 | 8.0 | 35,893 |
| April..... | 7.1 | 19,634 | 8.1 | 26,787 | 8.9 | 30,961 | 7.9 | 30,749 | 8.3 | 37,339 |
| May..... | 8.3 | 22,762 | 7.8 | 25,576 | 7.5 | 26,092 | 7.8 | 30,653 | 8.2 | 36,700 |
| June..... | 9.1 | 25,059 | 9.2 | 30,390 | 9.1 | 31,433 | 8.8 | 34,381 | 9.5 | 42,408 |
| July..... | 8.0 | 22,201 | 8.5 | 28,195 | 8.3 | 29,038 | 8.7 | 33,937 | 8.8 | 39,188 |
| August..... | 8.5 | 23,450 | 8.1 | 26,620 | 7.6 | 26,450 | 8.4 | 32,863 | 7.6 | 34,053 |
| September.... | 9.1 | 25,031 | 9.0 | 29,537 | 9.1 | 31,487 | 9.7 | 37,790 | 8.7 | 39,134 |
| October..... | 9.5 | 26,082 | 9.0 | 29,675 | 9.2 | 31,951 | 10.1 | 39,651 | 9.3 | 41,582 |
| November.... | 9.6 | 26,527 | 9.4 | 30,884 | 8.6 | 29,934 | 9.5 | 37,184 | 8.9 | 39,979 |
| December | 10.2 | 28,159 | 9.7 | 32,006 | 8.5 | 29,613 | 9.4 | 36,740 | 9.3 | 41,698 |
| Total..... | 100.0 | 275,854 | 100.0 | 329,338 | 100.0 | 347,280 | 100.0 | 390,915 | 100.0 | 447,443 |

Source: UCS

In the first two quarters of 2004, payments made to ROSBANK by the Receivables Obligors in respect of Receivables generated over that period increased by 22.6% compared to the same period in 2003.

Receivables by Geographic Location of Transaction

The following table provides a geographic breakdown of payments made to ROSBANK by the Receivables Obligors in respect of Receivables generated at specific locations in Russia for the years ended 31 December 2000, 2001, 2002 and 2003.

| Location of Transaction | For the year ended 31 December | | | | | | | |
|------------------------------|--------------------------------|------------------|--------------|------------------|--------------|------------------|--------------|------------------|
| | 2000 | | 2001 | | 2002 | | 2003 | |
| | (%) | (US\$ thousands) | (%) | (US\$ thousands) | (%) | (US\$ thousands) | (%) | (US\$ thousands) |
| Moscow..... | 81.5 | 224,821 | 82.6 | 254,198 | 83.0 | 277,040 | 83.0 | 321,396 |
| St. Petersburg..... | 9.4 | 25,930 | 11.4 | 35,207 | 11.9 | 39,738 | 12.1 | 46,925 |
| Moscow Region..... | 3.4 | 9,379 | 2.9 | 9,056 | 2.7 | 9,172 | 2.9 | 11,187 |
| Other regions in Russia..... | 5.7 | 15,724 | 3.1 | 9,694 | 2.4 | 8,173 | 2.0 | 7,897 |
| Total..... | 100.0 | 275,854 | 100.0 | 308,155 | 100.0 | 334,123 | 100.0 | 387,405 |

Source: UCS

Sales by Merchant

Over the past five years, the Russian merchant voucher acquiring market has become less concentrated in terms of transaction volume. UCS's top ten clients accounted for approximately 65% of its total transaction volumes in 1998, compared to approximately 32% in 2003. The following table illustrates the concentration of transaction volumes (including both domestic and international transactions) among the top 10 and top 40 merchants, respectively, for the year ended 31 December 2003.

| | Industry | Amount | Percentage of Total Transaction Volume |
|-------------------------------------|-------------------------|------------------|--|
| | | (US\$ thousands) | (%) |
| Master-Bank OJSC..... | Agent Bank..... | 50,681 | 5.9 |
| The Seventh Continent JSC..... | Retail..... | 50,750 | 5.9 |
| Ikea Mos (Retail And Property)..... | Retail property..... | 30,998 | 3.6 |
| Kalinka-Stockmann JSC..... | Retail..... | 24,209 | 2.8 |
| Sobinbank JSB..... | Agent Bank..... | 22,902 | 2.7 |
| Aeroflot-Russian Avialine JSC..... | Airline..... | 21,723 | 2.5 |
| Ramenka Ltd..... | Retail..... | 20,190 | 2.4 |
| Marriott Moscow Grand Hotel..... | Hotel..... | 19,606 | 2.3 |
| Mobile Telesystems JSC..... | Telecommunications..... | 16,729 | 2.0 |
| Avrora-Lux Hotels Ltd..... | Hotel..... | 14,773 | 1.7 |
| Top 10 Merchants..... | | 272,561 | 31.8 |
| Top 40 Merchants..... | | 517,344 | 60.5 |
| Total..... | | 855,800 | 100.0 |

Source: UCS

Marketing to Merchants and Servicing of ATMs

The sales department of UCS consists of six people in Moscow, three in St. Petersburg, and two in each of UCS's other nine branches, and is responsible for contacting, processing and registering new merchants. UCS's sales personnel perform detailed due diligence on new merchants, inspecting their premises and lease documents, researching the history of their operations and checking the validity of management documentation prior to the signing of any agreement. The UCS sales department normally registers approximately 25 to 30 new merchants each month, which can include a small number of merchants that switch from competing merchant voucher processors. Once a merchant is registered, one of UCS's client managers is assigned responsibility for the overall relationship with that client. These client managers visit the merchant regularly and help to develop customised statements, handle specific technological requirements and provide other similar services.

UCS loses on average one client per month to a competing card processor. Clients that change acquirers normally do so to take advantage of a lower commission rate. However, UCS's management believes that its quality of service, which includes comparatively high quality technologically advanced services and competitive commission structure are factors which help limit UCS's client losses.

The following table shows the growth of POS terminals operated by UCS for the years ended 31 December 1996 through 31 December 2003:

| | <u>2001</u> | <u>2002</u> | <u>2003</u> |
|------------------------------------|--------------|--------------|--------------|
| As at beginning of the period..... | 1,564 | 1,797 | 2,134 |
| Installed | 585 | 637 | 1,138 |
| Removed ⁽¹⁾ | 352 | 300 | 416 |
| As at 31 December | <u>1,797</u> | <u>2,134</u> | <u>2,856</u> |

Source: UCS

Note:

(1) The primary reason for removing POS terminals is that they have become obsolete or have suffered ordinary wear and tear and require replacement.

UCS's management expects the number of ATMs serviced by UCS and their geographical distribution to grow significantly due to the recent acquisition of OVK by the Interros Group and the ongoing merger of STB Card into UCS. As at 31 December 2003, OVK operated approximately 815 ATMs, including approximately 750 ATMs that are utilised by OVK Group banks, and others that are rented by other banks while processing and settling its transactions through OVK.

Competition

For the year ended 31 December 2003, UCS was the leading merchant voucher processor in Russia, with estimated market shares of approximately 90% and 50% of the international and domestic merchant voucher processing business, respectively, as measured by value of merchant vouchers processed. UCS's major competitors in the Russian market are AlfaBank and Sberbank.

UCS has significant experience in the Russian card processing market, and estimates that it has relationships with 90% of the large- and medium-sized merchants accepting credit and debit cards in Russia. UCS's management believes that these relationships give UCS a competitive advantage in attracting new merchants, identifying new strategic points of sale, accurately forecasting potential transaction volumes and providing a high quality service and tailored technologically advanced solutions. In addition, because UCS is not regarded as a competitor to retail banks, it is able to maintain agency relationships with banks which are too small to justify their own processing business and also with companies affiliated with banks that compete with ROSBANK.

Due to the administrative and technological difficulties associated with working with more than one processor, merchants will generally retain only one processor at a time. Switching from one processor also can entail significant time and expense, including altering the software and hardware

used by merchants and retraining staff. However, merchants do occasionally change processors, generally due to poor service or competitive pricing, and UCS has in the past lost merchant customers to its competitors primarily due to competitive pricing pressures.

Regulation

Currently, the principal legislation regulating the credit and debit card industry in Russia is Regulation No. 23-P of the CBR “On the procedure for the issuance by credit institutions of bank cards and settlement of operations performed with the use of such cards” dated 9 April 1998, as amended (the “Bank Card Regulation”). The Bank Card Regulation establishes the regulatory framework for “bank card” (including credit and debit cards) settlements and the accounting treatment of credit and debit card transactions in Russia. The Bank Card Regulation also governs relationships between various bank card market participants, including issuers of credit and debit cards, settlement banks, acquirers, processing centres and payment systems.

Although the Bank Card Regulation is primarily aimed at regulating the activities of Russian banks and credit institutions, it also contains certain general provisions and definitions applicable to UCS’s merchant voucher processing business. In particular, the Bank Card Regulation provides the definitions of “processing” (including the collection, processing and distribution by a processing centre to participants in the settlement process of information involving operations with bank cards), “processing centre” (a separate legal entity or a division of a legal entity responsible for facilitating informational and technological interaction between participants in the settlement process) and definitions of other relevant provisions. The Bank Card Regulation also sets out a list of permitted transactions with bank cards issued by Russian banks and credit institutions and contains general rules for the processing and exchange of documents relating to operations with bank cards.

The Bank Card Regulation provides that credit and debit cards issuance and acquiring activities in Russia should be carried out by Russian-licensed credit institutions such as banks. Prior to 9 April 1999, Russian credit institutions needed a special CBR permit to issue bank cards branded by the Payment Systems. However, CBR Directive No. 536-U now permits credit institutions to issue such bank cards systems on the basis of their banking licences.

The Bank Card Regulation does not purport to regulate in detail the settlement and merchant voucher generation process with respect to the use of credit and debit cards in international transactions. These operations are deemed to be settlement operations and may be carried out by Russian credit institutions, including banks, that have a banking licence to perform settlements in roubles and foreign currencies. Because UCS does not engage in settlement operations and instead uses ROSBANK as its settlement bank for this purpose, UCS’s activities do not require a CBR banking licence for this purpose.

Fraud Prevention

The most significant fraud risk encountered by UCS is from the use of stolen or counterfeit credit and debit cards. Each week, the Payment Systems provide UCS with a list of up to 100,000 card numbers (the “Global Stop List”) which are known to be stolen or counterfeit. If UCS approves a transaction from one of these cards after it has been notified by the Payment Systems, UCS must cover the losses incurred from its own funds.

It is not practical for UCS to require all merchants to check cards against the full Global Stop List or call UCS for authorisation for every transaction. Instead, UCS agrees to “floor limits” with merchants of between US\$50 and US\$100 (or the equivalent in another currency), below which merchants need not seek authorisation, and provides these merchants with a shorter stop list of 200 credit card numbers which are the most likely to be used in Russia (“Merchant Stop List”). The merchants then bear financial responsibility if they accept cards on the Merchant Stop List. However, UCS bears the risk for any transactions using cards that are on the Global Stop List, but not on the Merchant Stop List. For amounts above the floor limit, electronic devices send automatic authorisation requests to the card issuer. For transactions using imprinter POS machines, merchants must call UCS for authorisation information and to obtain an authorisation number. Merchants with electronic POS devices may obtain on-line authorisation directly from the Payment Systems through UCS authorisation channels and communication systems.

UCS has a department fully dedicated to prevention, detection and resolution of fraud. The department consists of eight full-time professionals trained by the Payment Systems in fraud prevention. UCS's efforts have resulted in comparatively low levels of losses due to fraud. In 2003 and 2004, the average annual fraud levels in Russia as a percentage of total merchant voucher volumes were 0.25% and 0.35% for MasterCard and VISA, respectively, whereas UCS's total average annual fraud levels over the last two years have been 0.08% and 0.06% for MasterCard and VISA, respectively.

Disputed Transactions and Chargebacks

Chargebacks occur when a cardholder disputes a transaction posted to his or her account. The Payment Systems involved in the case of a chargeback will normally assume that the cardholder is correct and will withhold the disputed amount from its payment to ROSBANK. UCS is then responsible for raising the matter with the merchant and obtaining supporting evidence, if available. UCS's Investigative Department is responsible for undertaking such investigations. ROSBANK divides chargebacks between those that can be deducted by ROSBANK from its payment to the relevant merchant and those that can be presented to the issuing bank.

If UCS and the responsible merchant produce evidence that the transaction was genuine, the transaction will be processed. If the cardholder then produces counter-evidence that the transaction was invalid, a second chargeback will be made. The Payment Systems organise arbitration panels to settle certain difficult disputes, including with respect to chargebacks. The initiator of the dispute makes the initial payment for the arbitration, but the losing party in the dispute bears the cost after a decision has been made. In the end, UCS has rarely incurred or been left with a loss with regard to disputed transactions, and losses experienced have not been material.

The following table sets forth UCS's disputed transactions for the years ended 31 December 2001, 2002, 2003 and 2004.

| | Chargeback to | | | | Total chargeback volume | Percentage of chargebacks from Payment Systems of total processing volume | Number of Chargebacks | |
|--|----------------------|-------------------------|----------------------|-------------------------|-------------------------|---|-----------------------|----------|
| | UCS | | Merchants | | | | From Payment Systems | Internal |
| | From Payment Systems | Internal ⁽¹⁾ | From Payment Systems | Internal ⁽¹⁾ | | | | |
| (US\$ thousands, except for percentages) | | | | | | | | |
| 2001 | | | | | | | | |
| VISA | 328 | 1 | 521 | 169 | 1,019 | 0.2% | 9,933 | 391 |
| MasterCard | 205 | — | 205 | 51 | 461 | 0.3% | 3,410 | 112 |
| Diners Club | 21 | — | 18 | 1 | 40 | 0.2% | 133 | 1 |
| JCB..... | 1 | — | — | — | 1 | 0.2% | — | — |
| Total..... | 555 | 1 | 744 | 221 | 1,521 | 0.2% | 13,476 | 504 |
| 2002 | | | | | | | | |
| VISA | 165 | (1) | 532 | 179 | 875 | 0.2% | 9,884 | 362 |
| MasterCard | 128 | — | 292 | 56 | 476 | 0.2% | 4,936 | 53 |
| Diners Club | 19 | — | 18 | 5 | 42 | 0.2% | 265 | 1 |
| JCB..... | — | — | 1 | — | 1 | 0.2% | 5 | — |
| Total..... | 312 | (1) | 843 | 240 | 1,394 | 0.2% | 15,090 | 416 |
| 2003 | | | | | | | | |
| VISA | 159 | — | 130 | 223 | 512 | 0.0% | 1,302 | 699 |
| MasterCard | 141 | — | 64 | 110 | 315 | 0.1% | 909 | 282 |
| Diners Club | 18 | — | 17 | 8 | 43 | 0.2% | 76 | 2 |
| JCB..... | — | — | (1) | — | (1) | — | 4 | — |
| Total..... | 318 | — | 210 | 341 | 869 | 0.2% | 2,291 | 983 |
| 2004 | | | | | | | | |
| VISA | 141 | — | 159 | 271 | 572 | 0.1% | 1,797 | 1,122 |
| MasterCard | 144 | — | 92 | 117 | 354 | 0.2% | 1,026 | 540 |
| Diners Club | 11 | — | 4 | 8 | 22 | 0.1% | 93 | 7 |
| JCB..... | — | — | — | — | — | —% | — | — |
| Total..... | 296 | — | 256 | 396 | 948 | 0.1% | 2,916 | 1,669 |

Source: UCS

Note:

- (1) Internal chargebacks arise at the first stage of processing, and represent transactions that are not compliant with the relevant Payment System's rules. Such transactions are not included in the report submitted by UCS to the Payment Systems. Merchant vouchers in respect of internal chargebacks are either returned to the merchants ("merchant internal chargebacks") or become UCS losses ("UCS internal chargebacks"). UCS internal chargebacks normally consist of transactions falling below the applicable floor limit for the fraudulent use of credit or debit cards not appearing on the Merchant Stop List. See "—Fraud Prevention".

The majority of chargebacks to UCS are returned by UCS to the Payment Systems and accepted, and as a result the chargebacks normally result in no loss to UCS.

Management Structure

In accordance with the charter of UCS, the governing bodies of UCS are the General Shareholders' Meeting, the Board of Directors, the Management Board and the General Director. UCS also has a General Shareholders' Meeting at least annually.

The management of UCS has a two-tier structure, with the Board of Directors supervising the strategic development of UCS's business and the Management Board running UCS's daily operations.

The General Shareholders' Meeting

The General Shareholders' Meeting takes place at least once a year. The charter provides that certain issues can only be resolved by the General Shareholders' Meeting, including any amendments and additions to UCS's charter or any approval of a new version of the charter, liquidation of UCS, reduction of share capital, approval of major transactions with a value of over 50% of the value of UCS's assets and transactions involving interested parties, the election of the Board of Directors and appointment of the Management Board and the General Director. The General Shareholders' Meeting cannot consider or take decisions on issues which do not fall within its competence.

Board of Directors

The Board of Directors is responsible for the general management of UCS's activities, with the exception of matters which, in accordance with UCS's by-laws and under UCS's charter, are within the exclusive power of the General Shareholders' Meeting. UCS's Board of Directors has certain exclusive powers, including the power to determine the priorities of UCS's operations, to call the General Shareholders' Meeting and to determine the agenda for such meeting, to approve the issuance of bonds or other securities, recommend the size of dividends and to recommend the opening of branch and representative offices. UCS's Board of Directors has the power to approve transactions with a value of up to 50% of the value of UCS's assets. The Management Board has the authority to approve transactions with a value of less than 25% of the value of UCS's assets.

UCS's Board of Directors appoints the managers of the company, who are professionals and not necessarily related to any of the shareholders. Most of UCS's managers have been with the company or with its predecessors companies for over 15 years.

Management Board

UCS's Management Board and the General Director oversee the running of UCS's day-to-day affairs. Members of the Management Board are appointed by the General Shareholders' Meeting which has the right to terminate the authority of the Management Board and appoint a new Management Board at any time.

The powers of the Management Board include development of the organisational structure of UCS, adoption of regulations on internal departments and commissions within UCS, and approval of transactions related to the acquisition or disposal of property with a value of up to 25% of the value of UCS's assets, including loans, pledges and guarantees. Decisions at the Management Board meetings are taken by the majority of the votes of the Management Board members. Meetings of the Management Board are convened by the General Director.

Audit Committee

The financial and business activities of UCS are monitored by UCS's Audit Committee and UCS's external auditor. UCS's Audit Committee is elected by the General Shareholders' Meeting in accordance with its charter and for the purpose of in order to exercising control over UCS's financial and economic activities.

FACTORS AFFECTING VOLUMES OF INTERNATIONAL RECEIVABLES

Overview

The volume of credit and debit card international transactions in Russia is in part a function of the flow of tourist and business traffic to Russia, as well as the level of expenditures made by tourist and business travellers while in Russia. Tourist travel to Russia has grown steadily in recent years as a result of increasing awareness of Russia's significant cultural and historical attractions, while business travel has increased due to the economic growth and increased economic stability that Russia has experienced in recent years. Although the majority of foreign arrivals to Russia are from CIS countries and are thus less likely to use US dollar or euro denominated credit and debit cards, the number of Western Europeans and Americans coming to Russia as tourists has been increasing rapidly over the past few years. Their contribution to Russian tourism receipts is also disproportionately high relative to the number of tourists from these countries.

A largely undeveloped tourism infrastructure in Russia has constrained growth in tourism receipts, but the Russian government has made tourism a priority and has increased spending in this area. In 2002, the Russian government approved "The Conception for Tourism Development until 2005", which set out plans for the expansion of tourism infrastructure, including the modernisation of airports and seaports, the construction of new motorways and railways and the building of hotels in major cities and regional tourism centres. Additionally, the Ministry for Economic Development and Trade spent approximately US\$4 million on tourism promotion according to the CBR in 2003.

Government Initiatives in the Tourism Market

Government responsibility for promoting tourism in Russia is divided between the national government and the local governments. As part of "The Conception for Tourism Development until 2005", the Tourism Department of the Ministry of Economic Development and Trade has announced plans to modernise major airports and seaports, as well as construct new motorways and railways. In addition, local governments have embarked upon plans to build hotels in their respective regions.

Since the lack of tourism infrastructure is the main constraint upon growth of Russia's tourism industry, the government's involvement in investing in accommodation and transportation projects, both at the local and national level, will be a crucial factor for the future growth of tourists coming to Russia.

Key positive and negative growth factors

Russia's economy is a key factor in the growth of the tourism market. In August 1998, the Russian government defaulted on its rouble-denominated securities, the CBR stopped its support of the rouble and a temporary moratorium was imposed upon hard currency payments. Among other effects, these actions resulted in a severe devaluation of the rouble, which drove down US dollar tourist expenditures in Russia significantly. Since 1999, this trend has reversed, and Russia has experienced significant economic growth and improved economic stability. As a result, tourism has increased and tourism receipts have gone from US\$2,308.8 million in 1999 to US\$4,027.2 million in 2003.

Russia's limited tourism infrastructure has been the major constraint on growth in tourism receipts. The shortage of hotel rooms, suitable transportation to remote areas and car rental services in Russia have prevented Russia from fully capitalising upon its potential as a tourist destination. Future growth in Russia's tourism industry depends in part on the success of government initiatives to promote tourism and investment in the travel accommodation and transportation sectors.

The prosecution of Mikhail Khodorkovsky, the former CEO of Yukos, and government action taken against the business operations of Yukos, could raise concerns about the progress of economic and political reform in Russia, which could adversely affect the appetite for foreign investment in Russia. See "Risk Factors – Economic instability in Russia could adversely affect each of ROSBANK's and UCS's businesses". This in turn could reduce the number of business travellers to Russia. Business travel represented 24.0% of arrivals to Russia in 2003. Therefore, any reduction in business activity could have an adverse effect on foreign currency denominated receipts.

Terrorism in Chechnya could also deter tourists from coming to Russia by contributing to Russia's negative image as a dangerous place to visit. Suicide bombings carried out by Chechens since 2002, when rebels took hold of a Moscow theatre, have had a high profile in international newspapers. In recent months, bombings near and inside Moscow metro stations, bombings of domestic airline passenger flights, and the taking of hundreds of hostages at a school in Beslan, all received extensive press coverage. See "Risk Factors – Terrorist activity could negatively affect the Russian economy, which could adversely affect each of ROSBANK's and UCS's businesses". Events such as these may adversely affect the growth in travel to Russia.

International Arrivals to Russia

The following table sets forth international arrivals and tourist receipts in Russia for the years ended 31 December 1999 through 2003:

| | International arrivals⁽¹⁾ | International tourist receipts⁽²⁾ | Receipts per tourist |
|---------------------------------------|---|---|---------------------------------|
| For the year ended 31 December | <i>(Thousands)</i> | <i>(US\$ millions)⁽³⁾</i> | <i>(US\$)⁽³⁾</i> |
| 1999 | 18,282 | 2,308.8 | 126 |
| 2000 | 20,485 | 3,066.1 | 150 |
| 2001 | 21,723 | 3,605.0 | 166 |
| 2002 | 23,000 | 3,723.6 | 162 |
| 2003 | 24,621 | 4,027.2 | 164 |

Source: Euromonitor

Notes:

- (1) International arrivals includes persons visiting Russia from another country for at least 24 hours but less than 12 months. Each trip is counted separately and therefore includes people travelling more than once a year and people visiting several countries during one holiday. This number excludes people in paid employment in Russia from abroad.
- (2) International tourist receipts are defined as payments by international inbound tourists, including fares paid to national carriers for international transport and any other payments made for goods and services in Russia. This figure should also include receipts from day visitors from abroad, but some cases are recorded separately.
- (3) US dollar amounts represent the conversion of rouble amounts into US dollars by calculating the sum of the daily rouble/US dollar interbank spot rate as quoted by Bloomberg for each trading day in the relevant period, divided by the number of trading days in that period.

During the five year period from 1999 to 2003, Russia experienced average annual growth rates of 7.7% in total arrivals and 14.9% in tourism receipts. These rates compare favourably to average annual growth rates of 4.0% in arrivals and 2.9% in receipts for Eastern Europe as a whole (including Russia) and 1.9% in arrivals and 1.8% in receipts for Western Europe. The worldwide annual growth rates in total arrivals and tourism receipts were 2.2% and 1.6%, respectively.

The following table sets forth a regional breakdown of average annual growth rates for the period 31 December 1999 through 2003 and share of international arrivals and tourist receipts for the year ended 31 December 2003:

| | Share of arrivals (%) | CAGR ⁽¹⁾ , International Arrivals ⁽²⁾ , 1999-2003 (%) | Share of International Tourist Receipts ⁽³⁾ (%) | CAGR ⁽¹⁾ , International Tourist Receipts ⁽²⁾ , 1999-2003 (%) |
|---------------------------|--------------------------|--|---|---|
| Western Europe..... | 46.5 | 1.9 | 47.0 | 1.8 |
| Asia-Pacific..... | 15.7 | 3.6 | 14.9 | 2.0 |
| Eastern Europe..... | 11.8 | 4.0 | 6.3 | 2.9 |
| North America | 8.6 | (2.5) | 19.0 | (2.4) |
| Latin America | 7.8 | 0.5 | 4.7 | 6.4 |
| Africa & Middle East..... | 8.6 | 6.4 | 5.5 | 6.1 |
| Australasia..... | 0.9 | 2.6 | 2.7 | 7.1 |
| Worldwide | 100.0 | 2.2 | 100.0 | 1.6 |

Source: Euromonitor

Notes:

- (1) Compound annual growth rate.
- (2) International arrivals include persons visiting Russia from another country for at least 24 hours but less than 12 months. Each trip is counted separately and thus includes people travelling more than once a year and people visiting several countries during one holiday. This number excludes people in paid employment in Russia from abroad.
- (3) International tourist receipts are defined as payments by international inbound tourists, including fares paid to national carriers for international transport and any other payments made for goods and services in Russia. This figure should also include receipts from day visitors from abroad, but some cases are recorded separately.

Country of Origin

The majority of foreign arrivals to Russia are from other CIS countries. In 2003, CIS visitors accounted for 16 million arrivals, or 65.3% of total arrivals. This represented a 7.5% increase over 2002. Many residents of other CIS countries have close ties with Russia and many come to visit friends and family in Russia. Also, citizens of CIS countries do not require an entry visa to visit Russia, which removes a barrier to travel for them compared to citizens of other countries.

Excluding CIS countries, the leading countries of origin for visitors to Russia in 2003 were Finland, Poland and Lithuania, which accounted for 5.7%, 5.1% and 5.0% of total arrivals, respectively. Arrivals from these three countries increased at an average annual rate of 10.2% from 1999 through 2003. While citizens from these countries also visit Russia overwhelmingly to visit family and friends, many also come to shop in Russia.

The next highest source of arrivals to Russia was Germany, with 542,000, or 2.2% of total arrivals in 2003. The United Kingdom and the United States represented 0.6% each of total arrivals in 2003. Although American and Western European visitors represent a relatively small proportion of the total visitors to Russia, the number of visitors from these regions has been increasing dramatically over the past few years. The average annual growth rates from 1999 through 2003 of visitors to Russia from Germany and the United Kingdom were 9.3% and 5.0%, respectively. Although visits from the United States declined at an average annual rate of 8.1% during this period, largely as a result of a decrease in travel by Americans in the aftermath of the events of 11 September 2001, American visitors to Russia increased from 2002 to 2003 by 32.7%. In addition, although Americans and Western Europeans account for only a small proportion of visitors to Russia, their spending represents a disproportionately high amount of total tourism receipts.

The following table sets forth visitors to Russia by country of origin for the five year period ended 31 December 2003:

| | 1999 | | 2000 | | 2001 | | 2002 | | 2003 | |
|------------------|-------------|-------|-------------|-------|-------------|-------|-------------|-------|-------------|-------|
| | (Thousands) | (%) |
| CIS..... | 12,215 | 66.8 | 13,547 | 66.1 | 14,253 | 65.6 | 14,960 | 65.0 | 16,078 | 65.3 |
| Finland | 976 | 5.3 | 1,151 | 5.6 | 1,300 | 6.0 | 1,356 | 5.9 | 1,404 | 5.7 |
| Poland..... | 616 | 3.4 | 856 | 4.2 | 1,142 | 5.3 | 1,200 | 5.2 | 1,263 | 5.1 |
| Lithuania | 1,056 | 5.8 | 1,105 | 5.4 | 1,150 | 5.3 | 1,195 | 5.2 | 1,241 | 5.0 |
| China | 480 | 2.6 | 511 | 2.5 | 530 | 2.4 | 725 | 3.2 | 787 | 3.2 |
| Germany..... | 380 | 2.1 | 450 | 2.2 | 440 | 2.0 | 493 | 2.1 | 542 | 2.2 |
| Estonia..... | 294 | 1.6 | 344 | 1.7 | 355 | 1.6 | 367 | 1.6 | 375 | 1.5 |
| Latvia..... | 241 | 1.3 | 280 | 1.4 | 285 | 1.3 | 292 | 1.3 | 301 | 1.2 |
| Turkey | 138 | 0.8 | 152 | 0.7 | 180 | 0.8 | 191 | 0.8 | 208 | 0.8 |
| United Kingdom.. | 131 | 0.7 | 150 | 0.7 | 156 | 0.7 | 149 | 0.6 | 159 | 0.6 |
| USA..... | 205 | 1.1 | 247 | 1.2 | 230 | 1.1 | 110 | 0.5 | 146 | 0.6 |
| Others | 1,550 | 8.5 | 1,692 | 8.3 | 1,702 | 7.8 | 1,962 | 8.5 | 2,117 | 8.6 |
| Total | 18,282 | 100.0 | 20,485 | 100.0 | 21,723 | 100.0 | 23,000 | 100.0 | 24,621 | 100.0 |

Source: Euromonitor

Purpose of visit

Although Russia had one of the highest international arrival rates of any country in 2003, with 24.6 million arrivals, the majority of these arrivals were not attributable to tourism. Foreigners entering Russia to visit friends and relatives accounted for 46.0% of these arrivals and most of these visitors came from CIS countries and visited Russia because of their ties to Russia from the Soviet period. The second leading purpose for visits was business, which accounted for 24.0% of international arrivals in 2003, while leisure accounted for 20.0% of arrivals during the period. Since most visitors coming to Russia for family visits were from CIS countries, only business travellers and tourists, which together accounted for 44.0% of international arrivals, were likely to use US dollar or euro settled credit and debit cards in Russia.

The following table sets forth international arrivals in Russia by purpose of visit for the five year period ended 31 December 2003:

| | 1999 | | 2000 | | 2001 | | 2002 | | 2003 | |
|-------------------------------------|-------------|-------|-------------|-------|-------------|-------|-------------|-------|-------------|-------|
| | (Thousands) | (%) |
| Visiting relatives/ friends..... | 8,969 | 49.1 | 9,803 | 47.9 | 10,473 | 48.2 | 11,040 | 48.0 | 11,325 | 46.0 |
| Business | 3,854 | 21.1 | 4,378 | 21.4 | 4,531 | 20.9 | 5,060 | 22.0 | 5,909 | 24.0 |
| Leisure | 3,024 | 16.5 | 3,579 | 17.5 | 3,900 | 18.0 | 4,400 | 19.1 | 4,927 | 20.0 |
| Other..... | 2,435 | 13.3 | 2,725 | 13.3 | 2,819 | 13.0 | 2,500 | 10.9 | 2,460 | 10.0 |
| Total | 18,282 | 100.0 | 20,485 | 100.0 | 21,723 | 100.0 | 23,000 | 100.0 | 24,621 | 100.0 |

Source: Euromonitor

Although, as noted above, visiting friends and family was the dominant purpose for travellers to Russia, growth in leisure travel has grown over the past few years. From 2002 to 2003, leisure arrivals to Russia grew by 12.0% and totalled 4.9 million people in 2003. Moreover, leisure is the main purpose for visits to Russia from several key European countries. For instance, in 2003 68% of Italians and more than 58% of French citizens came to Moscow on tourist visas. By contrast, visitors from the United States and United Kingdom come to Russia primarily for business purposes.

Tourism

Russia exhibits strong tourism potential, given its rich culture and history. However, this potential has yet to be fully exploited in part because Russia's tourism infrastructure is underdeveloped. Nevertheless, growth in foreign arrivals to Russia has been impressive as compared to other major tourist destinations.

The following table sets forth international arrivals for the year ended 31 December 2003 as well as the growth rate from 2002 to 2003 and the average annual growth rate for the years ended 31 December 1999 through 2003 for the top 20 tourist destinations worldwide:

| | Number of Arrivals in 2003⁽²⁾ | Growth in Arrivals 2002-2003 | CAGR⁽¹⁾, Arrivals 1999-2003 |
|------------------|---|---|---|
| | <i>(Thousands)</i> | <i>(%)</i> | <i>(%)</i> |
| France..... | 76,895 | (0.2) | 1.3 |
| Spain..... | 52,886 | 2.2 | 3.1 |
| US..... | 42,166 | 0.6 | (3.4) |
| Italy..... | 33,547 | 0.6 | 1.3 |
| China..... | 30,050 | (18.5) | 2.5 |
| UK..... | 24,533 | 2.5 | (0.9) |
| Russia..... | 24,621 | 7.0 | 7.7 |
| Canada..... | 19,267 | (3.5) | (0.2) |
| Mexico..... | 19,099 | (2.9) | 0.1 |
| Austria..... | 18,074 | (2.9) | 0.9 |
| Germany..... | 18,041 | 0.4 | 1.3 |
| Hungary..... | 16,485 | 3.9 | 3.4 |
| Greece..... | 13,886 | 0.5 | 3.4 |
| Turkey..... | 13,618 | 2.7 | 16.1 |
| Poland..... | 13,350 | (4.5) | (7.1) |
| Malaysia..... | 12,900 | (2.9) | 12.9 |
| Portugal..... | 11,490 | (1.5) | (0.3) |
| Thailand..... | 10,201 | (6.2) | 4.2 |
| Hong Kong..... | 9,946 | (6.9) | 9.8 |
| Netherlands..... | 8,833 | (7.9) | (2.8) |

Source: Euromonitor

Notes:

- (1) Compound annual growth rate.
- (2) International arrivals includes persons visiting Russia from another country for at least 24 hours but less than 12 months. Each trip is counted separately and thus includes people travelling more than once a year and people visiting several countries during one holiday. This number excludes people in paid employment in Russia from abroad.

As the table illustrates, Russia's 7.0% growth rate in international arrivals from 2002 to 2003 surpassed that of some of the world's top tourist destinations, such as France, whose international arrivals declined from 2002 to 2003 at a rate of 0.2%, and Spain, which experienced a growth rate of 2.2% during this period. On an average annual growth rate basis from 1999 to 2003, Russia's growth rate of 7.7% was surpassed only by Turkey, Malaysia and Hong Kong.

Tourist Attractions

Russia relies heavily on tourism receipts generated by the significant historical and cultural attractions that Moscow and St. Petersburg offer, with combined tours of these two cities accounting for around 70% of foreign tourists attending organised tours in Russia in 2003. Russia's rich cultural past is centred in these two cities. As the economic and political centre of Russia, Moscow has many important cultural attractions, including the Kremlin, which was the seat of power for tsars and now for Russia's president, and the adjacent Red Square, as well as the domes of St. Basil's Cathedral. These sights are a major draw for European tourists.

St. Petersburg has been called the “cultural capital of Russia” and has many palaces, monuments, bridges and other attractions. The Hermitage Museum, which is located in St. Petersburg, has about 2.7 million exhibits and displays a full range of world art. St. Petersburg’s great palaces include the Winter Palace, which is located on the Neva River and was once the main residence of the Russian tsars, and the Mariinsky Palace, which is now the seat of the State Council, the State Chancellor’s office and the Council of Ministers. Additionally, St. Petersburg’s scenic Nevski Prospekt is one of the best known streets in Russia and cuts through the historical heart of the city. St. Petersburg’s cultural sights bring many tourists from Western Europe and the United States to Russia.

River cruises between Moscow and St. Petersburg have recently become popular with European and American tourists and are a rapidly increasing source of international tourist receipts for Russia.

The Golden Ring is another attraction for European and American tourists. The Golden Ring is comprised of the cities of Vladimir, Suzdal, Alexandrov, Murom, Kostroma, Tver, Rostov, Yaroslavl, Pereslavl-Zalessky and Uglich. These cities are the oldest centres of early Russian culture and are filled with unique church grounds, cathedrals and belltowers dating from the twelfth to nineteenth centuries. Tourists frequently take tours of the Golden Ring lasting four to seven days, or alternatively take abbreviated weekend tours covering only a few of the above cities.

The reasons for the low tourist penetration rate outside of Moscow and St. Petersburg are threefold. First, the tourism infrastructure outside of these two cities is undeveloped, which prevents significant numbers of tourists from visiting these areas. Second, the average age of incoming tourists is high, as many of such visitors comprise retirees and the reduced mobility of many such tourists prevents them from taking trips to remote areas of Russia. Finally, many foreigners perceive Russia to be dangerous and as a result are afraid to venture outside of Russia’s major cities.

Nonetheless, the Russian government is actively promoting tourism in areas outside of Moscow and St. Petersburg, and areas such as the Kamchatka peninsula and Lake Baikal have experienced an increase in foreign visitors in recent years.

Tourism Infrastructure

Although Russia has significant potential as a tourist destination, its relatively undeveloped tourism infrastructure has hindered growth in tourism receipts. There is a lack of mid-range accommodation in Moscow and St. Petersburg and, outside of these two cities, development in the area of accommodation has been very limited. Russia’s transportation network has also prevented tourists from planning trips outside of Moscow and St. Petersburg. Car rental services have only recently expanded into Russia, and it is still difficult for tourists to travel to Russia’s more remote areas. However, the Russian government is aware of the need to promote development in tourism infrastructure and has taken steps to encourage such development.

Accommodation

Merchant transactions generated in the accommodation sector contribute a significant portion of Receivables acquired by ROSBANK. For the year ended 31 December 2003, payments made in respect of the lodging industry comprised 23.1% of total payments made to ROSBANK by the Receivables Obligors in international transactions. Several major foreign hotel chains entered the Russian travel accommodation market in the late 1980s and early 1990s to take advantage of Russia’s potentially vast market. However, investment was concentrated in Moscow and St. Petersburg. In the rest of the country, investment has been minimal and, as a result, there are relatively few major hotels. Under the government-mandated plan “The Conception for Tourism Development until 2005”, the responsibility for the development of tourist infrastructure was given to local authorities. As such, the future of Russia’s tourism market is largely reliant upon foreign investors and local councils.

In the past two years, there has been significant investment in the hotel sector. The market for travel accommodation in Russia reached US\$9,239.7 million in 2003 compared to US\$4,130.3 million in 1999. This represents an average annual growth rate of 22.3%. In volume terms, the number of bed-nights reached 480 million in 2003 compared to 390 million in 1999, representing an average annual growth rate of 5.3%. The Marriott Moscow Grand Hotel and Avrora-Lux Hotels Ltd. are

among UCS's top ten merchant customers, accounting for 3.7% of total merchant voucher transactions (including both international and domestic transactions) processed by UCS for the year ended 31 December 2003.

The following table illustrates the size of the Russian travel accommodation sector in both value and volume terms for the years ended 31 December 1999 through 2003:

| | <u>Value</u> | <u>Volume</u> |
|-----------|-------------------------------------|---------------------------------|
| | <i>(US\$ million)⁽¹⁾</i> | <i>(Millions of bed nights)</i> |
| 1999..... | 4,130.3 | 390 |
| 2000..... | 5,671.4 | 429 |
| 2001..... | 6,745.4 | 424 |
| 2002..... | 7,799.9 | 445 |
| 2003..... | 9,239.7 | 480 |

Source: Euromonitor

Note:

- (1) US dollar amounts represent the conversion of rouble amounts in to US dollars by calculating the sum of the daily rouble/US dollar interbank spot rate as quoted by Bloomberg for each trading day in the relevant period, divided by the number of trading days in that period.

Significant progress is being made in Moscow to build a sufficient number of mid-range hotels to meet demand. Authorities in the Moscow region announced a plan to create a chain of motels between 2003 and 2006. As part of the plan, a few dozen mid-range motels are expected to be built in the municipalities around Moscow. Sixteen municipalities have already agreed to reserve territories for new constructions along highways that lead to other provinces in Russia. Russian Black Sea resorts have also undertaken active promotion campaigns to compete with competition from foreign players.

Foreign hotel chains continue to be active in the Russian hotels market. The three largest hotel chains in Russia are Marriott, Radisson and Kempinski. Marriott is the market leader with four luxury hotels in Moscow that have an aggregate capacity of 1,257 rooms. Novotel and Hyatt entered the Russian market in September 2002, and Hyatt has recently built a new hotel in the centre of Moscow to compete with other major hotels.

The following table sets forth the number of hotels, rooms and beds by region, as well as the occupancy rate, for the year ended 31 December 2002 (the most recent year for which such information is available):

| | <u>Hotels</u> | <u>Rooms</u> | <u>Beds</u> | <u>Occupancy rate</u> |
|---------------------|---------------|----------------|----------------|-----------------------|
| | | | | <i>(%)</i> |
| Moscow..... | 280 | 38,120 | 76,240 | 60.0 |
| St. Petersburg..... | 142 | 16,400 | 36,080 | 64.0 |
| Black Sea..... | 72 | 7,852 | 19,630 | 57.0 |
| Other..... | 3,100 | 145,200 | 363,000 | 68.0 |
| Total..... | <u>3,594</u> | <u>207,572</u> | <u>494,950</u> | <u>65.8</u> |

Source: Euromonitor

The Russian hotel industry has historically exhibited a lack of quality control. Prior to 2003, Russian hotels determined their own star ratings. However, in an effort to solve this problem, the Ministry for Economic Development and Trade designed and approved the Single State System for star-rating of hotels in August 2003. The system is similar to the star-rating systems used in Western countries. A special certification committee will be charged with the task of assigning stars to hotels. Its decisions will be based on reports from state experts.

Alternative accommodations, such as hostels and bed and breakfasts, are also emerging in Russia. In the spring of 2003, the first chain of hostels appeared in St. Petersburg. However, Russia still lags behind most other European countries in having a sufficient number of hostels to draw budget travellers.

Transportation

Transportation sales grew at an average annual growth rate of 19.7% from 1999 through 2003, reaching US\$7,860.5 million in 2003. The largest sector was bus and coach travel, with sales of US\$3,164.9 million in 2003, representing 40.3% of the transportation market. Air travel sales increased at an average annual rate of 27.0% during the same period to reach US\$2,587.7 million in 2003.

The following table sets forth the share of the transportation market by type of transport for the years ended 31 December 1999 through 2003:

| | 1999 | | 2000 | | 2001 | | 2002 | | 2003 | |
|----------------------------|--------------------------------|-------|--------------------------------|-------|--------------------------------|-------|--------------------------------|-------|--------------------------------|-------|
| | (US\$ millions) ⁽¹⁾ | (%) |
| Air | 995.4 | 26.0 | 1,416.1 | 27.5 | 1,695.3 | 27.2 | 2,054.1 | 30.2 | 2,587.7 | 32.9 |
| Bus/coach..... | 1,718.6 | 44.9 | 2,251.1 | 43.7 | 2,748.6 | 44.1 | 2,863.9 | 42.1 | 3,164.9 | 40.3 |
| Chauffeur-driven car | 3.8 | 0.1 | 5.1 | 0.1 | 6.2 | 0.1 | 6.3 | 0.1 | 6.8 | 0.1 |
| Cruise..... | 11.8 | 0.3 | 15.6 | 0.3 | 24.9 | 0.4 | 32.2 | 0.5 | 44.6 | 0.6 |
| Ferry..... | 11.2 | 0.3 | 15.1 | 0.3 | 18.7 | 0.3 | 19.1 | 0.3 | 21.2 | 0.3 |
| Rail..... | 1,086.7 | 28.4 | 1,447.6 | 28.1 | 1,735.5 | 27.9 | 1,824.9 | 26.8 | 2,035.4 | 25.9 |
| Total ⁽²⁾ | 3,827.5 | 100.0 | 5,150.6 | 100.0 | 6,229.4 | 100.0 | 6,800.5 | 100.0 | 7,860.5 | 100.0 |

Source: Euromonitor

Notes:

- (1) US dollar amounts represent the conversion of rouble amounts into US dollars by calculating the sum of the daily rouble/US dollar interbank spot rate as quoted by Bloomberg for each trading day in the relevant period, divided by the number of trading days in that period.
- (2) The transportation market includes the value paid by tourists for the mode of transport to arrive at their holiday destination and for travel within the country. It covers sales for outgoing travel by Russians and internal travel by foreign tourists and by Russians. The car rental market is analysed separately below and is not included in the above figures.

A significant limitation upon travel by tourists outside of Moscow and St. Petersburg has been the lack of car rental services in Russia. During the past few years, the car rental sector has been growing rapidly, but the size of the market is still very small relative to that in other major tourism markets. As a result, merchant transactions generated by the car rental sector do not currently make a significant contribution to the levels of Receivables acquired by ROSBANK. For the year ended 31 December 2003, payments made in respect of car rentals comprised 0.9% of total payments made to ROSBANK by the Receivables Obligor in international transactions.

DESCRIPTION OF VISA INTERNATIONAL AND MASTERCARD INTERNATIONAL

The information set forth in this section has been extracted from publicly available sources. No representation is made by VISA, MasterCard, ROSBANK, the Managers or UCS as to the accuracy or completeness of any such information.

Overview

VISA and MasterCard are associations which promote the use and acceptance of VISA and MasterCard credit and debit cards, respectively, licence their trademarks and clear chargecard transactions on behalf of their members. VISA and MasterCard are owned by certain of their members, including commercial banks, savings and loans associations and other financial institutions, who have licenced the VISA and/or MasterCard trademarks under non-exclusive and non-transferable agreements. Summary statistics of VISA and MasterCard for 2003 are presented below:

| | For the year ended 31 December 2003 | |
|---|--|-------------------|
| | VISA | MasterCard |
| Debit and credit cards in circulation..... | 1.1 billion | 632.4 million |
| Number of acceptance locations | Over 20 million | Over 22 million |
| Number of member financial institutions | 21,000 | 25,000 |
| Countries in operation | Over 150 | Over 210 |
| Total billings-global..... | US\$ 2.9 trillion | US\$ 1.3 trillion |

Source: VISA and MasterCard 2003 annual reports.

Description of VISA

Overview

VISA is a privately held, for-profit association organised under the laws of the State of Delaware. VISA is owned entirely by its member financial institutions. VISA owns, licences and administers the VISA trademarks, prescribes operating regulations which provide an infrastructure for members to operate their VISA payment systems and regulates the interchange between members, and operates communications systems which authorise and clear transactions between members.

VISA is currently rated “A1” (Senior Unsecured Debt) by Moody’s with a stable outlook and “A+” (Long Term Foreign and Local Issuer Debt) by S&P with a negative outlook.

History of VISA

The VISA programme began in 1958 when Bank of America launched the BankAmericard programme in California. In 1966, Bank of America began licensing the trademarks and administering the programme among its licencees. As the success of the BankAmericard programme grew, National BankAmericard Inc. (“NBI”) was formed in 1970 to licence the trademarks and administer the programme in the United States. In 1974, IBANCO was formed to licence the trademarks and administer the programme outside of the United States. In 1976, NBI and IBANCO became VISA USA and VISA International, respectively, and ownership of the trademarks was transferred from Bank of America to VISA.

Total worldwide billing on VISA credit and debit cards in 2003 amounted to US\$2.9 trillion, an approximately 10% increase over US\$2.5 trillion of worldwide billing in 2002. 57.2% of the worldwide purchase sales volume in 2003 was attributable to VISA cards. A total of 1.1 billion VISA credit and debit cards were in circulation in 2003, representing a 8.5% increase as compared to 1.0 billion cards in 2002. In 2003, VISA credit and debit cards were accepted in over 150 countries at over 20 million locations.

Membership

VISA has four classes of membership which relate to credit card operations and three other categories which relate to travellers cheques (“Travellers Cheque Issuers”) and other special

programmes, including the Plus programme (“Plus Programme Participants”). A member’s class of membership determines the activities in which it can engage. The four credit card membership categories are as follows:

Principal Members

Principal Members are direct participants in VISA programmes and the interchange process and have the right to issue VISA cards, contract with merchants for VISA acceptance, provide authorisations and directly access VISA settlement systems. ROSBANK is a Principal Member.

Associate Members

Associate Members must be sponsored by one or more Principal Members and, pursuant to a written agreement with their sponsor, perform the same functions as Principal Members.

Participant Members

Participant Members are sponsored for membership by one or more Associate or Principal Members and assist the sponsor in performing its obligations, including marketing of cards to holders and merchants. Cardholders and merchants solicited by Participant Members maintain a direct contractual relationship with the sponsor. Participant Members may not directly issue bank cards in their own name and do not have the right to directly participate in the interchange process.

Merchant Acquiring Members

Merchant Acquiring Members contract with merchants for the acceptance of VISA cards and participate directly in VISA interchange, but may not issue VISA cards. Merchant Acquiring Members must convert to one of the other types of card membership listed above upon the entry of a Principal or Associate Member whose principal place of business is the same country.

Associate and Participant Members must be sponsored by a Principal Member who assumes responsibility for the performance and all obligations of such member. Membership in VISA is open to, among others, commercial banks and other financial institutions authorised to accept demand deposits. Applicants may be accepted for membership if they are prepared to, and are deemed by the VISA Board of Directors (the “VISA Board of Directors”) or the relevant authority in their Regional Board (as defined below) able to, perform the functions and obligations required of the class of membership for which they have applied. Conditions of membership can be imposed to ensure that applicants meet their obligations under the VISA Certificate of Incorporation, VISA By-Laws and VISA Operating Regulations (as defined below).

Certificate of Incorporation, Operating Regulations and By-Laws

VISA is governed by a certificate of incorporation (the “VISA Certificate of Incorporation”), operating regulations (the “VISA Operating Regulations”) and by-laws (the “VISA By-Laws”) which regulate the relationship between VISA and its members, and between members themselves. Among other things, the VISA Operating Regulations specify procedures for interchange processing and settlement, chargebacks and fees. The VISA By-Laws provide for the structure of VISA, membership requirements, rights and obligations of members, management structure, composition and responsibilities of the Board of Directors, and for the indemnification of members.

The VISA Operating Regulations may be amended by a vote of three-fourths of the total membership of the VISA Board of Directors. In general, VISA By-Laws, including provisions for indemnification discussed below, may be amended by a vote of three-fourths of the total membership of the Board of Directors, except for certain provisions concerning the VISA Board of Directors that require an affirmative vote of at least 90% of the total membership of the VISA Board of Directors.

Membership Rights and Obligations

Principal and Associate Members, as well as Participant Members through their sponsors, are granted a non-exclusive, non-transferable licence to use the VISA trademark in connection with the issuance and servicing of VISA credit cards. Additionally, such members receive access to the VISA communications and computer networks to authorise and clear credit card transactions between members.

All members are bound by the provisions of the VISA Certificate of Incorporation, VISA By-Laws and VISA Operating Regulations. Additionally, Principal and Associate Members have the following obligations among others:

- (i) to issue and service VISA credit cards;
- (ii) to extend credit to, and purchase accounts receivable due from, cardholders;
- (iii) to collect balances of accounts from cardholders;
- (iv) to interchange receivables arising through the use of VISA credit cards;
- (v) to provide authorisation service to merchants with which it has servicing contracts; and
- (vi) to provide information and certification as to such members' operations and financial performance.

A member may terminate its membership in VISA at any time after 180 days prior notice. A member may be expelled by a vote of 75% of the VISA Board of Directors for good cause only, which includes but is not limited to, repeated or wilful violations of the VISA Certificate of Incorporation, VISA By-Laws or VISA Operating Regulations, a matter which reasonably leads the VISA Board of Directors to believe that a member is or is about to become insolvent or unable to meet its obligations under the VISA Certificate of Incorporation, VISA By-Laws or VISA Operating Regulations or is operating in an unsound or unsafe manner. In an "emergency situation", a member's failure to pay can also lead to action under these provisions and certain other provisions entitling senior officers of VISA to, among other things, stop authorisations or disconnect the electronic communications link connecting that member to VISA or connecting that member's processor to VISA. An emergency situation would include, but is not limited to, an exposure of the VISA system to serious losses due to a member's failure to pay VISA. In addition, membership automatically terminates upon bankruptcy, insolvency or other similar proceedings against the member or if any member continues to act or fails to act, after notice from the VISA Board of Directors, in a manner that jeopardises the rights of VISA to its trademarks. ROSBANK is not aware of any instance where the VISA Board of Directors has terminated a member without cause.

Voting Rights

Only Principal Members, Travellers Cheque Issuers and Plus Programme Participants have the right to vote at meetings of members. The voting rights of Principal Members and Travellers Cheque Issuers are based on their card sales volume or check sales volume.

Management

The affairs of VISA are managed by the "VISA Board of Directors" which has exercised the powers conferred upon it by the VISA Certificate of Incorporation and the VISA By-Laws to divide the countries in which there are members into regions and delegate considerable powers to regional boards of directors (the "Regional Boards"). In general, the Regional Boards have responsibility for intra-regional matters, while the VISA Board of Directors has responsibility for inter-regional matters and can override a Regional Board where intra-regional matters may have a significant effect on the worldwide VISA programme. VISA has established five geographic regions, each of which is administered by a Regional Board that is elected by the members of that region. Each region is autonomous but must operate within the VISA By-Laws and VISA Operating Regulations. Each region advertises, promotes and protects the VISA trademarks, operates processing facilities and administers local rules regulating members. The approval of new members has been delegated to the Regional Boards.

The Regional Boards elect the VISA Board of Directors. Each region has from two to eight representatives on the VISA Board of Directors, based on the card sales volume of such regions. The VISA Board of Directors is responsible for managing the overall business of the corporation and appointing the officers of the corporation. In addition, it administers the licensing of the VISA marks.

The Regional Boards exercise the authority of the VISA Board of Directors regarding membership of any organisation in each Regional Board, operations within that region, the setting of service fees applicable to sales volume within the region and the expenditure of corporate funds for the benefit of that VISA programme within the region.

Fees, Dues and Assessments

Each region establishes its own service fees. The Central and Eastern Europe, Middle East and Africa region, of which ROSBANK is a Principal Member, currently charges its Principal Members a one-time Licence Fee of US\$60,000 at the time of entry into the Association, a Quarterly Card Service Fee of between 0.025% and 0.04% of sales volume subject to a US\$6,000 minimum, and an International Service Assessment fee of 0.35% of the value of the international outgoing interchange. Certain processing fees, hardware and software installation and support fees, service fees and self-insurance premiums in respect of counterfeit losses may also become payable by members.

Payment Indemnification

Under the provisions of the VISA By-Laws, each member of VISA shall be indemnified by VISA against any loss or expense suffered by it as a result of the failure of any other member to properly honour any draft or other obligation processed in accordance with the VISA Operating Regulations. In the event substantial losses were to occur, VISA currently has access to short-term lines of credit which would be used until such time as permanent funding could be obtained. There is no guarantee of the sufficiency of the amounts of such lines of credit in the event of substantial losses.

VISA limits its exposure under the payment indemnification by monitoring the settlement accounts of its members. VISA may impose conditions of membership, based on member or country risk, designed to insure that such member meets its obligations under the VISA Certificate of Incorporation, the VISA By-Laws and VISA Operating Regulations. However, because of the number of financial institutions in the VISA programme, VISA is unable to monitor its members closely and, consequently, is unable to warrant the ongoing financial condition of its members. In the event a member bank fails to meet its obligations, VISA may intervene to help facilitate the sale of the bank's credit card portfolio or may cancel authorisation for the affected credit cards. VISA credit card portfolios of insolvent issuers have in the past, although not always, been sold shortly after insolvency, with the purchaser assuming the obligations of the insolvent issuer arising out of the credit cards issued by it. Through such intervention, VISA has been able to minimise its losses under its payment indemnification. No assurance can be given that credit card portfolios of insolvent institutions may be sold in this or any other way in the future.

The VISA By-Laws provide that a region is responsible for losses that are incurred by VISA or for which VISA may otherwise be responsible and that are attributable to the failure of a member from that region to perform its obligations under the VISA Certificate of Incorporation, VISA By-Laws or VISA Operating Regulations. If the responsibility of a region under this heading exceeds a fixed amount in any one fiscal year, losses in excess of this amount are allocated by VISA to all regions, including the region of the member in question. Members from any region or operating within that region are responsible for all costs incurred by their respective region.

Description of MasterCard

Overview

MasterCard is a private share corporation formed under the laws of the State of Delaware. The common stock of MasterCard is owned by approximately 2,600 financial institutions, MasterCard's Principal Members. In addition, there are approximately 22,300 Affiliate Members of the MasterCard operating subsidiaries that participate in MasterCard's payment programmes through one or more Principal Members. MasterCard is a global payment solutions company that provides a variety of services principally in support of its customers' credit, debit, electronic cash and related payment services. MasterCard manages a family of payment card brands including MasterCard, MasterCard Electronic, Maestro and Cirrus, which it licences to its customers. It also provides customers with information and transaction processing services.

Total worldwide sales of MasterCard credit and debit cards in 2003 amounted to US\$1.3 trillion, an increase of 5.9% on a local currency basis and 10.4% on a US dollar basis as compared to US\$1.2 trillion in 2002. A total of 632.4 million MasterCard credit and debit cards were in circulation in 2003, representing a 7.0% increase as compared to 590.1 million cards in 2002. The

MasterCard credit and debit card was accepted in over 210 countries at over 22 million locations in 2003.

MasterCard is rated “A-” (Long Term Foreign and Local Issuer Credit) by S&P on a negative outlook.

Cirrus

Cirrus System Inc. (“Cirrus”), a wholly owned subsidiary of MasterCard, is a cash withdrawal debit card system which allows cardholders to withdraw cash from their current bank accounts, subject to having cleared funds or authorised overdraft facilities.

Cirrus owns and licences the Cirrus ATM access mark and licences the use of this mark to member financial institutions. Cirrus operates the Cirrus ATM network, one of the largest ATM networks in the world, with more than 906,000 ATM locations worldwide. It also operates a processing facility that enables cards issued by one of its member financial institutions to be accepted at ATMs of other members.

Cirrus’ role is limited to providing the network through which member financial institutions provide ATM services. Cirrus has no direct relationships with customers nor does it issue ATM cards to consumers.

Payments via the Cirrus cash withdrawal debit card system in Russia do not result in Receivables.

Maestro

Maestro is an online debit programme which was launched by MasterCard in partnership with Europay in 1991. Maestro-branded debit cards allow cardholders to access their funds from anywhere around the world, either by using their cards to purchase goods or by withdrawing cash at ATMs. Moreover, cardholders will soon also be able to make purchases online using their Maestro card.

Maestro cards are issued, and Maestro transactions are processed, according to rules separate from those that govern MasterCard credit and debit transactions. It is estimated that at 31 December 2003, the Maestro brand-mark appeared on approximately 520 million cards worldwide and that Maestro was accepted at more than 10 million merchant terminals and at over 900,000 MasterCard, Maestro and Cirrus ATMs.

MasterCard has been developing its debit programmes globally. In 2003, MasterCard announced an agreement with S2 Limited (formerly known as Switch Card Services Limited) which operate a debit card network in the United Kingdom, to migrate Switch branding and processing volume to the Maestro brand by 2007. A similar agreement was reached with Brazilian debit brand Redeshop.

History of MasterCard

Interbank Card Association (“ICA”) was formed in 1966 to develop uniform standards for credit card services and facilitate the use of credit cards outside a member bank’s geographic area. In 1969, ICA acquired the exclusive rights to the “MasterCharge” name for use by ICA’s members. In 1979, the “MasterCharge” name was changed to “MasterCard” and ICA became MasterCard International.

In June 2002, MasterCard merged with Europay International (“Europay”). To facilitate the merger transaction with Europay, MasterCard created a private stock corporation by issuing stock in a new holding company (MasterCard Incorporated) to its principal members. Following the merger, Europay International became MasterCard Europe, a wholly owned subsidiary of MasterCard Incorporated. MasterCard Europe is currently MasterCard’s principal operating subsidiary in Europe. MasterCard Europe’s primary business is to licence a full range of payment programmes and services to financial institutions in the European region.

Europay was established on 1 September 1992, following the merger between Eurocard, Eurocheque International and Eurocheque International Holdings. Eurocard International (“Eurocard”), the predecessor to Europay, was first established in 1964 in Sweden as the result of a merger between a Scandinavian and British hotel restaurant credit card company. In 1968, an alliance between Eurocard and MasterCard International was formed. In 1978, European bank members

assumed full ownership of Eurocard. The relationship with MasterCard was developed further in 1988 when MasterCard took a 15% shareholding in Eurocard.

Membership

MasterCard has three classes of membership related to the credit card operations and one class of membership related solely to the MasterCard travellers cheque issuance (“Travellers Cheque Members”). MasterCard’s three credit card and travellers cheque categories are listed below:

Class A Members

Class A Members include Principal Members, Associated Members and Travellers Cheque Members. A Principal Member is a financial institution which is a direct participant in the MasterCard programmes and interchange system. Principal Members are provided direct access to MasterCard systems and have the right to issue MasterCard cards and sign contracts with merchants for acceptance of MasterCard credit cards. An Associated Member is any organisation that is controlled by one or more Principal Members and which is engaged principally in operating programmes utilising MasterCard trademarks and services. Travellers Cheque Members are financial institutions that participate in MasterCard’s travellers cheque programme. ROSBANK is a Principal Member.

Class B Members

There is only one Class B Member, MasterCard Incorporated, a Delaware stock corporation formed in connection with the merger of Europay International and MasterCard International Incorporated in 2002.

Affiliated Members

An Affiliated Member is a financial institution which participates indirectly in MasterCard programmes and interchange via a Principal or Association Member, using such member’s interchange identification number and interchange facilities. Affiliated Members can neither issue credit cards in their own name nor enrol merchants.

Principal and Association Members are required to cause their Affiliated Members to comply with all MasterCard procedures and obligations and are liable for any Affiliated Member’s failure to meet such requirements.

For institutions located in the United States, membership is limited to any national banking association, commercial bank or trust company, credit union, savings and loan association or similar institutions. Membership in MasterCard for organisations located outside the United States is restricted to those institutions which have the power and authority to perform the obligations of a member. All applications for Class A and Affiliate Membership must be approved by a majority of the board of directors of MasterCard (the “MasterCard Board of Directors”).

Certificate of Incorporation, Rules and By-Laws

MasterCard is governed by a certificate of incorporation (the “MasterCard Certificate of Incorporation”), operating rules (the “MasterCard Rules”) and by-laws (the “MasterCard By-Laws”) which regulate the relationship between MasterCard and its members and between its members. Among other things, the MasterCard Rules govern procedures for interchange processing and settlement, chargebacks, compliance procedures and fees. The MasterCard By-Laws provide for the rights, obligations and requirements of membership, management structure and the compositions and responsibilities of the MasterCard Board of Directors.

The MasterCard By-Laws may be amended or repealed by the members by the MasterCard Board of Directors or the Class B Member, subject to certain exceptions.

Membership Rights and Obligations

MasterCard Principal and Associated Members, as well as Affiliated Members through their sponsors, are granted a non-exclusive, non-transferable licence to use the MasterCard trademarks in connection with the issuance and servicing of MasterCard credit cards.

Each member is bound to adhere to the MasterCard Certificate of Incorporation, the MasterCard By-Laws and the MasterCard Operating Procedures and agrees to the following:

- (i) to provide information and certification as to such member's operations and financial performance;
- (ii) to accept records of transactions arising from the use of MasterCard credit cards issued by other members from any merchant with which it has a contract;
- (iii) to accept and reimburse records of transactions received from other members arising from the use of any MasterCard cards issued by it;
- (iv) to disburse cash advances without discrimination to all holders of authorised MasterCard credit cards;
- (v) to provide authorisation services for credit cards issued by it to any member and for any merchant with which it has a servicing contract;
- (vi) to pay promptly all fees, dues and assessments when due;
- (vii) to meet at all times the minimum financial requirements established by the MasterCard Board of Directors for all members; and
- (viii) to promote actively the MasterCard card programme.

Additionally, Principal and Associated Members agree to issue a reasonable number of MasterCard credit cards each year based upon the population of the member's issuing area. Failure by any Principal Member to issue such number will result in a special assessment by MasterCard.

Members may voluntarily withdraw from MasterCard by giving at least 30 days' prior notice to its president or secretary. Membership is automatically terminated in the event any member fails to make required payments, takes any action to cease its operations, becomes insolvent or bankrupt, if a liquidator or receiver is appointed, or if a governmental regulating body suspends or revokes the operations or charter of such member. Additionally, MasterCard may terminate membership with an affirmative vote of two-thirds of the MasterCard Board of Directors, in which case termination is effective upon receipt of the notice. On termination, members are not entitled to the refund of any fees paid to MasterCard and they continue to be responsible for financial and other obligations arising from their membership prior to the termination date.

ROSBANK is not aware of any instance where the MasterCard Board of Directors has terminated a member without cause.

Voting Rights

Subject to limited exceptions, only Class A Members are entitled to vote on matters on which the members are entitled to vote.

Management

The activities of MasterCard are managed by the MasterCard Board of Directors, which consists of no more than the total number of directors of MasterCard Incorporated, each of whom will be elected by the Class B Member annually at the members' annual meeting.

The MasterCard Board of Directors is responsible for electing the officers of MasterCard and for establishing and directing committees, such as the International Operations and International Security Committees, which carry out MasterCard's policies internationally. This committee structure is intended to afford all members, regardless of size, input into the decision-making process.

Fees, Dues and Assessments

Expenses of MasterCard are passed on to the members as initiation fees, annual assessments and operating fees. Each year, an operating budget is developed and approved by the MasterCard Board of Directors. A majority of the MasterCard fees paid by ROSBANK is composed of an interchange fee as an acquirer and a quarterly fee as an issuer of credit cards. Additional fees may also be charged relating to certain conditions or contingencies. An interchange fee of 1.10% of the transaction for electronic transactions and 1.43% of the transaction plus US\$0.10 per transaction for paper transactions is charged by MasterCard.

The MasterCard Board of Directors may at its discretion impose additional assessments on its members, including assessments related to the payment of insurance premiums, advertising and other accumulated or current expenses and liabilities. In addition, MasterCard may impose penalty assessments on any member for violation of the MasterCard Rules or the MasterCard By-Laws.

Payment Indemnification

MasterCard indemnifies all members for failure to receive payment for all amounts owed to them under the credit card settlement process. In the event a Principal, Associated or Affiliated Member bank fails to make a payment due to another member bank, MasterCard will make such payment. Any payment by MasterCard shall be treated as an operating expense and may be recovered by an assessment of all members in proportion to their relative volume of business.

MasterCard monitors its exposure under the payment guaranty by requiring daily settlement of member account balances.

Legal Proceedings

In 1998, the United States Department of Justice (“DOJ”) filed a lawsuit against VISA and MasterCard in the US District Court for the Southern District of New York alleging that certain aspects of the governance of VISA and MasterCard were unlawful, and that certain VISA by-law provisions and MasterCard’s Competitive Programmes Policy, which together prohibit financial institutions from issuing proprietary payment cards of VISA and MasterCard competitors, such as American Express or Discover, acted to restrain competition in the credit card industry. Final judgment was rendered by the US District Court in December 2001 pursuant to which the court held that VISA and MasterCard had violated certain provisions of US federal antitrust law. The decision of the US District Court was affirmed by the US Court of Appeals for the Second Circuit in October 2003, and there is a pending appeal to the US Supreme Court. As a result of the affirmed judgment, Visa and MasterCard member banks are no longer barred from issuing competing charge cards. Therefore, competition among card issuing networks is likely to increase. Such competition may result in the lowering of fees, dues and assessments charged by Visa and MasterCard to their member banks and may also result in the increase in the use of other credit cards such as AMEX and Discover for which UCS and ROSBANK may not provide processing or settlement services. In any event, any receivables generated by such other cards as AMEX or Discover would not be treated as Receivables, and would not be included as security for ROSBANK’s obligations in respect of the Loan Agreement.

DESCRIPTION OF ROSBANK

Overview

ROSBANK is Russia's sixth largest bank as measured by total assets and share capital as at 1 August 2004 according to a survey conducted by *Profile* magazine (a leading Russian business weekly) and published in its 27 September 2004 issue. ROSBANK's primary activities include corporate lending, commercial banking, treasury services, trade finance, custody and depository services, and investment banking. In addition, it currently provides limited retail banking services, mainly to high net worth individuals, primarily comprising private banking, asset management and credit card services. In accordance with a new medium-term strategy approved by ROSBANK's shareholders and management, ROSBANK intends to significantly expand its retail banking operations through the planned integration of OVK, which operates the second largest retail banking branch network in Russia.

ROSBANK is active in the Russian credit and debit card market, with approximately 1,624 VISA and MasterCard credit cards, and more than 100,000 VISA and MasterCard debit cards issued as at 30 June 2004. It is a Principal Member of VISA International and MasterCard International and acts as the exclusive settlement and acquiring bank of merchant vouchers for UCS, the largest credit and debit card processing company in Russia as measured by volume. See "Description of UCS's and ROSBANK's Merchant Voucher Business".

In addition to VISA and MasterCard, ROSBANK is a member of a number of other international financial organisations, including the Society for Worldwide Interbank Financial Telecommunication ("SWIFT"). It is also a member of the major organisations that form the infrastructure of the Russian financial markets, including the Association of Russian Banks, the Moscow Interbank Currency Exchange, the Russian Trading System, the National Currency Association, the National Securities Association and the Depository Clearing Company.

ROSBANK is 95% owned by the Interros Group, one of Russia's largest private investment groups as measured by assets. The Interros Group is engaged in the investment and management of industrial, financial and media assets in Russia having an estimated value as at 30 June 2004 of exceeding US\$10 billion. While Interros Group companies previously formed the core of ROSBANK's customer base, the number of non-Interros Group customers and their contribution to ROSBANK's business has grown in recent years. Interros Group companies accounted for 10.0% of ROSBANK's total customer loans and 22% of its total customer deposits as at 30 June 2004.

ROSBANK currently operates in Russia through a network of (i) full service branches and (ii) sub-branches offering more limited banking services. In addition, ROSBANK conducts operations outside of Russia through four subsidiaries located in Switzerland, the Netherlands, Luxembourg and Belarus. See "– Subsidiaries".

For the year ended 31 December 2003, ROSBANK had operating income of Rbl 4,414.9 million and net profit of Rbl 407.0 million. Its net interest income after provision for loan losses amounted to Rbl 2,630.0 million, or 59.6% of total operating income, gains less losses arising from securities and foreign exchange activities amounted to Rbl 954.5 million, or 21.6% of total operating income and net fee and commission income amounted to Rbl 697.6 million, or 15.8% of total operating income.

For the nine months ended 30 September 2004, ROSBANK had operating income of Rbl 3,430.9 million and net profit of Rbl 430.8 million. Its net interest income after provision for loan losses amounted to Rbl 2,396.5 million, or 69.9% of total operating income, gains less losses arising from securities and foreign exchange activities amounted to Rbl 178.1 million, or 5.2% of total operating income and net fee and commission income amounted to Rbl 769.0 million, or 22.4% of total operating income.

As at 30 September 2004, ROSBANK's total assets were Rbl 113,680.9 million and its total shareholders' equity was Rbl 8,478.8 million, as compared to total assets of Rbl 91,672.1 million and total shareholders' equity of Rbl 8,336.3 million as at 31 December 2003. In 2003, ROSBANK's return on average shareholders' equity was 5.0% and its return on average assets was 0.5%. ROSBANK is currently rated "B1" Long Term by Moody's, "B" by Fitch, and "B-" by S&P.

History

ROSBANK was established in 1992 under the name “Nezavisimost” as a joint stock commercial bank whose purpose was to provide banking services to corporate and individual customers in Russia. On 2 March 1993, it was granted a banking licence for operations in roubles, and on 21 May 1993 it received a licence authorising it to engage in a limited range of banking operations in foreign currencies. During this period, and over the subsequent five years, Nezavisimost customers were mainly comprised of medium-sized trade, finance and technology companies for which it conducted a variety of activities, including corporate lending, settlement, government bond trading, foreign exchange and money market transactions.

In September 1998, Nezavisimost was acquired by the Interros Group and its name was changed to ROSBANK. The initial purpose of the acquisition was for ROSBANK to provide banking services to the Interros Group companies, whose then existing core banking institutions were experiencing financial difficulties resulting from the August 1998 financial crisis in Russia. In connection with the acquisition, ROSBANK’s capital base was significantly increased and its management commenced a policy of expansion to transform ROSBANK into a universal banking institution engaged in a full range of banking activities. On 19 November 1998, ROSBANK was granted a general banking licence and a licence for operations with precious metals from the CBR. ROSBANK subsequently acquired licences allowing it to trade and hold securities and to engage in other securities-related activities, including broker and dealer services, securities management activities, and custodial and special depositary services.

On 21 November 2000, ROSBANK acquired Uneximbank, a bank whose core business included trade finance, corporate lending, agency business with federal and local governments, securities trading, foreign exchange and custody services. Prior to its merger into ROSBANK, Uneximbank was facing financial difficulties caused by the financial crisis in Russia in 1998, and ceased performing typical banking activities, during which time it sought to restructure its outstanding indebtedness. On 3 July 2000, as part of its final debt restructuring, and in connection with its merger into ROSBANK, all claims against Uneximbank were withdrawn. Subsequent to the debt restructuring, Uneximbank was merged into ROSBANK and ceased to exist as a legal entity, with ROSBANK assuming its remaining assets and liabilities about which ROSBANK had knowledge. In connection with the restructuring, ROSBANK currently has outstanding obligations under the eurobonds of approximately US\$40 million. ROSBANK is not subject to any further liability in connection with the restructuring of Uneximbank’s indebtedness and merger into ROSBANK.

ROSBANK continued its policy of expansion in 2002 when Interros announced its plans to consolidate the banking businesses of ROSBANK and Commercial Bank “MFK Bank” (“MFK Bank”), a Russian bank specialising in investment banking. Approximately 70% of MFK Bank’s personnel was transferred to ROSBANK during the course of that year. On 25 December 2002, MFK Bank’s shareholders decided to liquidate MFK Bank. This was followed by MFK Bank making a formal request to the CBR to annul its banking licence on 28 February 2003, following which formal liquidation procedures were initiated. MFK was officially liquidated on 15 September 2004. ROSBANK believes that the contribution of the former MFK Bank managers and employees has allowed ROSBANK to expand its product range and to strengthen its market position.

In October 2003, the Interros Group acquired OVK, one of Russia’s largest retail banking institutions. The Interros Group plans to merge the operations of ROSBANK and OVK as part of its strategy to transform ROSBANK into a universal financial institution. The integration of OVK is expected to be completed by the second half of 2005. See “– Description of OVK”.

Strategy

In April 2004, the board of directors of ROSBANK approved a medium-term strategy for the period from 2004 to 2008 which sets out key objectives to ensure the development of ROSBANK’s business, taking into account the merger of OVK’s banking operations with ROSBANK. The main objectives of this strategy include increasing shareholder and market value by positioning ROSBANK as one of the top Russian banks as measured by assets and market capitalisation, achieving a 3% to 5% market share in certain key segments of the financial services market and gaining broader

recognition within the international banking community. In order to achieve these goals, the management of ROSBANK intends to focus on the following key strategic objectives:

Transform ROSBANK into a Universal Financial Institution

ROSBANK's management intends to expand ROSBANK's operations and develop it into a universal financial institution, offering a full range of products and services to corporate and retail clients throughout Russia. This process commenced with the integration of MFK Bank's investment banking business into ROSBANK in 2000, and continues with the anticipated integration of OVK's operations into ROSBANK, which is expected to be complete by the second half of 2005. ROSBANK has traditionally maintained a strong position in the Russian corporate banking sector, targeting large corporations, large retail chains and medium-sized companies. OVK is primarily a retail bank, and ROSBANK's management believes its extensive retail operations will contribute to ROSBANK's existing strengths in the corporate sector. OVK's branch network will provide a platform for ROSBANK to cross-sell the full range of products and services offered by both banks to their respective target clients. ROSBANK expects to fund its expansion through various capital sources, including the capitalisation of retained earnings or additional issuances of securities.

Expand Services to Corporate Clients

ROSBANK aims to expand its corporate banking business by expanding its range of products and services and increasing product quality and competitiveness. ROSBANK considers the key steps in this process to include expanding its investment banking services, diversifying its financial markets operations, creating credit products for SMEs and capitalising on UCS's merchant network as a platform to market its products and services to new customers.

Expansion of Investment Banking Services

Generally, Russian banks currently offer only a small range of investment banking services, and ROSBANK believes that significant business opportunities exist in this area. As a result of the integration of MFK Bank's investment banking business in 2002, ROSBANK acquired a team of specialists with significant experience in domestic debt-related capital markets transactions and mergers and acquisitions. ROSBANK intends to capitalise on its newly expanded investment banking capabilities to gain a greater portion of the market share in Russia for domestic corporate finance, mergers and acquisitions and related services.

Diversification of Financial Markets Operations

ROSBANK intends to expand its activities in the financial markets by offering a full range of treasury, custody and settlement services to financial institutions, including insurance companies, mutual funds and financial brokers, primarily based in Russia and the CIS. However, in the medium-term, ROSBANK expects increased interest in Russian financial markets from foreign institutional investors to contribute to its institutional customer base. ROSBANK intends to strengthen its position as a reliable borrower in the domestic and international capital markets, which it expects to contribute to an overall increase in its medium- and long-term financing capabilities and an improvement in the maturity profile of its funding book and net interest margin.

Creation of Credit Products for SMEs

ROSBANK intends to capitalise on the growth of the SME sector in Russia by expanding its volume of loans to such entities while seeking to manage its credit risk within the parameters established by its risk management policies. ROSBANK intends to focus its SME lending on the retail and wholesale trade sectors, which it views as having significant growth potential.

Capitalising on UCS's Merchant Network

ROSBANK intends to take advantage of UCS's client base of over 1,500 merchants throughout Russia as a platform to cross-sell its corporate banking products and services and establish new corporate and retail banking relationships. In addition, it intends to market its retail products and services to staff and employees of these merchants, offering special promotions and offers where appropriate.

Expand Services to Retail Clients

ROSBANK intends to capitalise on the expected integration of the operations of OVK in order to significantly expand its retail banking business. Management believes that the key elements of this plan include enlarging ROSBANK's branch network, developing services to high net worth individuals and growing the volume of customer deposits.

Enlarging its Branch Network

As a result of the anticipated merger of OVK's operations into ROSBANK, ROSBANK expects to have the second largest distribution and retail branch network in Russia behind Sberbank. ROSBANK's branch network is expected to be increased by 501 retail branches as a result of the merger, thereby increasing its regional presence throughout Russia. New outlets will primarily be located in Moscow, regional industrial centres and other developing cities in Russia, and will serve primarily corporate clients with developed regional operations, regional clients engaged in export activities, SMEs and retail customers.

Developing Services to High Net Worth Individuals

ROSBANK offers a range of new cash management products aimed at high net worth individuals in Russia that comprise its private banking customer base. While these products were developed independently of the forthcoming merger of OVK's operations into ROSBANK, they are expected to create synergies when the merger is complete, as ROSBANK expects to be in a position to offer these new products and services to OVK's retail customer base. In addition, ROSBANK intends to further develop its cash and asset management facilities, financial, tax and investment advisory services, and accompanying auxiliary services, including travel insurance and real estate, and expects to offer such services to its private banking clients.

Growing the Volume of Customer Deposits

ROSBANK intends to grow the volume of its retail deposits organically by offering cost-effective products, pursuing flexible interest rate policies, improving payment services and broadening the range of products offered to retail clients. Management aims to significantly increase ROSBANK's market share of private deposits and consumer loans by, among other things, offering a full range of retail products, such as term and savings deposits, consumer and housing loans, payment instruments, payroll services and credit/debit cards. In addition, ROSBANK intends to offer its recently developed asset management and private banking services to OVK's retail customers and to use OVK's retail lending operations to expand the range of retail products available to ROSBANK's retail customers.

Principal Activities

ROSBANK provides a full range of banking products and services to corporate customers, financial institutions and high net worth individuals in Russia, as well as a selection of retail products and services to individuals. Its corporate banking activities comprise lending, commercial banking, treasury services, trade finance, custody and depositary services and investment banking. ROSBANK's financial institutions business includes treasury-related activities, settlement services, custody operations and asset management, primarily for domestic and CIS-based financial institutions. Its retail banking activities comprise private banking, settlement services, asset management, credit card services and certain ancillary services. Private banking represents a separate business line tailored to provide banking and financial services to high net worth individuals.

ROSBANK derives the substantial majority of its revenues and net profits from its corporate banking activities, principally corporate lending and proprietary fixed income securities trading. Although ROSBANK's retail banking activities do not currently constitute a significant portion of its revenues and net profits, they are an important source of funds for the bank. In addition, ROSBANK expects that its retail banking operations will account for a significantly greater proportion of its revenues and net profit in future periods following the expected integration of OVK. See “– Description of OVK”.

Corporate Banking

Corporate Lending

ROSBANK offers loans, bank guarantees and letters of credit primarily to Russia's largest corporations and to Russia's regional and municipal governments. Loans are available primarily in roubles and US dollars. As at 30 September 2004, 53.4% (Rbl 34,473.1 million) of ROSBANK's loans were denominated in US dollars and 44.2% (Rbl 28,522.1 million) were denominated in roubles. The high proportion of US dollar denominated loans reflects the export orientation of ROSBANK's corporate client base, its significant involvement in foreign trade operations, the predominance of US dollar deposits and balances held by ROSBANK, and increased demand for US dollar loans in Russia as a result of uncertainty with respect to inflation in Russia. ROSBANK's loan portfolio is comprised of a combination of unsecured and secured loans. See "– Credit Procedures – Taking Security". As at 30 June 2004, ROSBANK and its branches had over 1,000 credit facilities (including loans, guarantees and letters of credit) with approximately 490 corporate borrowers.

ROSBANK's traditional client base includes, among others, engineering and machinery manufacturers, oil and petrochemical companies, telecommunications companies, ferrous and non-ferrous metals producers and food processing companies. It also lends to gold miners, forestry and wood processing companies and trading and construction companies. Regional governments and municipal administrators also rank among ROSBANK's major borrowers.

As at 30 September 2004, approximately 6.1% of ROSBANK's total loan portfolio (excluding loans to banks and allowance for loan losses) was attributable to members of the Interros Group. As at 30 September 2004, approximately 11.4% and 11.9% of ROSBANK's total loan portfolio (including loans to the Interros Group) was attributable to companies within the finance and trade sectors, respectively. However, ROSBANK is committed to the continued diversification of its loan portfolio as it continues to expand, both with respect to individual borrowers and industry sectors, through, among other things, capitalising on its relationship with UCS and expanding its corporate product and service offering. See "– Strategy".

Historically, the ability to extend loans in Russia for tenors exceeding 12 months has been constrained by the availability of funding in the local and international markets for extended maturities. However, ROSBANK has been increasing the proportion of medium-term loans in its loan portfolio, as ROSBANK's management believes that the Russian market for longer term loans is developing as such funding becomes more readily available. As at 31 December 2003, Rbl 15,158.2 million, or 27.7%, of ROSBANK's total loan portfolio had a maturity of over one year, compared to Rbl 4,953.9 million, or 13.8% as at 31 December 2002. As at 30 September 2004, Rbl 13,561.7 million, or 21.0%, of ROSBANK's total loan portfolio had a maturity of over one year.

For further information regarding the composition of ROSBANK's loan portfolio, see "Selected Statistical and Other Information Relating to ROSBANK – Total Assets – Loan Portfolio".

Commercial Banking

ROSBANK provides its corporate clients with bank accounts and advises them on various banking operations and the use of different commercial banking products in their business. ROSBANK's corporate bank accounts include current and term accounts in roubles and in certain foreign currencies (predominantly US dollars and euro), as well as special-purpose accounts, such as payment accounts used to settle obligations with Russian counterparties and current accounts denominated in foreign currencies used for currency operations. Clients operating nationwide receive services throughout ROSBANK's branch network. ROSBANK also provides payment and settlement services on behalf of its clients through its branches and its correspondent banking network in Russia and abroad.

Treasury

ROSBANK's treasury department carries out (i) fixed income and equity trading, (ii) foreign exchange and money market services, (iii) precious metals trading, and (iv) corporate and institutional sales activities. It engages in each of these activities, aside from sales activities, on both a proprietary basis and on behalf of its clients. When trading on a proprietary basis, ROSBANK's general policy is to manage liquidity by matching its funding and total credit portfolio in terms of maturity, currency

and interest rates. The treasury department maintains ROSBANK's portfolio in accordance with the risk management policies adopted by the Credit Committee and the Committee for Liquidity, Risks and Pricing as described in "– Risk Management" below.

Fixed Income and Equity Trading. ROSBANK engages in proprietary trading in rouble and foreign currency denominated government securities, Russian corporate eurobonds and domestic bonds, bonds issued by the Russian Ministry of Finance and promissory notes of large domestic issuers, such as Gazprom and Sberbank. While the majority of ROSBANK's fixed income trades are for its own account, it offers fixed income brokerage services to its corporate customers as well. ROSBANK also trades small domestic equity positions on a proprietary basis and engages in portfolio trading on behalf of a number of customers, particularly Interros Group companies, to whom it provides consulting and brokerage services. For further information regarding ROSBANK's security portfolio, see "Selected Statistical and Other Information Relating to ROSBANK-Total Assets-Securities Portfolio".

Foreign Exchange and Money Markets. ROSBANK conducts foreign exchange operations both on the Russian domestic market and the international market. ROSBANK is recognised on the domestic market as a market maker in US dollars, euros and roubles, and primarily enters into US dollar and euro trades against the rouble. Foreign exchange operations on the domestic market are mainly driven by ROSBANK's larger corporate clients, reflecting their substantial involvement in foreign trade, and consequent desire to hedge their foreign currency positions. On the international market, ROSBANK normally trades in all major currencies and derivatives, both on behalf of large corporate customers and for its own account.

ROSBANK provides money market loans to approximately 35 banks, including financial institutions based in Russia and the CIS. Credit lines for large and medium-sized financial institutions are normally used to place rouble-denominated short-term deposits and are usually provided on an unsecured and secured basis, respectively. Short-term foreign currency resources are placed primarily with major international banks with maturities of up to one month. As at 30 September 2004, ROSBANK had Rbl 37,260.1 million in loans outstanding and advances to banks, which represented 36.6% of its total loan portfolio as at that date.

Precious Metals Trading. ROSBANK is licenced by the CBR to trade in and export precious metals. Its core clients for this service include several major producers of gold, silver and platinum from Siberia and certain far eastern areas of Russia. ROSBANK trades domestically on the Interbank market and directly with producers, exports metal in physical form, provides agency services for the sale of metals on producers' behalf and hedges its forward positions with international banks. While ROSBANK engages in a significant amount of precious metals trading for its own account, it aims to increase its precious metals trading activities on behalf of clients. Over the course of 2002 and 2003, the total volume of its operations in gold and silver amounted to approximately 34.2 and 73.3 tons, respectively.

Corporate and Institutional Sales. The treasury department carries out corporate and institutional sales activities both independently and in cooperation with the investment banking department in order to expand the customer base for ROSBANK's investment banking and treasury services. The sales team works with existing ROSBANK customers in order to cross-sell the bank's investment banking and treasury services and engages in marketing exercises to approach new customers for the first time. See "– Investment Banking".

Trade Finance

ROSBANK provides payment and settlement services to corporations and financial institutions in connection with import and export operations, issues stand-by and revolving letters of credit, and provides export and import financing and related services. It also arranges financing from foreign banks for companies to finance imports into Russia. ROSBANK's trade finance operations have grown over the past two years as guarantees denominated in roubles and factoring facilities have become widely utilised instruments in the domestic market.

ROSBANK's major trade finance customers include JSC United Energy System of Russia, the ABB Group, OJSC Power Machines, Agro-industrial complex "AGROS", State Enterprise the Moscow Mint, M. Video and others.

Custody and Depository Services

ROSBANK provides custody and depository services with respect to the majority of securities traded in Russia, including, rouble-denominated bonds and eurobonds issued by the Russian Federation, Russian regional and municipal bonds, Russian corporate equity and debt securities, and foreign government and corporate securities. ROSBANK also provides certain specialised depository services for unit funds, which are highly regulated products targeted at individuals and are similar to mutual funds and for which ROSBANK earns additional fee income. As at 30 June 2004, ROSBANK had a correspondent network of more than 181 registrars and clearing depositories, including Clearstream Banking, Depository Clearing Company (DCC), National Depository Central (NDC) and Vneshtorgbank, and had assets under custody in the amount of US\$5.4 billion.

Investment Banking

ROSBANK's investment banking department commenced operations in 2000, initially focusing on underwriting and managing rouble-denominated domestic bond offerings for large Russian corporations and federal and regional authorities. In 2002, ROSBANK's investment banking business was enhanced through the addition of a team of specialists in domestic debt-related capital markets and mergers and acquisitions that ROSBANK acquired in connection with the integration of MFK Bank's and ROSBANK's operations. ROSBANK's investment banking department is now divided between the corporate finance division and the capital markets division.

Through the corporate finance division, ROSBANK provides equity and debt origination and mergers and acquisitions ("M&A") advisory and execution services to its large and medium-sized corporate customers. Although income from the provision of M&A advisory and execution services currently accounts for an insignificant proportion of ROSBANK's total revenue attributable to ROSBANK's investment banking activities as a whole, ROSBANK's management is seeking to grow this business by leveraging off of its extensive corporate customer base and cross-selling these services to its existing customers. ROSBANK's capital markets division works in conjunction with ROSBANK's treasury department to underwrite domestic bond offerings and co-manage domestic placements of international offerings.

Major corporate customers for ROSBANK's investment banking services include, among others, natural gas producer Gazprom, oil company Severnaya Neft, metallurgical company MMC Norilsk Nickel and petrochemicals company Nizhnekamskneftekhim. Its investment banking customers also include certain regional and city governmental authorities, such as the governments of Moscow, Nizhniy Novgorod and Ufa, as well as the Krasnoyarsk, Khabarovsk and Irkutsk regions, and the Republic of Bashkortostan.

In 2003, ROSBANK participated in the placement of Rbl 19.7 billion worth of domestic sub-federal and municipal debt, and Rbl 7.5 billion worth of Russian corporate debt.

Retail Banking

ROSBANK's retail banking activities comprise private banking, asset management, credit card services and certain ancillary services including currency and cash exchange services. While its retail business is currently focused on high net worth individuals, ROSBANK intends to significantly increase the scope of its retail operations and diversify its retail client base through the integration of the operations of OVK, which is expected to be completed by the second half of 2005. OVK maintains a broad retail branch network with a diversified retail client base.

Private Banking

ROSBANK offers a comprehensive range of sophisticated and highly tailored retail banking services to high net worth individuals in Russia, primarily in the Moscow region. ROSBANK's private banking services include the provision of a range of term deposits, tax advice and planning, brokerage activities, investment banking and asset management. ROSBANK's private banking service has grown significantly since its inception and currently makes the largest contribution to ROSBANK's retail operations in terms of both volume and profits. As at 30 June 2004, ROSBANK had over 800 private banking clients, with over Rbl 19 billion in customer deposits. ROSBANK is planning to cross-market its private banking products to the high income sector of OVK's retail customer base once the OVK merger is completed.

Asset Management

ROSBANK began providing asset management services in 2002 and currently offers a choice of four investment funds with different investment strategies. ROSBANK provides its asset management services through its branch network to high net worth individuals, and intends to extend this service to pension funds and established mutual funds in the near future. ROSBANK also intends to offer this service to OVK's retail client base once OVK is merged with ROSBANK. ROSBANK enhances its asset management service by supplying its clients with research covering trends and developments in the domestic and international financial markets, as well as by offering an investment advisory service. As at 30 June 2004, ROSBANK had cash and securities under management totalling Rbl 896.6 million.

Credit Cards

As a Principal Member of the VISA International and MasterCard International Payment Systems, ROSBANK issues a full range of Visa and MasterCard credit cards, including business, gold and platinum cards. ROSBANK also offers its clients the American Express Card, the American Express Centurion card and, most recently, the MasterCard World Signia. There was a significant increase in ROSBANK's credit card operations in 2003, with approximately 3.0 million transactions completed by ROSBANK credit card holders with a total value of over US\$250 million, an increase of 534% in volume and 275% in value compared to approximately 600,000 transactions with total value of over US\$91 million in 2002. As at 30 June 2004, ROSBANK had 103,487 credit and debit cards in issue.

In addition to the issuance of credit and debit cards, ROSBANK has an exclusive agreement with UCS for the right to act as the acquiring bank and settlement agent in respect of VISA, MasterCard, Diners Club, JCB and ROSBANK issued local debit, credit and ATM cards when used at merchant terminals for which transactions are processed by UCS. While this business does not generate significant revenues for ROSBANK, it provides a cross-selling platform to promote ROSBANK's retail and corporate banking services, as further described in "– Strategy". For a description of UCS and ROSBANK's acquiring and settlement activities, see "Description of UCS's and ROSBANK's Merchant Voucher Business".

Ancillary Services

ROSBANK provides a number of ancillary services to its retail customers. It buys, sells and exchanges all major foreign currencies for individuals, deals in travellers cheques and encashes foreign payment instruments. ROSBANK also offers its retail customers payment services using the Internet. ROSBANK provides domestic and international money transfer services for individuals through its branch and correspondent banking network. ROSBANK's other retail services include the provision of securities accounts and other custody services, and the purchase and sale of precious metals and coins.

Description of OVK

On 28 October 2003, the Interros Group acquired OVK, the operations of which it intends to merge with ROSBANK. On 26 January 2004, the CBR approved ROSBANK's proposed plan of consolidation, which contemplates the completion of the integration of OVK into ROSBANK by the second half of 2005. Due to the difficulty of merging large banking networks such as those of OVK and ROSBANK, the consolidation is expected to be effected partly through a merger and partly through a transfer of certain OVK operations to ROSBANK. See "Risk Factors – ROSBANK may fail to manage its growth properly".

The OVK banking group is comprised of six banks which maintain a network of more than 400 branches and offices. OVK has the second largest branch network in Russia, with operations in most regions and urban areas in Russia. OVK's network includes STB CARD and the Inkahran Cash Messenger Company ("Inkahran").

STB CARD and Inkakhran, members of the OVK Group, are among the largest domestic credit and debit card processing and secure cash transportation services, respectively, in Russia. STB CARD is a payment system made up of 80 participant banks. STB CARD services 1.8 million credit and debit cards and over 120,000 transactions per day. The operations of STB CARD are in the

process of being merged into UCS, as more fully described under “Description of UCS’s and ROSBANK’s Merchant Voucher Business – ABG Card Technology and STB CARD”. Inkakhran provides secure cash transportation services to more than 1,000 clients with approximately 3,000 client offices in Moscow and other cities of the Russian Federation.

Credit Procedures

The Loan Application Process

Customer loan applications are usually processed by ROSBANK’s Loan Department in Moscow. The Loan Department is composed of three divisions: lending, project finance and trade finance, with the appropriate division responsible for approving a given loan application based upon the nature of the contemplated transaction. The Deputy Chairman is authorised by the Credit Committee to approve loans of up to an aggregate outstanding amount of US\$10 million, with a maximum maturity of two years and a maximum exposure to each borrower of US\$500,000. The director of the Loan Department is authorised by the Credit Committee to approve up to an aggregate outstanding amount of US\$2 million, with a maximum maturity of one year and a maximum exposure to each borrower of US\$300,000.

Each of ROSBANK’s 15 regional branches has an individual credit department which is authorised to provisionally process loan applications, although applications must ultimately be approved by the Loan Department or the Credit Committee, as appropriate. Managers of these regional branches are also authorised to provisionally approve loans of up to an aggregate outstanding amount ranging from US\$300,000 to US\$1 million per manager, with maximum maturities of one year, and a maximum exposure to each borrower of US\$300,000.

All non-standard loans and loans which breach the limits set forth above but remain within the limits set by the Management Board must be approved by the Credit Committee. The Credit Committee meets once a week and from time to time on an ad hoc basis. A quorum is established by the presence of 75% of its members, and a majority of the quorum is required to approve a loan. Upon approving an application, it is passed to the Chairman of the Management Board for approval, after which the application is passed back to the Loan Department for processing. The Loan Department is responsible for drafting and executing the official application with the assistance of the legal department and customer relations departments.

Taking Security

As at 30 September 2004, 45% of ROSBANK’s total loan portfolio (excluding loans to banks and allowance for loan losses) were either fully or partially secured by collateral. ROSBANK’s procedures for taking security over the collateral depend on the nature and type of the collateral. Acceptable collateral includes real property, land leasing rights, production equipment, vehicles, airplanes, ships, securities, precious metals, raw materials and inventory. ROSBANK also accepts third-party guarantees as security, provided that the credit risk limit for each such guarantor is not exceeded. ROSBANK usually requires that the value of the collateral be determined on the basis of a third-party appraisal conducted by an independent appraiser approved by ROSBANK. If required, the transaction is then submitted to the Credit Committee for approval, and if the loan is approved, the collateral is registered with the appropriate authorities. ROSBANK monitors the value of the collateral for the life of the loan. In the case of securities, ROSBANK normally requires the custodian holding such securities to transfer them to ROSBANK in its capacity as custodian. In addition, ROSBANK generally accepts assurance arrangements with customers as collateral. An assurance arrangement is a borrower’s agreement that a certain volume of its cash receivables will flow through accounts at ROSBANK over which ROSBANK has an express right of set-off.

Ongoing Monitoring

The Loan Department monitors the financial condition of ROSBANK’s borrowers and guarantors primarily on a quarterly basis. If deemed appropriate, it takes measures to reduce exposure to a borrower or guarantor, such as prohibiting further draws on a credit line, where the terms of the credit line permit, or by creating additional allowances. ROSBANK controls the utilisation of a loan in accordance with the purposes stated in the loan application, and regularly monitors the progress of financed projects, debt servicing by the borrower and collateral status and

value. The Loan Department also monitors the influence of market, economic and political factors on these projects.

Risk Management

ROSBANK's risk management system is overseen by three permanent committees: the Credit Committee, the Committee for Liquidity, Risks and Pricing (the "CLRPP") and the Committee for Banking and Information Technologies (the "CBIT"). These committees establish guidelines and risk limits in respect of credit risk, market risk (interest rate, currency and securities portfolio risk) and liquidity risk that are used to define ROSBANK's risk exposure. Risk assessment is also the basis for optimal risk-adjusted capital allocation, transactional pricing and performance assessment.

ROSBANK manages its operational and legal risks through internal monitoring and compliance policies. Its Internal Control Department and Legal Department monitor compliance with, and ensure the proper functioning of, internal policies and procedures designed to minimise operational and legal risks.

Credit Risk

ROSBANK manages its credit risk by establishing limits in relation to borrowers and groups of borrowers on an individual and portfolio basis, which are established by the Credit Committee. ROSBANK also mitigates its credit risk by obtaining collateral and using other security arrangements, guarantees and suretyships. See "– Lending Policies and Procedures".

Exposure limits to single borrowers that are legal entities are approved on a case-by-case basis by the Credit Committee. ROSBANK's Treasury and Credit Settlement Department monitor compliance with these limits. Exposure limits to large corporate borrowers may include some or all of their subsidiaries. Exposure limits to such borrowers are set at the head office level and extend to branches that grant loans to the relevant borrower or its subsidiaries. The Loan Department regularly analyses the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and recommends changing exposure limits to single borrowers, where appropriate. This review is conducted quarterly for large borrowers and, for all other borrowers, when the terms of the relevant loan change.

Credit risk limits on operations with banks and other financial institutions are established by ROSBANK's Financial Institutions Department and approved by the Credit Committee and the Management Board. The Financial Institutions Department performs a credit assessment of banks and other financial institutions on the basis of, among other information, detailed financial information, asset quality, liquidity and other common ratios, credit ratings and percentages of overdue loans to outstanding loans. The limit for credit operations with particular banks are set on the basis of the financial position, the size and the status of the relevant bank and the nature and identity of its shareholders. Credit risk limits are reviewed at least on a quarterly basis for domestic banks and annually for foreign banks.

The Management Board approves authorisation limits on aggregate loan amounts established by the Credit Committee within which ROSBANK's branch managers can make their own credit decisions for loans of up to one year. Branches make decisions on loans to corporate customers and individuals within the limits set for the particular branch. The authority limit of each of the branch managers varies between US\$300,000 and US\$1 million and the branch exposure to a single borrower is set at a level between US\$100,000 and US\$300,000. See "– Credit Procedures – The Loan Application Process". The Credit Committee and the Management Board approve credit exposures that surpass branch limits. Credit limits for branches are reviewed on a regular basis by the Credit Committee. The Loan Department monitors branch limits and recommends necessary changes.

Credit risks of off-balance sheet exposures involving financial instruments such as guarantees and derivative instruments are regularly monitored by the Loan Department and Treasury Department. These exposures are restricted by counterparty/borrower credit risk and market risk limits established by the Credit Committee and CLRPP, respectively.

Loan Credit Classification and Allowances

ROSBANK's internal credit provisioning policy is broadly based on CBR guidelines, which set forth the classifications for making provisions for loans extended by Russian banks based on an assessment of credit exposure. Under CBR guidelines, loans are divided into the following five categories: standard (0% reserve), substandard (1-20% reserve), doubtful (21-50% reserve), problem loans (51-100% reserve) and bad loans (100% reserve). ROSBANK reports its loan loss provisions to the CBR on a monthly basis using these standards. However, in the event ROSBANK believes the CBR guidelines would not be appropriate for a particular loan, it will normally obtain the CBR's consent to provision against such loan in a manner which it deems more appropriate, taking into account all relevant facts and circumstances. Informal criteria are also considered in classification of loans.

For the purposes of IFRS financial reporting, the Credit Department classifies loans into five categories based on the financial performance and debt servicing of the relevant borrower as follows:

| Borrower Financial Performance | Debt Servicing | | |
|---------------------------------------|-----------------------|----------------|-------------|
| | Good | Average | Poor |
| 1 (<i>good</i>) | Pass | Watch | Substandard |
| 2 | Watch | Substandard | Doubtful |
| 3 (<i>average</i>) | Substandard | Doubtful | Doubtful |
| 4 | Doubtful | Doubtful | Loss |
| 5 (<i>poor</i>) | Doubtful | Loss | Loss |

For example, a borrower with average financial performance and good debt servicing would have its borrowings classified as substandard. Specific provisions are made as a result of a detailed appraisal of loans. In addition, provisions are created to cover potential losses, which although not specifically identified, are present in the loan portfolio as evidenced by past experience. General provision rates vary from 0% (loan collateralised by cash deposit) to 5% and are applied to the nominal amount of the loan. The following specific provision rates are used:

| Loan Classification | Provision rate |
|----------------------------|-----------------------|
| Pass..... | up to 2% |
| Watch | up to 5% |
| Substandard..... | up to 20% |
| Doubtful..... | up to 50% |
| Loss | up to 100% |

Specific provision rates are applied to the net loan exposure (calculated by subtracting the collateral value from the nominal value). Collateral is also considered in calculating the amount of any specific provision for possible loan losses.

Non-bank Loans by Credit Quality

The following table sets forth ROSBANK's loan portfolio (excluding loans to banks) by credit quality classification as at 31 December 2001, 2002 and 2003 and as at 30 September 2004.

| | As at 31 December | | | | | | As at 30 September 2004 | |
|--------------------|-------------------|--------------|-----------------|--------------|-----------------|--------------|-------------------------|--------------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| Pass..... | 18,122.7 | 58.6 | 16,193.8 | 45.2 | 19,222.6 | 35.1 | 22,186.1 | 34.4 |
| Watch | 230.4 | 0.7 | 2,595.9 | 7.2 | 13,623.7 | 24.9 | 11,988.9 | 18.6 |
| Substandard..... | 6,762.5 | 21.9 | 12,440.7 | 34.7 | 20,297.6 | 37.1 | 29,772.7 | 46.2 |
| Doubtful..... | 4,822.1 | 15.6 | 4,271.3 | 11.9 | 1,145.2 | 2.1 | 403.9 | 0.6 |
| Loss | 1,010.6 | 3.3 | 350.4 | 1.0 | 477.6 | 0.9 | 154.8 | 0.2 |
| Total | 30,948.3 | 100.0 | 35,852.1 | 100.0 | 54,766.7 | 100.0 | 64,506.4 | 100.0 |

Loan Allowances and Performance

The effect of issuing each new loan on the level of credit risk that is measured by the provision amount at a certain date and the overall profitability of the lending activities is considered at the stage of granting each new loan. A budgeted interest margin is used when making a decision on a new loan. ROSBANK's interest rates are also subject to changes to achieve the targeted interest margin on lending activities. The Credit Committee monitors on a regular basis actual results to budgeted interest efficiency rates.

The following table sets forth details of changes in the allowances for loans to non-bank customers for the years ended 31 December 2001, 2002 and 2003.

| | Year ended 31 December | | |
|--|---|----------|----------|
| | 2001 | 2002 | 2003 |
| | <i>(Rbl millions, except for percentages)</i> | | |
| Non-bank loan book..... | 30,948.3 | 35,852.1 | 54,766.7 |
| Allowance for loan losses as at beginning of the period | 4,433.6 | 2,946.7 | 2,180.8 |
| Loans written off | (353.5) | (955.8) | (1.0) |
| Recovery of loans previously written off..... | — | 540.8 | 58.5 |
| Provision /(Recovery of provision) for the period..... | (561.8) | (5.9) | 184.1 |
| Gain on net monetary position..... | (571.6) | (345.0) | — |
| Allowance for loan losses as at period end | 2,946.7 | 2,180.8 | 2,422.4 |
| Allowance for loan losses as at period end as % of non-bank loan book..... | 9.5% | 6.1% | 4.4% |

The following table sets forth details of changes in the allowances for loans to non-bank customers for the nine months ended 30 September 2003 and 2004.

| | Nine months ended 30 September | |
|---|---|----------------|
| | 2003 | 2004 |
| | <i>(Rbl millions, except for percentages)</i> | |
| Non-bank loan book | 49,731.2 | 64,506.4 |
| Allowance for loan losses as at beginning of the period | 2,180.8 | 2,422.4 |
| Loans written off | 0.0 | 0.0 |
| Recovery of loans previously written off | 0.0 | 0.0 |
| Provision /(Recovery of provision) for the period | 9.7 | 485.0 |
| Gain on net monetary position | 0.0 | 0.0 |
| Allowance for loan losses as at period end | <u>2,190.5</u> | <u>2,907.4</u> |
| Allowance for loan losses as at period end as % of non-bank loan book | 4.4% | 4.5% |

The following table sets forth the details of changes in the allowances for loans to banks for the years ended 31 December 2001, 2002 and 2003.

| | Year ended 31 December | | |
|---|---|-------------|-------------|
| | 2001 | 2002 | 2003 |
| | <i>(Rbl millions, except for percentages)</i> | | |
| Bank loan book | 9,652.5 | 8,678.4 | 9,459.7 |
| Allowance for loan losses as at beginning of the period | 114.6 | 86.6 | 89.3 |
| Provision/(recovery of provision) for the period | (10.8) | 15.1 | (58.1) |
| Gain on net monetary position | (17.2) | (12.4) | — |
| Allowance for loan losses as at period end | <u>86.6</u> | <u>89.3</u> | <u>31.2</u> |
| Allowance for loan losses as at period end as % of bank loan book | 0.9% | 1.0% | 0.3% |

The following table sets forth the details of changes in the allowances for loans to banks for the nine months ended 30 September 2003 and 2004.

| | None months ended 30 September | |
|---|---|--------------|
| | 2003 | 2004 |
| | <i>(Rbl millions, except for percentages)</i> | |
| Bank loan book | 8,095.2 | 37,260 |
| Allowance for loan losses as at beginning of the period | 89.3 | 31.2 |
| Provision/(recovery of provision) for the period | (15.7) | 102.4 |
| Loans written off | 0.0 | (0.2) |
| Allowance for loan losses as at period end | <u>73.6</u> | <u>133.3</u> |
| Allowance for loan losses as at period end as % of bank loan book | 0.9% | 0.4% |

The following table sets forth ROSBANK's loan portfolio (excluding loans to banks) by performing and non-performing loans as at 31 December 2001, 2002 and 2003. Non-performing loans are loans that have been placed on non-accrual status as a result of interest or principal being delinquent for a period in excess of 90 days, unless such amounts due are fully secured by cash or marketable securities and collection proceedings are in process. A non-performing loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

| As at 31 December | | | | | | |
|---------------------------|---|---------------|-----------------|---------------|-----------------|---------------|
| | 2001 | | 2002 | | 2003 | |
| | <i>(Rbl millions, except percentages)</i> | | | | | |
| Performing loans..... | 30,563.0 | 98.8% | 35,311.2 | 98.5% | 54,249.7 | 99.1% |
| Non-performing loans..... | 385.4 | 1.2% | 540.9 | 1.5% | 517.0 | 0.9% |
| Total | 30,948.3 | 100.0% | 35,852.1 | 100.0% | 54,766.7 | 100.0% |

The following table sets forth ROSBANK's loan portfolio (excluding loans to banks) by performing and non-performing loans as at 30 June 2003 and 2004.

| As at 30 June | | | | |
|----------------------------|---|---------------|-----------------|---------------|
| | 2003 | | 2004 | |
| | <i>(Rbl millions, except percentages)</i> | | | |
| Performing loans | 42,339.5 | 99.9% | 69,120.9 | 99.5% |
| Non-performing loans | 63.3 | 0.1% | 319.7 | 0.5% |
| Total | 42,402.8 | 100.0% | 69,440.6 | 100.0% |

Market Risk

The CLRP sets ROSBANK's policies for market risks (currency, interest rate and securities portfolio risk). Market risk is managed in an integrated manner and evaluated in terms of capital risk exposure using value-at-risk ("VaR") methodology and other quantitative techniques. ROSBANK performs back testing of the adequacy of the methodology at least every three months with reference to current market terms to ensure that deviations for all statistical parameters included in the calculation are within prudent ranges. See "-Risk Management-Securities Portfolio Risk".

Currency Risk

ROSBANK is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Economic and Finance Department conducts VaR evaluation, analyses the structure of ROSBANK's open currency positions and prepares reports for the CLRP. The CLRP approves the methodology of currency risk analysis and management and sets limits on arbitrage conversion operations. The Treasury Department conducts conversion operations and transactions in derivatives within the limits set by the CLRP and manages ROSBANK's open currency position on a day-to-day basis. The CLRP sets open foreign currency position limits for both overnight and intra-day positions and stop-loss limits. The Treasury and Credit Settlement Department monitor compliance with these limits and the relevant CBR limits on a daily basis.

Credit related commitments include undrawn letters of credit (both export and import), issued guarantees and commitments to extend credit, less allowance for losses. The off-balance sheet net notional position represents the difference between the notional amounts of foreign currency derivative financial instruments, which are principally used to reduce ROSBANK's exposure to currency movements, and their fair values.

The following table presents ROSBANK's foreign currency exchange rate exposure as at 30 September 2004, including ROSBANK's assets and liabilities, categorised by currency:

| | RUR | USD | EUR | Gold bullion | Other currency | Currency undefined (incl. allowance for losses and impairment) | 30 Sept 2004 RUR thousand Total |
|---|--------------------|-------------------|------------------|-----------------|-------------------|--|--|
| ASSETS | | | | | | | |
| Cash and balances with Central and National banks..... | 8,436,502 | 448,685 | 222,680 | — | 46,583 | — | 9,154,450 |
| Loans and advances to banks, less allowance for loan losses..... | 7,547,912 | 26,464,773 | 3,038,016 | — | 209,420 | (133,332) | 37,126,789 |
| Trading assets..... | 2,868,413 | 818,161 | 1,206 | 83,478 | 379,975 | — | 4,151,233 |
| Loans and advances to customers, less allowance for loan losses.. | 28,522,082 | 34,473,162 | 376,560 | — | 1,134,609 | (2,907,400) | 61,599,013 |
| Investment securities, less allowance for impairment | 1,259,135 | 136,999 | — | — | — | (120,642) | 1,275,492 |
| Fixed and intangible assets, less accumulated depreciation | 128,700 | — | — | — | — | — | 128,700 |
| Other assets, less allowance for losses..... | 196,780 | 33,321 | 4,313 | 71 | 38,929 | (28,190) | 245,224 |
| TOTAL ASSETS | 48,959,524 | 62,375,101 | 3,642,775 | 83,549 | 1,809,516 | (3,189,564) | 113,680,901 |
| LIABILITIES | | | | | | | |
| Deposits from banks | 2,373,990 | 3,401,427 | 210,688 | 702,922 | 914,085 | — | 7,603,112 |
| Customer accounts and subordinated debt..... | 34,536,820 | 41,943,940 | 2,588,022 | 8,189 | 694,406 | — | 79,771,377 |
| Debt securities issued | 13,903,435 | 3,185,391 | 78,936 | — | 30,135 | — | 17,197,897 |
| Provisions | — | — | — | — | — | 165,085 | 165,085 |
| Income tax liabilities | 380 | — | — | — | 1,149 | — | 1,529 |
| Other liabilities | 177,618 | 184,489 | 25,453 | 2,012 | 24,640 | — | 414,212 |
| TOTAL LIABILITIES | 50,992,243 | 48,715,247 | 2,903,099 | 713,123 | 1,664,415 | 165,085 | 105,153,212 |
| OPEN BALANCE SHEET POSITION | | | | | | | |
| | (2,032,719) | 13,659,854 | 739,676 | (629,574) | 145,101 | | |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS | | | | | | | |
| | 963,347 | (3,153,293) | (212,045) | 657,481 | 1,779,215 | — | 34,705 |
| TOTAL OPEN POSITION | (1,069,372) | 10,506,561 | 527,631 | 27,907 | 1,924,316 | | |

Notes:

- (1) US\$1 = 29.2171 Rbl
- (2) 1 EUR = 35.9896 Rbl
- (3) 1 ounce = 12,144.09 Rbl
- (4) Includes Swiss francs, British pounds, Belarus roubles and Japanese yen.

Interest Rate Risk

In accordance with Russian market practice, the majority of ROSBANK's assets and liabilities have fixed interest rates. Interest rate risk arises primarily as a result of lending at fixed interest rates for maturities which differ from the term of borrowings at fixed 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 deposits) are often recalculated based on current market conditions and mutual agreement, which is documented in an addendum to the original agreement setting forth the new interest rate.

ROSBANK manages its interest rate risk by maintaining a net interest margin, which is the difference between the average annual interest rates on its interest-earning assets and liabilities, sufficient to cover operational expenses and risk premium. As at 30 June 2004, this margin was 4.8%. The Economic and Finance Department regularly reviews and reports back to the CLRP the average interest rates on ROSBANK's assets and liabilities and the net interest margin. If the CLRP finds that the net interest margin is insufficient, ROSBANK takes appropriate measures such as reviewing its basic interest rates or adjusting its asset and liability structure.

The following table summarises ROSBANK's effective interest rate by category of financial assets and liabilities, as at 30 September 2004.

| | <u>Rbl</u> | <u>USD</u> | <u>Other currencies⁽¹⁾</u> |
|--|------------|------------|---|
| Assets | | | |
| Cash and balances with Central and National banks..... | — | — | — |
| Loans and advances to banks | 8.7% | 2.0% | 2.0% |
| Trading assets | 10.2% | 6.7% | 5.4% |
| Loans and advances to customers..... | 15.0% | 11.5% | 10.4% |
| Investment securities..... | 9.1% | — | 9.3% |
| Liabilities | | | |
| Deposits from banks..... | 3.3% | 1.6% | — |
| Customer accounts | 9.1% | 6.5% | 5.1% |
| Debt securities issued..... | 9.3% | 4.4% | — |

Note:

(1) Includes Swiss francs, British pounds, Belarus roubles and Japanese yen.

For the year ended 31 December 2003, ROSBANK's interest income was Rbl 7,232.5 million and its interest expense was Rbl 4,476.5 million, resulting in net interest income of Rbl 2,756.0 million, in each case before provision for loan losses.

For the nine months ended 30 September 2004, ROSBANK's interest income was Rbl 7,071.4 million and its interest expense was Rbl 4,087.6 million, resulting in net interest income of Rbl 2,983.9 million, in each case before provision for loan losses.

Securities portfolio risk

ROSBANK's main source of securities portfolio risk is through its Russian government debt securities portfolio. ROSBANK mitigates this risk through portfolio and single issuer limits on various types of securities. In addition to managing concentrations, ROSBANK has implemented a stop-loss for accumulated losses for one-day and one-month periods which corresponds to a percentage of the investments in its securities portfolio. No operations are allowed after the loss reaches the stop-loss limit. For a discussion of ROSBANK's securities portfolio, see "Selected Statistical and Other Information-Securities Portfolio".

Liquidity Risk

Liquidity risk is the risk of a mismatch between the maturities of assets and liabilities, which may result in ROSBANK being unable to meet its obligations in a timely manner. ROSBANK is subject to liquidity requirements set by the CBR. See "The Banking Sector and Banking Regulation in the Russian Federation—The Role of the CBR".

The CLRP sets ROSBANK's minimum necessary levels of liquid assets and maximum maturity mismatch limits, approves liquidity assessment and management procedures and determines liquidity requirements. The Economic and Finance Department conducts analyses of ROSBANK's liquidity position and prepares liquidity forecasts on a monthly, or, if necessary, more frequent, basis. ROSBANK's Treasury Department manages ROSBANK's short-term liquidity needs within limits approved by CLRP, placing excess funds and obtaining interbank loans on the domestic and international markets.

Medium-term liquidity is managed through repo transactions and by obtaining funds in the syndicated loan market and the interbank market. ROSBANK also manages its liquidity by issuing debt securities in the Russian domestic market.

The following table provides information regarding ROSBANK's liquidity position as at 30 September 2004.

| | Up to 1 month | 1 month to 3 months | 3 month to 1 year | 1 year to 5 years | Over 5 years | Overdue | Maturity undefined (incl. allowance for losses and impairment) | 30 Sept 2004 RUR thousand Total |
|---|-------------------|------------------------|----------------------|----------------------|------------------|----------------|--|---|
| ASSETS | | | | | | | | |
| Interest rate bearing assets | | | | | | | | |
| Loans and advances to banks, less allowance for loan losses | 25,739,534 | 2,811,930 | 1,021,653 | 131,263 | 15,000 | — | (118,028) | 29,601,352 |
| Trading assets | 3,488,822 | — | — | — | — | — | — | 3,488,822 |
| Loans and advances to customers, less allowance for loan losses..... | 17,704,095 | 7,939,440 | 24,826,910 | 13,561,651 | — | — | (2,669,894) | 61,362,202 |
| Investment securities, less allowance for impairment | — | — | — | 434,250 | 635 | — | (2,614) | 432,271 |
| Total interest rate bearing assets ... | 46,932,451 | 10,751,370 | 25,848,563 | 14,127,164 | 15,635 | — | (2,790,536) | 94,884,647 |
| Cash and balances with Central and National banks | 6,107,713 | — | — | — | — | — | 3,046,737 | 9,154,450 |
| Loans and advances to banks, less allowance for loan losses | 7,533,877 | 4,868 | 1,769 | 227 | — | — | (15,304) | 7,525,437 |
| Trading assets | 662,411 | — | — | — | — | — | — | 662,411 |
| Loans and advances to customers, less allowance for loan losses..... | 67,634 | 30,905 | 96,641 | 52,790 | — | 226,347 | (237,506) | 236,811 |
| Investment securities, less allowance for impairment | — | — | 841,038 | — | 120,211 | — | (118,028) | 843,221 |
| Fixed and intangible assets, less accumulated depreciation..... | — | — | — | 83,539 | 45,161 | — | — | 128,700 |
| Other assets, less allowance for losses | 153,227 | 49,637 | 70,550 | — | — | — | (28,190) | 245,224 |
| TOTAL ASSETS..... | 61,457,313 | 10,836,780 | 26,858,561 | 14,263,720 | 181,007 | 226,347 | (142,827) | 113,680,901 |
| LIABILITIES | | | | | | | | |
| Interest rate bearing liabilities | | | | | | | | |
| Deposits from banks..... | 1,104,233 | 1,896,062 | 1,868,529 | 1,360,679 | 3,533 | — | — | 6,233,036 |
| Customer accounts and subordinated debt | 12,057,264 | 12,915,333 | 7,578,202 | 797,145 | 6,782,684 | — | — | 40,130,628 |
| Debt securities issued..... | 620,739 | 696,050 | 9,056,926 | 4,058,389 | 1,173,479 | — | — | 15,605,583 |
| Total interest rate bearing liabilities | 13,782,236 | 15,507,445 | 18,503,657 | 6,216,213 | 7,959,696 | — | — | 61,969,247 |
| Deposits from banks..... | 1,336,990 | 15,222 | 8,931 | 939 | 7,994 | — | — | 1,370,076 |
| Customer accounts | 39,321,747 | 146,759 | 86,112 | 9,058 | 77,073 | — | — | 39,640,749 |
| Debt securities issued..... | 1,397,647 | 7,820 | 141,544 | 45,302 | 1 | — | — | 1,592,314 |
| Provisions..... | — | — | — | — | — | — | 165,085 | 165,085 |
| Income tax liabilities..... | — | 1,529 | — | — | — | — | — | 1,529 |
| Other liabilities..... | 267,309 | 146,903 | — | — | — | — | — | 414,212 |
| TOTAL LIABILITIES..... | 56,105,929 | 15,825,678 | 18,740,244 | 6,271,512 | 8,044,764 | — | 165,085 | 105,153,212 |
| Liquidity gap..... | 5,351,384 | (4,988,898) | 8,118,317 | 7,992,208 | (7,863,757) | — | — | — |
| Interest sensitivity gap | 33,150,215 | (4,756,075) | 7,344,906 | 7,910,951 | (7,944,061) | — | — | — |
| Cumulative interest sensitivity gap | 33,150,215 | 28,394,140 | 35,739,046 | 43,649,997 | 35,705,936 | — | — | — |
| Cumulative interest sensitivity gap as a percentage of total assets | 29% | 25% | 31% | 38% | 31% | — | — | — |

Note:

(1) Loans are considered “overdue” if principal amounts are not paid on time.

ROSBANK's foreign bank subsidiaries have their own asset, liability and risk management procedures, and comply with applicable laws and regulations in their respective jurisdictions. However, ROSBANK is informed of, and monitors, all significant risk exposures of its bank subsidiaries. Subsidiaries regularly report their credit exposures to the Internal Control Department, which takes this information into account in determining ROSBANK's aggregate credit exposures to single borrowers and borrowers in particular industries and countries. ROSBANK also monitors its subsidiaries' exposures to market risk. The Internal Control Department evaluates the internal risk management and control systems of ROSBANK's foreign subsidiaries on an annual basis in order to ensure that a uniform approach to risk management is adopted throughout ROSBANK.

ROSBANK's Competitive Landscape

According to the CBR, as of 31 July 2004, 1,574 banks and other non-bank credit organisations were registered in Russia (although the banking licences of 252 of those had been revoked by the CBR as of that date). The largest Russian banks are concentrated in Moscow, while large regional banks conduct most of their business in the central city of their region. For a description of the Russian banking sector, see "Banking Sector and Banking Regulation in Russia—The Russian Banking Sector". ROSBANK faces challenges from domestic competitors in the various segments of the banking industry in which it operates. In particular, ROSBANK considers Vneshtorgbank, Alfa Bank, Sberbank, Bank of Moscow, Investment Bank "Trust" and MDM-Bank as its major competitors.

Competition among foreign banks remains relatively limited and participants tend to confine their operations to providing services to a small number of top tier Russian corporate customers and their existing international corporate clients. Raiffeisenbank of Austria is one of the few foreign banks that have begun to operate in the retail market. In addition, a number of smaller banks have emerged that target SMEs and individual clients. These banks include the domestic banks Probusinessbank and Russian Standard Bank, and the foreign-owned KMB Bank and Delta Credit. See "Risk Factors—Risk Relating to ROSBANK's Business and Industry—ROSBANK faces competition for client business in a number of areas".

Information Technology Infrastructure

ROSBANK currently has an integrated communications network in Moscow. While its branches have separate internal networks, they are linked to each other and the head office by Quorum, an automatic information linking system through which branches provide their operating results to the head office on a daily, although not real-time basis. The development of information technology at ROSBANK is coordinated through the IT department, whose goal it is to provide reliable, safe and cost-effective banking operations. In furtherance of this goal, it carries out a range of activities aimed at updating and improving all of ROSBANK's systems. The IT department develops, implements and supports application systems in accordance with established written procedures. It maintains application systems which were developed in-house, as well as external vendor application systems in accordance with support contracts. It provides maintenance for all of ROSBANK's servers, workstations and networking equipment in accordance with vendors' recommendations, and provides centralised support for certain external applications.

Each of ROSBANK's branches currently has a back-up server which can be made operational within an hour of the failure of the primary server. ROSBANK's head office maintains a duplicate server which runs simultaneously with its main server, and which it can rely upon immediately in the event its primary server fails. ROSBANK is in the process of upgrading these systems. In 2003, ROSBANK had capital expenditure related to information technology of Rbl 50.6 million and has committed capital expenditure in 2004 of Rbl 121.5 million. These amounts are allocated to the general maintenance and upkeep of ROSBANK's information technology systems, as well as the ongoing upgrade of these systems.

Employees

As at 30 June 2004, ROSBANK had 3,310 employees, of which 2,547 were based in Moscow, 686 were based elsewhere in Russia and 77 were based outside of Russia. The following table sets

forth the total number of employees of ROSBANK at the date indicated, broken down by employee function:

| | <u>31 December 2001</u> | <u>31 December 2002</u> | <u>31 December 2003</u> | <u>30 June 2004</u> |
|---|-----------------------------|-----------------------------|-----------------------------|-------------------------|
| Department/function | | | | |
| Management | 53 | 50 | 52 | 61 |
| Portfolio management, front office..... | 227 | 236 | 275 | 324 |
| Analytic management, middle office.... | 71 | 103 | 73 | 97 |
| Retail, plastic card and custody services | 279 | 302 | 360 | 606 |
| Accounting, internal controls and back-office..... | 95 | 95 | 86 | 96 |
| Information and legal support..... | 191 | 191 | 195 | 448 |
| Internal utility service (general administration)..... | 597 | 624 | 589 | 915 |
| Total head office | 1,513 | 1,601 | 1,631 | 2,547 |
| Branches..... | 510 | 582 | 735 | 763 |
| | <u>2,023</u> | <u>2,183</u> | <u>2,365</u> | <u>3,310</u> |
| Total..... | <u>2,023</u> | <u>2,183</u> | <u>2,365</u> | <u>3,310</u> |

The Russian market for qualified financial institutions personnel, especially for junior and middle management, is highly competitive. ROSBANK's personnel management policy is aimed at developing skilled, highly productive staff that are successful in conducting its business. All members of management, and the majority of employees engaged in any business area of ROSBANK, have a university degree and extensive work experience. In addition, ROSBANK has developed a comprehensive semi-annual training programme that provides for both internal and external professional training of employees at all levels. ROSBANK recently completed a study with PricewaterhouseCoopers which helped management conclude that ROSBANK's current compensation package is generally comparable to that offered by the 13 largest Russian banks.

Staff costs accounted for 56.6%, 51.7%, 66.9% and 63.9% of ROSBANK's operating expenses for the years ended 31 December 2001, 2002 and 2003 and for the nine months ended 30 September 2004, respectively. This increase was primarily caused by an increase in average salaries over the course of 2003 and by accruing bonuses for 2003 of Rbl 225.0 million (7.2% of ROSBANK's operating expenses in 2003).

ROSBANK's work force is not unionised and ROSBANK has not experienced any strikes, work stoppages, labour disputes or actions that have affected the operation of its business. ROSBANK considers its relationship with its employees to be good.

Litigation

ROSBANK is, from time to time, the subject of legal proceedings and other investigations in the ordinary course of its business. ROSBANK is not currently engaged in any litigation nor aware of any threatened litigation that it deems material, and has not been engaged in any material litigation in the 12 months before the date of this Offering Circular.

Subsidiaries

As of 30 September 2004 the ROSBANK group of companies was composed of the following principal subsidiaries.

| <u>Name</u> | <u>Domicile</u> | <u>Share capital</u> | <u>Center Activity</u> | <u>Ownership by ROSBANK (OJSC JSCB)</u> |
|--|---------------------------------------|----------------------|------------------------|---|
| 1. ROSBANK (Switzerland) SA | Geneva, Switzerland | CHF 80,000,000 | Bank | 100% |
| 2. ROSBANK International Finance B.V. | Amsterdam, The Netherlands | EUR 20,000 | Financial company | 100% |
| 3. Rosinvest S A | Luxembourg, Grand Duchy of Luxembourg | EUR 31,000 | Financial company | 100% |
| 4. BelROSBANK | Minsk, Belarus | BYR 11,996,100,000 | Bank | 50.00002% |

ROSBANK (Switzerland) was created in June 1995 and engages primarily in corporate banking activities in Switzerland. ROSBANK International Finance B.V. was incorporated in June 2000 for the purpose of issuing US\$130,000,000 floating rate bonds due 2012. Rosinvest SA was incorporated in June 2000 to act as an intermediary company in connection with the restructuring of Uneximbank described in “—History”. BelROSBANK was incorporated in July 2003 and engages primarily in corporate banking activities in Belarus.

SELECTED STATISTICAL AND OTHER INFORMATION RELATING TO ROSBANK

The following selected statistical and other financial information is derived, where appropriate, from the IFRS Financial Statements for the years ended 31 December 2001, 2002 and 2003 and for the nine months ended 30 September 2004.

ROSBANK's Loan, Guarantees and Securities Portfolios

Non-bank Loan Portfolio

Loans to Non-bank Customers by Concentration

As at 30 September 2004, ROSBANK had 12 non-bank borrowers with individually outstanding loan balances exceeding 10% of ROSBANK's equity. As at 30 September 2004, the total amount of these loans was Rbl 18,146.3 million, or 28.1% of ROSBANK's total loan portfolio (excluding loans to banks). ROSBANK's single largest borrower as at 30 September 2004 accounted for Rbl 3,000.0 million of total loan exposure, or 4.7% of the total loan portfolio (excluding loans to banks).

As at 30 September 2004, 6.1% of ROSBANK's loans to non-bank customers were made to entities in the Interros Group. The trend in recent years has been for such exposure to be reduced in relative terms and for the amount and size of gross loans to Russian borrowers unrelated to the Interros Group to increase. Overall, the size of ROSBANK's loan portfolio has continued to grow over recent years.

Loans to Non-bank Customers by Industry Concentration

The following table sets forth economic sector concentrations within ROSBANK's loan portfolio (excluding loans to banks) as at 31 December 2001, 2002 and 2003 and as at 30 September 2004.

| | As at 31 December | | | | | | As at 30 September 2004 | |
|---|-------------------|------|----------------|------|----------------|------|----------------------------|------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| Trade | 4,937.6 | 16.0 | 5,331.2 | 14.9 | 8,348.0 | 15.2 | 7,671.4 | 11.9 |
| Finance | 8,288.2 | 26.8 | 7,886.0 | 22.0 | 6,420.6 | 11.7 | 7,327.7 | 11.4 |
| Government | 340.7 | 1.1 | 3,190.3 | 8.9 | 5,199.7 | 9.5 | 5,442.7 | 8.4 |
| Manufacturing | 346.9 | 1.1 | 734.5 | 2.0 | 4,843.0 | 8.8 | 1,337.0 | 2.1 |
| Transport | — | — | — | — | 4,322.2 | 7.9 | 853.9 | 1.3 |
| Aircraft engineering | — | — | 5,254.5 | 14.7 | 4,017.6 | 7.3 | 4,888.5 | 7.6 |
| Telecommunications | — | — | — | — | 2,707.0 | 4.9 | 5,313.3 | 8.2 |
| Leasing and real estate | 1,170.1 | 3.8 | — | — | 2,310.5 | 4.2 | 2,586.1 | 4.0 |
| Oil and gas | 4,523.4 | 14.6 | 3,131.2 | 8.7 | 2,041.1 | 3.7 | 2,137.7 | 3.3 |
| Precious metals and diamond extraction and manufacturing | 420.4 | 1.4 | 1,253.3 | 3.5 | 2,002.2 | 3.7 | 2,060.4 | 3.2 |
| Ferrous metals manufacturing | 586.8 | 1.9 | 758.1 | 2.1 | 1,856.8 | 3.4 | 2,572.0 | 4.0 |
| Engineering | — | — | 40.2 | 0.1 | 1,822.9 | 3.3 | 4,749.0 | 7.4 |
| Food industry | 570.6 | 1.8 | 2,234.7 | 6.2 | 1,638.8 | 3.0 | 2,862.3 | 4.4 |
| Individuals | 203.1 | 0.7 | 363.5 | 1.0 | 1,231.5 | 2.2 | 5,332.4 | 8.3 |
| Construction | 799.4 | 2.6 | 417.5 | 1.2 | 1,066.8 | 1.9 | 2,375.5 | 3.7 |
| Chemical | — | — | 548.6 | 1.5 | 590.6 | 1.1 | 1,778.8 | 2.8 |
| Agriculture | — | — | 985.1 | 2.7 | 697.7 | 1.3 | 211.5 | 0.3 |
| Hotel business | — | — | 1,217.9 | 3.4 | 578.1 | 1.1 | 465.4 | 0.7 |
| Energy industry | 283.7 | 0.9 | 830.9 | 2.3 | 514.3 | 0.9 | 1,756.2 | 2.7 |
| Heavy industry | — | — | 467.6 | 1.3 | 398.7 | 0.7 | — | — |
| Non-ferrous metals manufacturing | 7,460.8 | 24.1 | 690.3 | 1.9 | 40.1 | 0.1 | 146.4 | 0.2 |
| Other | 920.1 | 3.0 | 295.8 | 0.8 | 1,628.5 | 3.0 | 2,390.3 | 3.7 |
| Accrued interest | 96.4 | 0.3 | 220.9 | 0.6 | 492.3 | 0.9 | 248.0 | 0.4 |
| Total ⁽¹⁾ | 30,948.3 | 100 | 35,852.1 | 100 | 54,766.7 | 100 | 64,506.4 | 100 |

Note:

⁽¹⁾ Excludes allowance for loan losses.

Loans to Non-bank Customers by Maturity

The following table sets forth ROSBANK's loan portfolio (excluding loans to banks) by maturity as at 31 December 2001, 2002 and 2003 and as at 30 September 2004 by amount and as a percentage of the loan portfolio (excluding loans to banks).

| | As at 31 December | | | | | | As at 30 September 2004 | |
|----------------------------------|-------------------|-------|----------------|-------|----------------|-------|-------------------------|-------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| On demand or less than one month | 4,078.3 | 13.2 | 2,983.9 | 8.3 | 7,809.3 | 14.3 | 17,771.7 | 27.5 |
| One to three months | 10,405.6 | 33.6 | 6,892.9 | 19.2 | 4,873.9 | 8.9 | 7,970.3 | 12.4 |
| Three months to one year | 10,416.5 | 33.7 | 20,480.4 | 57.1 | 26,408.3 | 48.2 | 24,923.6 | 38.6 |
| More than one year..... | 5,662.5 | 18.3 | 4,953.9 | 13.8 | 15,158.2 | 27.7 | 13,614.5 | 21.1 |
| Overdue/no stated maturity..... | 385.4 | 1.2 | 540.9 | 1.5 | 517.0 | 0.9 | 226.3 | 0.4 |
| Total ⁽¹⁾ | 30,948.3 | 100.0 | 35,852.1 | 100.0 | 54,766.7 | 100.0 | 64,506.4 | 100.0 |

Note:

⁽¹⁾ Excludes allowances for loan losses and includes accrued interest.

Short-term loans make up a large proportion of ROSBANK's loan portfolio, as is customary in the Russian domestic lending market. ROSBANK expects that, as the Russian economy becomes more stable, loans with a maturity of greater than one year will experience significant growth.

Loans to Non-bank Customers by Currency

The following table sets forth ROSBANK's loan portfolio (excluding loans to banks) by currency as at 31 December 2001, 2002 and 2003 and as at 30 September 2004.

| | As at 31 December | | | | | | As at 30 September | |
|----------------------------|-------------------|-------|----------------|-------|----------------|-------|--------------------|-------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| Rbl..... | 11,651.6 | 37.6 | 10,605.3 | 29.6 | 21,276.5 | 38.8 | 28,522.1 | 44.2 |
| US dollars..... | 19,266.0 | 62.3 | 25,199.5 | 70.3 | 33,071.2 | 60.4 | 34,473.2 | 53.4 |
| Euros | 30.8 | 0.1 | 47.3 | 0.1 | 251.2 | 0.5 | 376.5 | 0.6 |
| Other currencies | — | — | — | — | 167.8 | 0.3 | 1,134.6 | 1.8 |
| Total ⁽¹⁾ | 30,948.3 | 100.0 | 35,852.1 | 100.0 | 54,766.7 | 100.0 | 64,506.4 | 100.0 |

Note:

⁽¹⁾ Excludes allowances for loan losses and includes accrued interest.

Loans to Non-bank Customers by Collateralisation

The following table sets forth ROSBANK's loan portfolio (excluding loans to banks) broken down by type of collateral as at 31 December 2001, 2002 and 2003 and as at 30 September 2004.

| | As at 31 December | | | | | | As at 30 September | |
|--|-------------------|-------|----------------|-------|----------------|-------|--------------------|-------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| Loans collateralised by corporate guarantees | 6,715.9 | 21.7 | 5,389.7 | 15.0 | 4,573.4 | 8.4 | 4,519.7 | 7.0 |
| Loans collateralised by securities .. | 250.6 | 0.8 | 5,001.6 | 14.0 | 2,582.2 | 4.7 | 4,382.0 | 6.8 |
| Loans collateralised by goods in turnover | 3,632.0 | 11.7 | 3,471.1 | 9.7 | 3,696.1 | 6.7 | 6,307.9 | 9.8 |
| Loans collateralised by property and equipment | 767.5 | 2.5 | 255.6 | 0.7 | 5,755.3 | 10.5 | 10,435.7 | 16.2 |
| Loans collateralised by real estate. | — | — | 243.6 | 0.7 | 588.0 | 1.1 | 2,640.3 | 4.1 |
| Unsecured loans | 18,907.6 | 61.1 | 18,756.3 | 52.3 | 35,765.6 | 65.3 | 35,355.5 | 54.8 |
| Loans collateralised by other collateral..... | 578.3 | 1.9 | 2,513.2 | 7.0 | 1,313.7 | 2.4 | 617.3 | 1.0 |
| Accrued interest..... | 96.4 | 0.3 | 220.9 | 0.6 | 492.3 | 0.9 | 248.0 | 0.4 |
| Total | 30,948.3 | 100.0 | 35,852.1 | 100.0 | 54,766.7 | 100.0 | 64,506.4 | 100.0 |

Note:

⁽¹⁾ Excludes allowances for loan losses and includes accrued interest.

Loans and Advances to Banks

Loans to banks generally comprise a small portion of ROSBANK's total loan portfolio. For the year ended 31 December 2003, loans to banks accounted for 14.7% of ROSBANK's total loan portfolio. The following table sets forth ROSBANK's loans and advances to banks as at 31 December 2001, 2002 and 2003 and as at 30 September 2004.

| | As at 31 December | | | | | | As at 30 September | |
|----------------------------|-------------------|-------|----------------|-------|----------------|-------|--------------------|-------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| Advances to banks | 2,979.5 | 30.9 | 7,149.0 | 82.4 | 7,109.4 | 75.2 | 7,489.3 | 20.1 |
| Loans to banks..... | 6,668.5 | 69.1 | 1,520.3 | 17.5 | 2,306.8 | 24.4 | 29,719.4 | 79.8 |
| Accrued interest..... | 4.4 | — | 9.1 | 0.1 | 43.4 | 0.5 | 51.4 | 0.1 |
| Total ⁽¹⁾ | 9,652.5 | 100.0 | 8,678.4 | 100.0 | 9,459.7 | 100.0 | 37,260.1 | 100.0 |

Note:

⁽¹⁾ Excludes allowances for loan losses and includes accrued interest.

Guarantees

As at the nine months ended 30 September 2004, ROSBANK had issued guarantees in the amount of Rbl 9,034.1 million. In 2003, guarantees issued by ROSBANK almost trebled from Rbl 2,565.6 million as at 31 December 2002 to Rbl 9,568.4 million as at 31 December 2003. As at 31 December 2002 and 2003, guarantees issued to five companies (including one Interros Group company in 2002 and two Interros Group companies in 2003) accounted for 52.0% (Rbl 1,335.0 million) and 72.3% (Rbl 6,917.5 million), respectively, of all guarantees issued by ROSBANK.

Securities Portfolio

ROSBANK's securities portfolio consists of trading debt and equity securities and available-for-sale debt and equity instruments. Trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Securities available-for-sale represent equity and debt investments that are intended to be held for an indefinite period of time, which may be sold in response to the need for liquidity or changes in interest rates, exchange rates or equity prices.

Trading Securities Portfolio

The following table sets forth ROSBANK's trading securities portfolio as at 31 December 2001, 2002 and 2003 and as at 30 September 2004.

| | As at 31 December | | | | | | As at 30 September | |
|---|-------------------|-------|----------------|-------|----------------|-------|--------------------|-------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| Ordinary shares | 685.7 | 16.6 | 547.8 | 8.2 | 919.5 | 11.3 | 231.0 | 6.1 |
| Preferred shares..... | 87.7 | 2.1 | 44.9 | 0.7 | 615.5 | 7.6 | 1.4 | 0.0 |
| ADRs..... | — | — | 52.9 | 0.8 | — | — | — | — |
| Russian corporate bonds and eurobonds | 674.2 | 16.3 | 1,964.7 | 29.3 | 4,005.9 | 49.2 | 1,638.8 | 43.3 |
| Russian government bonds and eurobonds, bonds of regional authorities | 2,113.4 | 51.1 | 2,616.5 | 39.0 | 2,594.4 | 31.9 | 1,911.9 | 50.5 |
| Promissory notes | 573.0 | 13.9 | 1,474.1 | 22.0 | — | — | — | — |
| Others | — | — | — | — | — | — | — | — |
| Total | 4,134.0 | 100.0 | 6,700.9 | 100.0 | 8,135.3 | 100.0 | 3,783.0 | 100.0 |

Available-for-Sale Portfolio

The following table sets forth ROSBANK's investment securities available-for-sale as at 31 December 2001, 2002 and 2003 and as at 30 September 2004.

| | As at 31 December | | | | | | As at 30 September | |
|--|-------------------|--------------|----------------|--------------|----------------|--------------|--------------------|--------------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| Ordinary shares | — | — | 126.2 | 15.7 | 449.0 | 16.8 | 663.6 | 56.9 |
| Preferred shares | 3,990.2 | 92.2 | — | — | 11.7 | 0.4 | 26.3 | 2.2 |
| ADRs | — | — | — | — | — | — | 136.4 | 11.7 |
| Russian corporate bonds and eurobonds | — | — | 417.7 | 52.0 | 103.4 | 3.9 | 437.2 | 37.5 |
| Russian government bonds and eurobonds | 336.7 | 7.8 | 215.0 | 26.8 | 435.8 | 16.3 | 0.6 | — |
| Promissory notes | — | — | 55.2 | 6.9 | 1,702.8 | 63.6 | — | — |
| Other shares and bonds | — | — | 28.4 | 3.5 | 27.6 | 1.0 | 11.8 | 1.0 |
| Less allowance for impairment | — | — | (39.1) | (4.9) | (52.4) | (2.0) | (109.0) | (9.3) |
| Total | 4,326.9 | 100.0 | 803.4 | 100.0 | 2,677.9 | 100.0 | 1,166.9 | 100.0 |

ROSBANK's Funding

The primary sources of ROSBANK's funding are deposits from banks, deposits from non-bank customers and debt securities issued, including bonds, eurobonds and promissory notes. The following table sets forth ROSBANK's principal sources of funding in terms of volumes and as a percentage of total sources of funding as at 31 December 2001, 2002 and 2003 and as at 30 September 2004:

| | As at 31 December | | | | | | As at 30 September | |
|--|-------------------|--------------|-----------------|--------------|-----------------|--------------|--------------------|--------------|
| | 2001 | | 2002 | | 2003 | | 2004 | |
| | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) | (Rbl millions) | (%) |
| Deposits from banks | | | | | | | | |
| Demand deposits | 1,455.1 | 3.2 | 2,301.5 | 4.7 | 959.6 | 1.2 | 1,322.8 | 1.3 |
| Time deposits ⁽¹⁾ | 4,160.7 | 9.1 | 2,423.6 | 5.0 | 6,572.3 | 7.9 | 6,233.0 | 5.9 |
| Accrued interest | 58.5 | 0.1 | 12.4 | — | 28.5 | — | 47.3 | 0.04 |
| Total deposits from banks | 5,674.3 | 12.4 | 4,737.5 | 9.7 | 7,560.4 | 9.1 | 7,603.1 | 7.2 |
| Customer accounts | | | | | | | | |
| Demand deposits | 14,634.4 | 32.1 | 8,176.1 | 16.7 | 23,828.3 | 28.6 | 39,184.7 | 37.3 |
| Time deposits ⁽²⁾ | 17,351.5 | 38.0 | 25,324.9 | 51.8 | 34,732.6 | 41.7 | 38,680.6 | 36.8 |
| Accrued interest | 123.1 | 0.3 | 175.2 | 0.4 | 244.1 | 0.3 | 456.0 | 0.4 |
| Total deposits from customer accounts | 32,109.0 | 70.3 | 33,676.3 | 68.9 | 58,805.1 | 70.6 | 78,321.4 | 74.5 |
| Debt securities issued | | | | | | | | |
| Certificates of deposit | — | — | — | — | 6,834.7 | 8.2 | 6,938.9 | 6.6 |
| Discount bearing promissory notes | 1,806.6 | 4.0 | 5,170.8 | 10.6 | 6,284.9 | 7.6 | 3,991.6 | 3.8 |
| Adjustable rate guaranteed bonds due 2012 | 4,509.8 | 9.9 | 4,132.0 | 8.5 | 1,162.7 | 1.4 | 1,153.3 | 1.1 |
| Bonds due in 2009 | — | — | — | — | — | — | 3,000.0 | 2.9 |
| Interest free promissory notes | 1,035.7 | 2.3 | 694.5 | 1.4 | 1,455.1 | 1.7 | 1,415.4 | 1.3 |
| Interest bearing promissory notes | 89.6 | 0.2 | 0.6 | — | 34.6 | — | 521.7 | 0.5 |
| Accrued interest | 0.6 | — | 0.9 | — | 56.5 | 0.1 | 176.9 | 0.2 |
| Total debt securities issued | 7,442.4 | 16.3 | 9,998.8 | 20.5 | 15,828.5 | 19.0 | 17,197.9 | 16.4 |
| Others | 433.5 | 1.0 | 477.1 | 1.0 | 1,049.4 | 1.3 | 2,030.8 | 1.9 |
| Total funding | 45,659.1 | 100.0 | 48,889.7 | 100.0 | 83,243.3 | 100.0 | 105,153.2 | 100.0 |

Note:

(1) "Time deposits" from banks includes securities sold under agreement to repurchase and a loan from the Central Bank of Russia in the amount of Rbl 3,122.2 million made in 2001.

(2) "Time deposits" from customers includes subordinated debt in the amount of Rbl 1.450 million as at 30 September 2004.

Deposits from banks decreased by 16.5% from Rbl 5,674.3 million as at 31 December 2001 to Rbl 4,737.5 million as at 31 December 2002. This decrease was primarily caused by the repayment in

2002 of a Rbl 3,122.2 million loan from the CBR in 2001. As at 31 December 2003, the volume of bank funding increased by 59.6% to Rbl 7,560.4 million, primarily as a result of ROSBANK raising a syndicated loan from foreign and CIS banks in the amount of US\$40.0 million (Rbl 1,178.2 million), and additional deposits from the National Bank of Belarus. As at 30 September 2004, the volume of bank funding was Rbl 7,603.1 million. As a percentage of ROSBANK's total funding, deposits from banks normally range from 4.5% to 16.0%.

Deposits from customers increased by 33.2% in the first nine months of 2004, from Rbl 58,805.1 million as at 31 December 2003 to Rbl 78,321.4 million as at 30 September 2004. These increases were caused in part by an increase in the number of ROSBANK's retail customers following efforts to strengthen ROSBANK's position in the retail banking market, and by an increase in deposits from large corporations. As a percentage of total funding, deposits from customers decreased from 70.3% as at 31 December 2001 to 68.9% as at 31 December 2002, increased to 70.6% as at 31 December 2003, then increased to 74.5% as at 30 September 2004. On average, deposits from customers form approximately 70% of ROSBANK's total funding, with minor fluctuations from year-to-year caused primarily by alterations in the legal classification of certain of ROSBANK's funding as between deposits or notes.

Debt securities issued by ROSBANK on the domestic market, including promissory notes and bonds, also serve as a source of funding. The value of ROSBANK's debt securities issued amounted to Rbl 7,442.4 million as at 31 December 2001, Rbl 9,998.8 million as at 31 December 2002, Rbl 15,828.5 million as at 31 December 2003, and Rbl 17,197.9 million as at 30 September 2004, representing 16.3%, 20.5%, 19.0% and 16.4% of ROSBANK's total funding as at 31 December 2001, 2002 and 2003 and as at 30 September 2004, respectively.

Interros Group companies accounted for 18.8% of ROSBANK's total funding as at 31 December 2001, compared to approximately 9.9% as at 31 December 2002 and 12.4% as at 31 December 2003. As at 30 June 2004, Interros Group companies accounted for 15.2% of ROSBANK's total funding. ROSBANK's management expects that Interros Group companies will play a lesser role in the future funding of ROSBANK.

Deposit portfolio by Maturity

The following table sets forth ROSBANK's deposits by maturity as at 31 December 2001, 2002 and 2003 and as at 30 September 2004.

| | As at 31 December | | | As at 30 September |
|---|-----------------------|-----------------|-----------------|-----------------------|
| | 2001 | 2002 | 2003 | 2004 |
| | <i>(Rbl millions)</i> | | | |
| On demand or less than one month ⁽¹⁾ | 31,033.9 | 15,591.8 | 43,301.8 | 53,820.2 |
| One to three months..... | 5,426.5 | 12,543.5 | 14,000.2 | 14,973.4 |
| Three months to one year..... | 392.2 | 9,243.2 | 5,020.0 | 9,541.8 |
| More than one year..... | 930.8 | 1,035.3 | 4,043.4 | 9,039.1 |
| Total..... | <u>37,783.3</u> | <u>38,413.8</u> | <u>66,365.4</u> | <u>87,374.5</u> |

Note:

⁽¹⁾ ROSBANK believes that although a substantial portion of customer deposits have maturities of three months or less, diversification of these deposits by number and type of depositors and ROSBANK's past experience indicates that these deposits provide a long-term and stable source of funding for ROSBANK.

ROSBANK's Capital Adequacy

The following table sets forth ROSBANK's capital adequacy as at 30 September 2004 in accordance with the Basle Accord.

| | As at 30 September 2004 |
|--|--|
| | <u>(Rbl millions)</u> |
| Tier I capital | |
| Share capital..... | 5,478.2 |
| Share premium | 3,672.2 |
| Accumulated deficit | (562.2) |
| Translation reserve | (109.3) |
| Minority interest..... | 48.9 |
| | <hr/> |
| Total tier I capital | 8,527.7 |
| | <hr/> |
| Tier II capital | |
| General provisions..... | 1,026.6 |
| Subordinated debt (received)..... | 1,450.0 |
| Investments in unconsolidated capital of banks and financial institutions..... | (119.1) |
| | <hr/> |
| Total tier II capital..... | 2,357.5 |
| | <hr/> |
| Total qualifying capital | 10,885.2 |
| | <hr/> |
| Total risk weighted assets..... | 82,127.1 |
| | <hr/> |
| Risk Adjusted Capital Ratio(1)..... | 13.25% |
| | <hr/> <hr/> |

Note:

(1) Tier I capital plus tier II capital divided by total risk weighted assets.

ROSBANK is and always has been in compliance with the minimum capital adequacy guidelines set forth by the CBR.

PRINCIPAL SHAREHOLDERS AND RELATED PARTIES OF ROSBANK

Principal Shareholders

The following table sets forth certain information concerning the beneficial ownership of ROSBANK's outstanding share capital, which is comprised of common shares, as at 30 June 2004, by shareholders who are members of the Interros Group or who beneficially own 5% or more of ROSBANK's outstanding share capital. Percentage of beneficial ownership is based on an aggregate of 340,528,420 shares outstanding, with a par value of 10 roubles each.

| Shareholder | As at 30 June 2004 | |
|------------------------------|---------------------|------------------------|
| | Number of shares | Percentage of total |
| CJSC "Interros Estate" | 323,428,148 | 94.98 |
| Others..... | 17,100,272 | 5.02 |
| Total | 340,528,420 | 100.00 |

The Interros Group

ROSBANK is approximately 95% owned by members of the Interros Estate, a member of the Interros Group and one of the core holding companies within the Interros Group. The Interros Group is one of Russia's largest private investment groups with assets under management exceeding US\$10 billion. Companies within the Interros Group currently operate in all Russian regions and in a number of countries in Europe, Asia, and North America. Taken together, Interros Group companies currently employ over 190,000 personnel.

Interros divides its investment policy between acquiring minority positions in companies for investment purposes only, and acquiring controlling interests in specified companies for the purpose of managing the strategic development of the relevant company on behalf of Interros shareholders. Interros Group companies include those in the metallurgy and mining, machine-building, financial, agriculture and food, mass media and real estate investment industries. Each of the companies managed by the Interros Group has an independent management team which manages day-to-day operations, and boards of directors comprising a combination of Interros Group shareholders and independent individuals.

The principal Interros Group companies other than ROSBANK and OVK include OJSC Mining and Metallurgical Company Norilsk Nickel ("Norilsk Nickel"), mechanical engineering company OJSC Power Machines ("Power Machines"), LLC Insurance Company Soglasie ("Soglasie"), the non-state pension fund Interros-Dostoinstvo, JSC Agro-industrial Company Agros, Prof-Media Holding and Open Investments.

Norilsk Nickel

Norilsk Nickel and its subsidiaries (the "Norilsk Group") are an integrated mining and metallurgical group. The Norilsk Group is one of the world's leading producers of nickel and palladium, one of the world's largest producers of platinum and one of the world's top ten producers of gold and copper. In November 2002, Norilsk Nickel acquired the gold mining company CJSC Polus, making it Russia's number one producer of gold, and in June 2003 it acquired 51% of Stillwater Mining Company, the only palladium producer located in the United States. The Norilsk Group currently has operations in Russia, England, Switzerland, China and the United States, and maintains its corporate headquarters in Moscow.

Power Machines

Power Machines is one of Russia's leading manufacturers and suppliers of equipment for hydro, steam, gas and nuclear plants, as well as equipment for the transmission and distribution of power, transport and railway equipment. It delivers supplies to, and services clients in, more than 60

countries, from offices located in 16 countries world-wide. Power Machines and OMZ, a heavy machinery business, announced a decision to merge in 2003 in order to create one of Russia's largest producers of power-generating equipment in Russia. The merger is expected to be completed by the end of 2004.

Soglasyye

Soglasyye is among Russia's ten largest insurance companies and a leading insurance provider in Russia of car insurance, corporate property insurance, third-party insurance, and professional indemnity insurance. Established in September 1993, Soglasyye originally focused on providing services to Interros Group companies. As Soglasyye developed, it began to expand its customer base to include non-Interros Group companies, and now offers more than 75 different insurance products to customers in the Russian domestic and international market.

Interros-Dostoinstvo

In October 1993, Interros established Russia's first non-state pension fund, Interros Dostoinstvo, which engages in the development of corporate pensions plans, as well as pension plans for various non-corporate entities.

Agros

The investment fund, Agros, was established in late 2001 to invest in Russia's agriculture and food industry. Through its acquisition of a range of agricultural assets over the past three years, Agros is now Russia's leader in sales of grain and pasta in both the domestic and international markets. It has one of Russia's largest functioning grain storage facilities and is one of the country's largest poultry producers.

Prof-Media

Interros established Prof-Media in 1997 in order to manage its various holdings in the mass media industry in Russia. Prof-Media is now a leader in the Russian periodicals market as measured by circulation and readership, with a total average daily readership of approximately 10 million. Prof-Media owns controlling interests in the newspapers *Izvestia*, *Komsomolskaya Pravda*, *Sovetsky Sport*, and *Express Gazeta*, as well as in the periodical *Financial Director*, radio stations Avtoradio, Energiya, and Novosti Online, as well as the Segodnya Press company. Prof-Media is also a shareholder in the *Expert* journal, Prime-TASS news agency, and Prof-Media Print printing house. It also owns a 35% interest in the Publishing House Independent Media.

Open Investments

Interros established Open Investments in 2002 for the purpose of investing in the Moscow real estate market. Open Investments currently focuses on investing in the construction of luxury housing, office buildings, trade and leisure centres and hotels.

Related Parties Relevant to the Offering

KM Invest

KM Invest is a closed joint stock investment company established in 1996 by a number of companies. Currently, KM Invest is owned by the two principal shareholders of the Interros Group. It primarily engages in investment activities and business consulting. However, KM Invest has licences authorising it to engage in securities management services and broker and dealer services as well. KM Invest was ranked Russia's largest investment company as measured by total profit for the nine months ended 30 September 2003 according to an April 2004 survey conducted by RosBusinessConsulting (a leading Russian business information agency). KM Invest also owns 100% of the shares of UCS, although it plans to transfer 20% of such shares to a minority shareholder of STB Card in connection with UCS' merger of STB Card's operations with its own. See "Description of ROSBANK's and UCS's Merchant Voucher Business-ABG Card Technology and STB Card".

In connection with the Offering, KM Invest has entered into the UCS Parent Undertaking, dated 1 November 2004, in favour of the Trustee for the benefit of the Secured Creditors as to certain activities of itself and UCS, or the Servicer. The UCS Parent Undertaking is stated to be governed by, and construed in accordance with English law. In connection with the UCS Parent

Undertaking, KM Invest has pledged 100% of its equity interests in UCS in favour of the Trustee for the benefit of the Secured Creditors pursuant to a pledge agreement dated 1 November 2004, which agreement is referred to in this Offering Circular as the UCS Parent Pledge. The UCS Parent Pledge is stated to be governed by, and construed in accordance with, the laws of Russia. For a description of the terms of the UCS Parent Pledge, see “Terms and Conditions of the Class 2004 Notes” and “Summary of the Transaction Documents”.

Related Party Transactions

ROSBANK enters into transactions with related parties in the normal course of business. Management believes that the majority of the related party transactions to which it is a party have been entered into on an arms’ length basis. See “Risk Factors—Some transactions between ROSBANK and its interested parties or affiliated companies require the approval of disinterested directors or disinterested shareholders”.

The table below sets forth certain financial information relating specifically to related party transactions as at and for the years ended 31 December 2001, 2002 and 2003 and as at and for the six months ended 30 June 2004. Related parties are defined in accordance with annual IFRS as set forth in Note 24 to ROSBANK’s IFRS Financial Statements.

| | As at and for the year ended 31 December | | | As at and for the nine months ended 30 September |
|---|---|---------|---------|--|
| | 2001 | 2002 | 2003 | 2004 |
| | <i>(Rbl millions)</i> | | | |
| Loans and advances to related parties | 1,275.0 | 2,972.9 | 5,034.3 | 8,776.0 |
| Deposits from related parties | 5,762.9 | 1,149.1 | 5,781.8 | 4,294.0 |
| Guarantees issued | 122.3 | 186.2 | 396.8 | — |
| Commitments to issue loans..... | 387.4 | 604.8 | 7.8 | — |
| Interest income | 25.9 | 99.5 | 423.4 | 557.4 |
| Interest expense | (301.5) | (11.2) | (290.8) | (46.7) |
| Commission income..... | 27.2 | 16.1 | 34.3 | 3.3 |
| Operating expenses | (88.3) | (101.8) | (102.6) | (64.6) |

MANAGEMENT OF ROSBANK

Management Bodies

According to ROSBANK's charter, the General Shareholders' Meeting, the Board of Directors, the Management Board and the Chairman of the Management Board are responsible for the management of ROSBANK. While the Board of Directors is responsible for defining ROSBANK's strategy and setting its priorities, the day-to-day management is entrusted to the Management Board and its Chairman.

All members of ROSBANK's management are domiciled in Moscow and have Russian citizenship. The business address of the Directors of ROSBANK is 11 Masha Poryvaeva Street, Moscow 107078, Russian Federation. As at the date of this Offering Circular, no member of ROSBANK's Board of Directors and Management Board owned any shares in ROSBANK.

Board of Directors

Except with respect to matters reserved to the exclusive competence of the General Meeting of Shareholders, the Board of Directors is responsible for managing ROSBANK's operations. Specific responsibilities exclusive to the Board of Directors include:

- setting priorities for ROSBANK;
- convening the annual shareholders' meeting and any extraordinary shareholders' meetings (except for situations reserved to the authority of the Audit Committee, ROSBANK's independent auditor and shareholders) and approving the agenda for such meetings;
- appointing the Chairman and members of the Management Board;
- determining the remuneration payable to members of the Audit Committee and to ROSBANK's independent auditors;
- approving internal operating procedures for ROSBANK's management bodies (except for those which must be approved by ROSBANK's annual general shareholders' meeting); and
- approving of transactions the value of which is between 5% and 50% of the value of ROSBANK's balanced assets.

Members of the Board of Directors are generally elected for terms of approximately one-year by the shareholders at the annual general shareholders' meeting by a cumulative voting procedure. Members of the Board of Directors may also be elected by the shareholders at an extraordinary shareholders' meeting until the next scheduled annual general shareholders' meeting or the next extraordinary shareholders' meeting for the purpose of electing Members of the Board of Directors, at which such members of the Board of Directors may be either re-elected or dismissed. Persons elected to the Board of Directors may be re-elected an unlimited number of times. As at the date of this Offering Circular, the Board of Directors of ROSBANK had nine members. The table below sets out the name and position of each member of the Board of Directors:

| Name | Position | Director since |
|----------------------------|--|-----------------------|
| Andrei Klishas | Chairman, Member of the Board of Directors | 15 September 1998 |
| Andrei Bugrov | Member of the Board of Directors | 24 June 2002 |
| Vyacheslav Fedorov..... | Member of the Board of Directors | 19 June 2003 |
| Ekaterina Salnikova..... | Member of the Board of Directors | 27 April 2004 |
| Evgueni Ivanov | Member of the Board of Directors | 22 November 2000 |
| Natalia Konstantinova..... | Member of the Board of Directors | 19 February 2004 |
| Alexander Popov..... | Member of the Board of Directors, Chairman of the Management Board | 19 June 2003 |
| Victor Rashnikov..... | Member of the Board of Directors | 20 June 2002 |
| Georgi Zabolotsky | Member of the Board of Directors | 19 February 2004 |

The current members of the Board of Directors were elected or re-elected (as applicable) at an annual meeting of shareholders held on 27 April 2004. The term of the current members of the Board of Directors expires at the annual general meeting scheduled to take place in April 2005. The name, age, qualifications and certain other information for each member of the Board of Directors are set out below:

Andrei Klishas (31) is Chairman of the Management Board and General Director of Interros Holding Company. Mr. Klishas serves as a member of the Board of Directors of RAO Norilsk Nickel. He also serves as a member of the Board of Directors of Norilsk Nickel Mining and Metallurgical Company and on the Board of Directors of Power Machines and Agros. Mr. Klishas also serves as a member of the Supervisory Board of Finkom-Investments and Management. Previously, Mr Klishas served as Legal Matters Director of Interros Holding Company, as a member of the Board of Directors of Sidanko, as General Director at ZAO Interros-Estate, as Deputy Head of Legal Department at Uneximbank, and as a member of the Board of Directors at ROSBANK.

Andrei Bugrov (51) previously served as Chairman of the Board of Directors. Mr. Bugrov is also Deputy Chairman of the Management Board of Interros Holding Company and a member of the Board of Directors of Norilsk Nickel Mining and Metallurgical Company. Mr. Bugrov also serves as the Chairman of the Supervisory Board of Finkom-Investments and Management and a member of the Board of Directors of OAO Open Investments. Previously, Mr. Bugrov was Russia's Principal Resident Representative to the World Bank, the International Finance Corporation and the Multilateral Investment Guarantee Agency. He also served as the Dean of the Board of Directors of the World Bank. Previously, he also served as a senior staff member of the European Bank for Reconstruction and Development in London. Mr. Bugrov also served as a member of the Board of Directors of Power Machines.

Vyacheslav Fedorov (37) is currently Chairman of the Board of Directors of Lipetskkombank, a member of the Board of Directors of Novolipetsky Metallurgical Steelworks, and a member of the Board of Directors and Management Board of Bank Zenit. Mr. Fedorov also serves as a manager in the Management Department of OOO Rumelko. Previously, Mr. Fedorov served as a member of the Board of Directors and General Director and later Finance Director of Lipetskkombank. Mr. Fedorov also served as an acting General Director of Bank Central OVK, as Deputy Chairman of the Management Board of Astana-Holding Bank and Astana International Bank. Mr. Fedorov also served as Head of Analytics Department of Russian Credit Bank.

Ekaterina Salnikova (46) is an adviser to the General Director of Interros Holding Company. Ms. Salnikova serves as Corporate Management Director of Interros Holding Company and as a member of its Management Board. Ms. Salnikova also serves as General Director of OAO Universalinvest and as a member of the Board of Directors of Power Machines and OAO Open Investments. Previously, Ms. Salnikova served as an advisor to the Deputy Chairman of the Management Board of Uneximbank.

Evgueni Ivanov (37) is Deputy Chairman of the Board of Directors of ROSBANK Switzerland. Mr. Ivanov also serves as a President of Polyus Goldmining Company. Previously, Mr. Ivanov served as President and as a member of the Board of Directors of ROSBANK, following which he served as Chairman of the Management Board and as President. Mr. Ivanov also served as Deputy Chairman of the Management Board and Head of Precious Metals Department of Uneximbank.

Natalia Konstantinova (45) is currently the Chief Accountant of the Moscow branch office of ZAO Surgutneftegazbank. Previously, Ms. Konstantinova served as Chief Accountant of the Lyatorsk branch office of ZAO Surgutneftegazbank.

Alexander Popov (34) serves as a member of the Board of Directors of Norimet Ltd. and ROSBANK Switzerland and as a member of the Supervisory Board of Finkom-Investments and Management. Previously, Mr. Popov served as a member of the Management Board and Director of the Treasury of Uneximbank, Head of the Treasury Department of ROSBANK, Deputy Chairman of the Management Board of ROSBANK and Deputy General Director and Chief Treasurer of Norilsk Nickel Mining and Metallurgical Company.

Victor Rashnikov (55) serves as Chairman of the Management Board of the Medical and Sanitation Administration of the City of Magnitogorsk and OAO MMK and General Director of Magnitogorsk Metallurgical Company. Mr. Rashnikov previously served as Chairman of the Board of Directors of MMK Steel Trade AG and a member of the Board of Directors of Magma. He also served as a Chairman of the Board of Directors of Russian Metallurgical Company, as a member of the Board of Directors of Credit Ural Bank and as a member of the Board of Directors of A-Capital.

Georgi Zabolotsky (40) serves as First Vice-President of ROSBANK. He also serves as a General Director and as a member of the Supervisory Board of Finkom-Investments and Management. Mr. Zabolotsky is also a member of the Board of Directors of each of Commercial Bank Sibirskoe OVK, Bank First OVK, Bank Central OVK, Bank Middle Volga OVK, Bank Far East OVK and Bank Upper Volga OVK. Previously, Mr. Zabolotsky served as Deputy Chairman of the Management Board of Uneximbank and as Deputy Chairman of the Management Board of ROSBANK.

Management Board

The Management Board is responsible for the day-to-day running of ROSBANK. ROSBANK's operations are managed by the Chairman of the Management Board as a singular executive body and by the Management Board as a whole as the Bank's joint executive body. The Chairman of the Management Board and the Management Board report to the General Meeting of Shareholders and to the Board of Directors. The Management Board consists of the Chairman, deputy chairmen and other members of the Management Board.

The list below reflects the composition of the Management Board of ROSBANK and each member's key responsibilities as at the date of this Offering Circular:

| Name | Key Responsibilities |
|-------------------------|---|
| Alexander Popov | Chairman |
| Vladimir Golubkov | First Deputy Chairman – Operations |
| Elena Krasavtseva | First Deputy Chairman – Corporate business |
| Igor Antonov..... | Deputy Chairman – Regional development and Client relations |
| Oksana Lifar | Deputy Chairman – Private banking |
| Mikhail Kiselev | Deputy Chairman – Risk, liquidity and finance management |
| Larissa Dolotova | Deputy Chairman – Corporate lending |
| Sergei Koshelenko | Deputy Chairman – Treasury and trust |
| Mikhail Alekseev | Deputy Chairman – Custody and information technology |
| Guerman Aliev | Deputy Chairman – Investment banking |
| Maksim Frolov..... | Deputy Chairman – Corporate client relations |

The name, age, qualifications and certain other information for each member of the Management Board who is not a member of the Board of Directors are set out below:

Vladimir Golubkov (37) has served as First Deputy Chairman of the Management Board since 4 March 2003. Mr. Golubkov is also President and Chairman of the Board of Directors of UCS and Chairman of the Board of Directors of Interbank Credit Union. Mr. Golubkov is Deputy Chairman of the Management Board of Finkom-Investments and Management. Mr. Golubkov also serves as Chairman of the Board of Directors of United Settlement System. Mr. Golubkov previously served as the Deputy Chairman of the Management Board of ROSBANK responsible for the credit card business and Senior Vice-President of ROSBANK.

Elena Krasavtseva (51) has been First Deputy Chairman of the Management Board responsible for corporate business since 19 May 2003. Ms. Krasavtseva previously served as Director of the Client Department and Vice-President of Vneshtorgbank.

Igor Antonov (39) has been Deputy Chairman of the Management Board responsible for regional development and client relations since 14 January 1999. Mr. Antonov also serves as a member of the Board of Directors of each of Commercial Bank Sibirskoe OVK, Bank First OVK, Bank Central OVK, Bank Middle Volga OVK, Bank Far East OVK and Bank Upper Volga OVK. Mr. Antonov also serves as a member of the Management Board of Finkom-Investments and Management. Previously, Mr. Antonov served as Deputy Chairman of the Management Board of Uneximbank.

Oksana Lifar (34) has been Deputy Chairman of the Management Board responsible for private banking since 12 September 2000. Previously, Ms. Lifar served as Deputy Head of the Client Relations Department and later Head of the Client Relations Department of Uneximbank.

Mikhail Kiselev (39) has been Deputy Chairman of the Management Board responsible for risk, liquidity and finance management since 26 June 2002. Mr. Kiselev also serves as a director of MFK Investments (Cyprus) Limited. Previously, Mr. Kiselev served as Deputy Chairman of the Management Board of Uneximbank and as Director of the Unified Economy Department of ROSBANK.

Larissa Dolotova (35) has been Deputy Chairman of the Management Board responsible for corporate lending since 18 January 2002. Ms. Dolotova is also a member of the Board of Directors of OAO Tverskaya 16. Previously, Ms. Dolotova served as Head of Credit Department of Uneximbank, as director of the Credit Department of ROSBANK and as Senior Vice-President of ROSBANK.

Sergei Koshelenko (35) has been Deputy Chairman of the Management Board responsible for treasury (trading and sales) financial institutions and asset management since 28 March 2003. Previously, Mr. Koshelenko served as a Vice President of Bank Credit Suisse (Moscow) A.O. responsible for various sectors including treasury transactions and as a Director of the Corporate Clients Coverage and the Treasury Group for EMEA countries of Bank Credit Suisse First Boston. Mr. Koshelenko also served as Treasury Advisor of Vneshtorgbank and Deputy Head of the Investment Programmes Department in Vneshtorgbank.

Mikhail Alekseev (40) has been Deputy Chairman of the Management Board responsible for custody and information technology since 18 April 2001. Mr. Alekseev is also a member of the Exchange Board of the Moscow Stock Exchange and a member of the Budget Committee of the Exchange Board of Moscow Interbank Currency Exchange. Mr. Alekseev also currently serves as Chairman of the Board of Directors of National Registration Company and as Chairman of the Supervisory Board of National Settlement Company. Mr. Alekseev also serves as a member of the Management Board of Finkom-Investments and Management and a member of the Board of Directors of United Settlement System. Previously, Mr. Alekseev served as Deputy Chairman of the Management Board of Uneximbank. Mr. Alekseev also served as Vice-President and later Senior Vice-President of ROSBANK. Mr. Alekseev also served as a member of the Supervisory Board of MICEX Settlement Chamber.

Guerman Aliev (34) has been Deputy Chairman of the Management Board responsible for investment banking since 28 April 2003. Previously, Mr. Aliev was a Director at Dresdner Kleinwort Wasserstein (London), where he was responsible for Western European Markets. Prior to that, Mr. Aliev served as Director of the Derivative Products Department and later as Director of the Equity Capital Markets Department at Merrill Lynch International, London, responsible for Russia, South Africa, Israel and Eastern Europe. Mr Aliev previously also served as a Manager of the Fixed Income Sales Department of Renaissance-Capital (Moscow) and also worked at Gulf Oil (Canada).

Maksim Frolov (37) has been Deputy Chairman of the Management Board responsible for corporate client relations since 11 November 2003. Previously, Mr. Frolov served as Senior Vice-President of ROSBANK. He also served as a manager and later Deputy Managing Director of Moscow branch of Menatep St.-Petersburg Bank, following which he served as Managing Director of the Moscow branch of Menatep St.-Petersburg Bank and member of the Management Board and Vice-President at Menatep St.-Petersburg Bank.

Major Committees

The Management Board has established three sub-committees, the Credit Committee, the Committee on Liquidity, Risks and Pricing, and the Banking and Technology Committee, each of which performs specific internal control functions with respect to the activities of ROSBANK. For a description of the functions of each of these committees, see “Description of ROSBANK – Risk Management”.

Supervisory Body

In addition to the above managerial committees, ROSBANK’s main supervisory body that assists managerial control is the Internal Control Department (“ICD”). The main responsibilities of the ICD include identifying and monitoring banking risks, conducting routine and unannounced internal audit checks, making recommendations on deficiencies discovered and monitoring “money laundering” controls. The ICD’s activities are governed by ROSBANK’s internal regulations and technical manuals which are approved by the Board of Directors. The ICD reports directly to the Board of Directors on a regular basis.

Management Remuneration and Loans

In accordance with Russian law and ROSBANK’s charter, the remuneration of the Directors is approved by the General Shareholders’ Meeting and the remuneration of the members of the Management Board is approved by the Board of Directors. For the year ended 31 December 2003, the total remuneration (including emoluments) of the members of the Management Board amounted to Rbl 3.2 million.

As at 31 December 2003, the total amount of outstanding loans to members of the Management Board, Board of Directors and other insiders comprised 1% of ROSBANK's statutory capital and did not exceed the official limits set by the CBR (3%). There are no other outstanding loans, guarantees (or other contingent liabilities) granted by ROSBANK to any member of the Management Board or Board of Directors.

THE BANKING SECTOR AND BANKING REGULATION IN THE RUSSIAN FEDERATION

The Russian Banking Sector

The Russian banking sector consists of the CBR, credit organisations (banks and non-bank credit organisations) and representative offices of foreign banks. Non-bank credit organisations provide only limited banking services, such as maintaining accounts and making payments, while banks provide a wide range of banking services. As of 31 July 2004, 1,574 banks and other non-bank credit organisations were registered in the Russian Federation; however, the banking licences of 252 of those had been revoked by the CBR. A majority (683 as of 1 May 2004) of operating Russian credit organisations are located in Moscow and the Moscow region.

According to the CBR, as of 1 March 2004, the total assets of the Russian banking sector were valued at Rbl 5.9 trillion and the five largest banks accounted for 42.4% of all banking sector assets (under RAR) in the Russian Federation. *Expert* magazine identifies Sberbank, Vneshtorgbank, Gazprombank, Alfa-Bank and IIB as the five largest banks (under RAR) by assets as of 1 January 2004, with Sberbank having the largest assets (Rbl 1.5 trillion compared with Rbl 5.6 trillion of total assets of the Russian banking sector as of 1 January 2004).

The main business areas of Russian banks are deposit taking and maintaining accounts, providing settlement services for legal entities, lending and investing in securities.

According to the CBR (based on RAR financial statements of credit organisations), as of 1 March 2004, funds in current accounts, budget accounts and deposits of legal entities, liabilities under corporate debt securities and other liabilities to clients (excluding retail deposits, other accounts of individuals, funds in correspondent accounts and interbank loans and deposits) comprised 36.6% (Rbl 2 trillion) of the total liabilities of Russian credit organisations, while retail deposits accounted for 30.4% (Rbl 1.64 trillion). Loans to customers and other investments (other than in securities) comprised 50% (Rbl 2.9 trillion) of all assets of credit organisations, including 41.3% (Rbl 2.4 trillion) in loans to companies and other legal entities in the non-financial sector and 38% (Rbl 2.2 billion) in loans to and deposits with banks.

According to the CBR, loans extended by Russian banks to non-financial sector companies rose from 14.7% of gross domestic product (“GDP”) as of 1 January 2003 to 17% as of 1 January 2004. The share of loans to non-financial sector companies in the overall assets of the Russian banking sector rose from 38.4 % as of 1 January 2003 to 40.5 % as of 1 January 2004.

Loans extended by Russian banks to legal entities are often overcollateralised. According to the CBR (based on RAR financial statements of credit organisations), as of 1 March 2004, overdue loans were valued at Rbl 53.3 billion, accounting for 1.7% of all banking assets in Russia.

As of 1 March 2004, investments in securities by credit organisations (based on RAR accounts of credit organisations) represented 14.3% (Rbl 831 billion), including 1% (Rbl 56.512 billion) in debt securities of the Russian Federation, of all bank assets in the Russian Federation.

According to the CBR, as of 1 March 2004, 1,094 operating credit organisations were profitable, while 233 were not (data for 3 operating credit organisations was not available).

Regulation of the Russian Banking Sector

The main law regulating the Russian banking sector is the Banking Law. Among other things, it defines credit organisations, sets out the list of banking operations and other transactions that may be performed by credit organisations and establishes the framework for the registration and licensing of credit organisations and the regulation of banking activity by the CBR.

The Banking Law names the following services as “banking operations” that require receipt of an appropriate licence from the CBR: taking deposits from individuals and legal entities (both demand and fixed-term deposits); investing the deposited funds as a principal; opening and maintaining bank accounts for individuals and legal entities; performing settlements in accordance with the instructions of individuals and legal entities, including correspondent banks, from/to their bank accounts; cash, checks, promissory notes, payment documents handling services and over-the-counter services provided to individuals and legal 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 individuals without opening bank accounts (excluding payments by post).

The Banking Law provides that a credit organisation may be authorised to take deposits from individuals only after it has been registered for two years. According to the CBR, as of 1 September 2003, 136 operating credit organisations registered by the CBR had not been authorised to provide banking services to individuals.

In addition to banking operations, credit organisations are expressly permitted by the Banking Law to enter into 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 trust management (which differs from an English law trust concept) of monetary funds and other property for individuals and legal entities; to engage in operations with precious stones and metals (in accordance with the Federal Law “On Precious Stones and Precious Metals” and subordinate legislation); to rent out special premises and safe deposit boxes to individuals and legal entities for safe keeping of documents and valuables; to finance leasing operations; and to provide IT and consultancy services.

Under the Banking Law a credit organisation cannot engage in production, commodities trading (excluding precious metals) or insurance activities.

Pursuant to the Federal law “On Currency Regulation and Currency Control” of 10 December 2003 (the “New Currency Control Law”), Russian banks authorised to conduct transactions in foreign currencies act as “currency control agents”. Currency control agents must supervise all operations of their clients in foreign currency and operations of non-Russian clients in Russian roubles and to report these operations to the CBR. The majority of the provisions of the New Currency Control Law came into force on 18 June 2004 and replaced the Law of the Russian Federation “On Currency Regulation and Currency Control” of 1992.

Securities dealers, brokers and custody services (other than when acting as a paying agent) are not covered by the banking licence and a credit organisation must obtain specific licences from the Federal Service for the Financial Market (the “FSFM”) to perform such services. The operations of Russian banks in the securities markets are subject to the securities laws and regulations.

In August 2001 the Federal Law “On Combating the Legalisation (Laundering) of Income Obtained by Criminal Means” (the “Money Laundering Law”) was adopted to comply with the requirements of the Financial Action Task Force on Money Laundering (FATF). The Money Laundering Law came into effect on 1 February 2002. Credit organisations are required to comply with the provisions of the Money Laundering Law relating to, amongst other things, customer identification, reporting of suspicious activities and having appropriate standards and procedures in place.

Credit organisations are subject to specific insolvency procedures, which are set out in the Federal Law “On Insolvency of Credit Organisations” (the “Bank Insolvency Law”). Among other things, the Bank Insolvency Law provides that in the event of winding-up of a credit organisation its retail depositors are paid first.

Role of the CBR

The CBR is in many respects the successor to the former State Bank of the USSR, Gosbank. Until 2002, the CBR had been operating under the general terms of reference of the law “On the Central Bank of the Russian Federation (the Bank of Russia)” of 2 December 1990 as edited on 26 April 1995 with further amendment. In 2002 this law was superseded by the new law “On the Central Bank of the Russian Federation (Bank of Russia)” of 10 July 2002 (the “Central Bank Law”). According to the Central Bank Law, the State is not liable for the CBR’s obligations, nor is the CBR liable for the State’s obligations unless the relevant liability has been undertaken or is required under other Russian laws. The CBR’s property is under federal ownership.

The CBR is legally and financially independent of the Russian Government. The CBR governing bodies are the Board of Directors and the National Banking Council, a collective management body carrying out certain governing functions, which were solely vested in the Board of Directors prior to

adoption of the Central Bank Law (including, among other things, making decisions on maximum capital expenditures of the CBR, distribution of profits gained by the CBR, appointment of the CBR auditor, approval of the CBR's accounting rules and requirements). The structure of the CBR comprises the Moscow Head office, a number of regional branches in constitutive subjects of the Russian Federation (in some of the Russian republics the CBR regional branches are called National Banks) and local branches. The Chairman of the CBR Board of Directors is appointed for a fixed term of four years by the State Duma (the lower chamber of the Russian Parliament) only on the recommendation of the President, can be replaced under the same procedure, and has the right to participate in meetings of the Russian Government (Cabinet). The Ministers (or Deputy Ministers, as the case may be) of Finance and of Economic Development and Trade have the right to participate in meetings of the CBR Board of Directors with consultative voting rights. The members of the National Banking Council are appointed by the Council of Federation (the upper chamber of the Russian Parliament), the State Duma, the President and the Government of the Russian Federation. The Chairman of the CBR is a member of the National Banking Council *ex officio*.

Under the Central Bank Law and the laws "On Banks and Banking" (the "Banking Law") and the New Currency Control Law the CBR is authorised to adopt implementing regulations on various banking and currency control issues. The CBR has actively used this authorisation in recent years, creating a detailed and extensive body of regulations.

Under current legislation the CBR has the following major functions:

| Function | Summary |
|---|--|
| Issue of money and regulation of circulation | The CBR is the sole issuer of Russian rouble banknotes and 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. |
| Financing/Monetary policy | Refinancing of banks by way of granting credits; fixing reserve requirements for the banks; setting capital adequacy and other mandatory economic ratio requirements for banks. The CBR is prohibited from extending credits to the Government for the purposes of budget deficit financing |
| Transactions and deals with banks | Rendering decisions on the state registration of banks; registering securities issued by banks; extending credit to banks; maintaining correspondent accounts of banks in roubles; providing banks with guarantees; purchase and sale of Russian state securities, CBR bonds, certificates of deposit, precious metals and natural gems and holding them in depositary accounts; purchase and sale of foreign currencies and payment documents in foreign currencies issued by Russian and foreign banks. Unless otherwise directly provided in federal laws, the CBR is not permitted to participate in the charter capital of banks. |
| Federal budget implementation and external debt service | Extending credits to the Ministry of Finance; acting as a placement agent with respect to government securities issued by the Ministry of Finance; budget accounts administration. |
| Exchange control | Regulation of dealing and settlements in roubles; regulation of foreign currency operations; administration of the gold and currency reserves; establishment of regimes for rouble and foreign |

| Function | Summary |
|-------------------------|--|
| Licensing | currency accounts of residents and non-residents in Russia. Issuance, suspension and revocation of banking licences to banks. |
| Control and supervision | Bank supervision (compliance with mandatory economic ratios and reserves requirements, sanctions for violations, overseeing banking operations); defining format requirements for accounting and statistical reports; fixing reporting schedules; appointment of temporary administration to banks; control over acquisition (and/or a trust management) of significant (more than 5%) stakes in banks; assessment of financial standing of banks' founders (shareholders/participants). |

Regulation

Banking activities in Russia are broadly governed by the Banking Law and the New Currency Control Law. The CBR supervises banks in various aspects (as outlined below). Generally, other institutions have only indirect influence over banks. The FSFM issues licences to banking institutions acting as professional participants of the Russian securities market. The Federal Antimonopoly Service controls mergers and acquisitions of stakes in excess of 20% of total voting shares in credit organisations. Tax authorities supervise tax assessments of banks. Other governmental authorities are largely inactive in relation to banks.

The Association of Russian Banks, comprising, as at 29 April 2004, 507 member credit organisations, was established pursuant to the provisions of the Banking Law as a non-commercial self-regulatory organisation. It offers various technical support to its members and lobbies the interests of banks in all branches of power.

Set out below are some of the principal features of the regulatory regime governing banks in Russia:

Licensing

A licence must be obtained from the CBR for any “banking activity” as defined in the Banking Law. Applicants must be incorporated within the Russian Federation, submit an application for state registration with an attached feasibility report and detailed information on the suitability of the management together with certain other information. Under the CBR regulations a bank can be created in the form of a joint-stock company, a limited liability company or a company with additional liability. The latter form is not used in banking practice. A licence may be denied if the legal documents are not in order, if the financial or banking records of the founders are unsatisfactory or if the proposed candidates for executive positions and for the position of chief accountant do not meet qualification requirements.

Mandatory Economic Ratios

The CBR is authorised to introduce various capital adequacy and liquidity requirements applicable to banks and, as the case may be, to banking groups. Such requirements currently exist in the form of the relevant mandatory economic ratios described in Instruction No. 110-I of the CBR of 16 January 2004 “On the Banks’ Mandatory Economic Ratios”. Set out below is the system of the mandatory economic ratios which banks are required to observe on a daily basis.

| Mandatory Economic Ratios | Description of Mandatory Economic Ratios | CBR Maximum/Minimum Mandatory Economic Ratio Requirements |
|---|--|--|
| Capital adequacy ratio (N1) | This ratio is intended to limit the risk of a bank's insolvency and sets requirements for the minimum size of the bank's capital base necessary to cover credit and market risks. It is formulated as a ratio of the size of the bank's capital base to the amount of its risk-weighted assets. | Minimum 11% (where a bank's capital base is below EUR5 million) and min 10% (where a bank's capital base is equal or more than EUR5 million) |
| Instant liquidity ratio (N2) | This ratio is intended to limit the risk of loss by a bank with respect to its liquidity within one operational day. It is formulated as the minimum ratio of a bank's highly-liquid assets to the amount of the bank's liabilities payable on demand. | Minimum 15% (min 17% for the banks participating in the system of mandatory insurance of private deposits) |
| Current liquidity ratio (N3) | This ratio is intended to limit the risk of loss by a bank with respect to its liquidity within 30 calendar days preceding the date of the calculation of this ratio. It is formulated as the minimum ratio of the bank's liquid assets to the amount of the bank's liabilities with terms of up to 30 calendar days. | Minimum 50% (min 55% for the banks participating in the system of mandatory insurance of private deposits) |
| Long-term liquidity ratio (N4) | This ratio is intended to limit the risk of loss by a bank with respect to its liquidity as a result of the placement of funds into long-term assets. It is formulated as the maximum permitted ratio of the bank's credit claims maturing in more than one year, to the bank's capital base and liabilities maturing in more than one year. | Maximum 120% |
| General liquidity ratio (N5) ¹ | This ratio is intended to limit the general risk of loss by a bank of its liquidity. It is formulated as the minimum ratio of liquid assets to the bank's total assets. | Minimum 20% |

¹ In its Letter No. 44-T dated 26 March 2003, the CBR recommended its territorial offices to use N5 for the purposes of the analysis of the liquidity management quality in a bank, but not to apply sanctions to banks for the breach of this ratio (unless the results of such analysis evidence deficiencies in the liquidity or its management).

| Mandatory Economic Ratios | Description of Mandatory Economic Ratios | CBR Maximum/Minimum Mandatory Economic Ratio Requirements |
|---|--|--|
| Maximum exposure to 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. It is formulated as the maximum ratio of the aggregate amount of the bank's claims to a borrower or a group of related borrowers to the bank's capital base. | Maximum 25% |
| Maximum amount of major credit risks (N7) | This ratio is intended to limit the aggregate amount of a bank's major credit risks. It is formulated as the maximum ratio of the aggregate amount of major credit risks to the size of the bank's capital base. | Maximum 800% |
| Maximum amount of loans, bank guarantees and sureties extended by the bank to its participants (shareholders) (N9.1) | This ratio is intended to limit a bank's credit exposure to the bank's shareholders. It is formulated as the maximum ratio of the amount of loans, bank guarantees and sureties extended by the bank to its shareholders, to the bank's capital base. | Maximum 50% |
| Aggregate amount of exposure to the bank's insiders (N10.1) | This ratio is intended to limit the aggregate credit exposure of a bank to its insiders (i.e., individuals capable of influencing the bank's credit decisions). It is formulated as the maximum ratio of the aggregate amount of the bank's credit claims to its insiders, to the bank's capital base. | Maximum 3% |
| Ratio for the use of the bank's capital base to acquire shares (participation interest) in other legal entities (N12) | This ratio is intended to limit the aggregate risk of a bank's investments into shares (participation interests) in other legal entities. It is formulated as the maximum ratio of the bank's investments into shares (participation interest) of other legal entities, to the bank's capital base. | Maximum 25% |

In addition, on 31 March 2004 the CBR passed Regulation No. 112-I that outlines obligatory ratios for credit organisations that issue bonds secured by mortgage coverage. The new regulation provides that the capital adequacy (N1) ratio for such banks should be at least 14% and establishes new methodologies for calculation of the general liquidity ratio (N5). In addition, the new regulation details methods of calculation of new ratios that were introduced by the Federal Law "On Mortgage-Backed Securities", such as the minimum ratio of 15% for loans secured by mortgage

coverage to a bank's capital base (N17), the minimum ratio of 100% for claims relating to principal and interest of loans secured by mortgage coverage to the principal plus interest of issued mortgage-backed bonds (N18) and the maximum ratio of 50% for a bank's aggregate obligations to the 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 when the decision is taken to issue mortgage-backed bonds until the complete redemption of such bonds.

The capital base of a bank is defined in CBR regulations as the aggregate amount of its fixed capital (including, *inter alia*, its charter and paid-in capital and certain reserve funds and approved profits) and additional capital (including, *inter alia*, revaluation surpluses, subordinated loans and preferred shares) decreased by certain mandatory reserves and some other amounts.

Charter Capital Requirements

The CBR sets minimum equity (charter capital) requirements for banks. Under Directive of the CBR No. 1346-U of 1 December 2003, the minimum capital requirement is set at euro 5 million for each newly founded bank. Those banks whose charter capital exceeds their capital base are required to adjust their capital base (or, if impossible, their charter capital) accordingly. A new procedure for reduction of banks' charter capital to adjust the amount of their capital base is established by Directive of the CBR No. 1260-U of 24 May 2003.

Reporting Requirements

Banks must regularly submit balance sheets, together with financial statements showing the actual financial position of the bank. Banks must also inform the CBR about providing large loans (exceeding 5% of a bank's capital). Banking groups (i.e., alliances of banks in which one bank directly or indirectly controls decisions of the governing bodies of other banks within this alliance) and consolidated groups (i.e., alliances of legal entities in which one bank, directly or indirectly, controls decisions of the governing bodies of the other legal entities and non-lending organisations within such alliances) must regularly submit consolidated accounts to the CBR. The CBR may at any time carry out full or selective checks of a bank's submissions, and may inspect all books and records of the bank. In addition, annual audits must be carried out by a licenced auditing company.

Mandatory Reserve Deposit Requirements

To cover loan losses and currency, interest and financial risks, banks are required to comply with the CBR requirements for the formation of a mandatory reserves deposit. Particular reserve requirements are set by the Board of Directors of the CBR from time to time. Banks are currently required to form a mandatory reserves deposit to be held on non-interest bearing accounts with the CBR (9% in respect of funds in roubles attracted from legal entities and funds in foreign currency attracted from legal entities and individuals, and 7% in respect of funds attracted from individuals in the form of rouble deposits).

Prior to July 2004, mandatory reserves of banks to be deposited with the CBR were required to be calculated under the CBR Order No. 02-77 of 30 March 1996 (the "Old Reserves Regulation"). Beginning in July 2004, the mandatory reserves to be deposited with the CBR are calculated by banks in accordance with the CBR Regulation No. 255-P of 29 March 2004 (the "New Reserves Regulation"), which changes the methods of reserves calculation, but not the amounts set by the Board of Directors of the CBR. Both regimes require prompt reporting by banks to the CBR and its regional units after the end of each calendar month with calculation of reserves and prompt posting of additional reserves, if necessary. The CBR and its regional units have a right to conduct unscheduled audits of credit organisation to check their compliance with the reserves rules. The New Reserves Regulation no longer requires creation of reserves for certain long-term borrowings, however, it requires posting of reserves for obligations to non-resident banks. In addition, credit organisations with good reserves and credit history will be offered a new mechanism that would allow posting of reserves in accordance with certain calculated averages.

Provisioning

The CBR put in place certain rules concerning creation of loan impairment provisions for loans extended by banks.

Beginning 1 August 2004, Russian credit organisations are required to calculate and establish their loan impairment provisions in accordance with Regulation No. 254-P of 26 March 2004. This new Regulation has introduced a number of new rules which purport to bring the loan impairment provisioning in compliance with the BIS requirements. In particular, it requires credit organisations to rank their loans into five categories instead of four existing ones; the range of loans that must be provided for has been extended to include assigned rights under the contracts, financial leasing operations, mortgages acquired in the secondary markets, rights under repo contracts (if the securities transferred under such repo transaction are unlisted) and some other operations. It has been established that loans classified as Category I loans (standard loans) need not be provided for. Additionally, credit organisations will be required to classify their loan security into two groups on the basis of its quality etc.

The CBR also established rules concerning creation of provisions for loans, other than loan impairment, which may include losses from investments in securities, funds held in correspondent accounts of other banks, contingent liabilities, forward and other transactions. The CBR Instruction No. 232-P of 9 July 2003 requires banks to rank such assets and operations into five risk groups reflecting the following situations (i) no real or potential threat of losses; (ii) moderate potential threat of losses; (iii) serious potential or moderate real threat of losses; (iv) simultaneous potential and moderate real threat of losses or material real threat of losses; and (v) value of particular type of asset or operation is going to be lost completely. Banks are then required to provide for each type of asset or operation in the amounts corresponding to the amounts of possible losses but within the following framework established by the CBR for each risk group indicated above, respectively: (i) 0%; (ii) 1% to 20%; (iii) 21% to 50%; (iv) 51% to 100%; and (v) 100%. Banks must report to the CBR on the amounts of created non-loan impairment provisions monthly within ten days following the reporting month. The CBR and its regional units are responsible for monitoring the compliance of banks with these rules.

Mandatory provisions are also created for operations with residents of off-shore areas in the amount of up to the higher of (a) 100% held on the bank's balance sheet accounts, and (b) average daily turnover with residents of off-shore zones during the last month.

Regulation of Currency Exposure

In its 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. 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 operation day the total amount of all long or short currency positions shall not exceed 20% of the bank's capital base. At the same time, at the end of each operation day the long or short position with respect to one particular currency or precious metal shall not exceed 10% of the bank's capital base.

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

Accounting Practices

The CBR has established a standard format for the presentation of a bank's accounts and instructions on how transactions are recorded within the accounts. It requires the preparation of financial statements and other accountancy in accordance with the Directive of the CBR No. 1375-U

“On the Rules for the Preparation and Submission of Reports to the CBR by Credit Organisations” dated 16 January 2004. Despite certain differences, such accountant statements represent a close approximation to IFRS.

Starting from 1 January 2004, all credit organisations are required to prepare their accounting reports in accordance with IFRS. Credit organisations will continue the preparation of their financials under RAR until 1 January 2006, when only IFRS financials will need to be prepared.

History of the Russian Banking Sector and Banking Statistics

Under the Soviet regime, Gosbank allocated resources from the Government’s budget according to the prevailing economic plan, and was in effect the only bank in existence. In 1987, with relaxation of controls over companies and interbank settlements, a small group of dependent, specialised banks developed to conduct business relating to savings, foreign trade, construction, industry, agriculture and small enterprises.

In 1988 and 1989, the second phase of reform saw regional commercial banks (primarily in the form of cooperatives or joint-stock companies) begin to emerge rapidly, with initial capital between Rbl 500,000 and Rbl 300 million. By the start of 1992, 1,500 licences had been granted to banks.

In 1991, three of the specialised state dependent banks were transformed into joint-stock companies. Some regional branches became independent from head offices through management buyouts.

The CBR assumed all the functions of Gosbank in November 1991 and Gosbank was liquidated in December of that year.

Between 1991 and 1998 the Russian Banking system experience rapid growth. The number of commercial banks in Russia increased from about 358 in 1990 to 2,538 in 1996.

On 17 August 1998, the Russian financial market suffered a serious crisis, causing major concern over the liquidity and solvency of the market as a whole. Many banks went into bankruptcy or fell under the administration of the Agency for Restructuring of Credit Organisations (“ARCO”). Due to the further stabilisation of the Russian banking sector, the importance of ARCO as the administrator of credit organisations undergoing financial restructuring has decreased. On 18 October 2003, the last of such credit organisations was withdrawn from ARCO’s administration.

Since the 1998 financial crisis the number of banks operating in Russia has fallen to 1,329 as of 1 January 2004.

The 1998 financial crisis revealed the lack of proper controls in the banking sector, and strengthened concerns of the public over the integrity of the banking system, with misleading advertising, laundering, corruption, and criminal contacts all being concerns.

Currently, the banking sector mostly offers services related to short-term and mid-term financing, because of the historical instability of the Russian lending market and the difficulty borrowers face in providing adequate collateral.

The presence of foreign owned banks in the Russian market is relatively limited as their activities have been restricted out of a fear that they may overwhelm the nascent Russian banks. Foreign owned banks face additional requirements in connection with obtaining a licence, for example, there must be a degree of reciprocity in the home country of the foreign bank. The aggregate participation of foreign capital in the Russian banking system is determined by federal law proposed by the Government in conjunction with the CBR. No such law is currently in force.

Banking and Other Relevant Reforms

Following the 1998 financial crisis, Russian banks undertook important steps towards developing more transparent business practices and more diversified portfolios of assets. In recent years, confidence in local banks has gradually improved, as evidenced by substantial growth in volume of private deposits in Russian banks between 2001 and 2003.

At the end of 2001, the Government of the Russian Federation and the CBR issued a joint declaration setting out the strategy for banking reform in Russia and calling 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 envisages (i) an increase in capital adequacy requirements, (ii) the development of a more efficient system of mandatory economic ratios, (iii) the introduction of amendments to the Civil Code preventing the early withdrawal of funds held on deposit accounts opened for a certain term, (iv) the acceptance of IFRS by all Russian banks starting from 1 January 2004 and (v) the gradual implementation of a mandatory system of securing private depositors' funds held by all Russian banks.

The targets of the Russian banking reform are also set out in the programme for the social and economic development of the Russian Federation for the years 2003 to 2005 adopted by the Russian Government in August 2003. According to this programme, the banking reform remains one of the priority tasks for the period until 2005. The programme contemplates, among other things, simplification of procedures for banks' reorganisation and introduction of regulation of syndicated lending, affiliated parties' financing, credit bureaus, and pledge of monies held in a bank account. A new strategy for the development of the Russian banking sector for the period from 2004 to 2008 has been prepared and is currently being considered by the Russian Government.

The system of the insurance of private deposits was introduced late in 2003. According to the new law "On the Insurance of Individuals' Deposits held in the Russian Federation", banks holding a CBR licence for attracting deposits from individuals and opening and administering individuals' accounts are required to qualify for such activities. Subject to a bank's compliance with certain regulatory requirements, it enters the system of the insurance of individuals' deposits and thus qualifies for the attraction of deposits and opening accounts for individuals. If a bank fails to comply with the applicable requirements or chooses not to participate in the insurance system, it will be precluded from the attraction of deposits and opening accounts for individuals.

Banks accepting private deposits and opening accounts for individuals are required to make quarterly payments to a newly established insurance fund in the amount of up to 0.3% of the average account balances calculated under the new law.

In addition to the Federal Law "On Mortgage-Backed Securities" of November 2003, a number of new legislative proposals were passed by the State Duma into laws in late 2004, which, among others, include amendments to the Civil Code, Tax Code, Federal Laws "On Mortgage" and "On Mortgage-Backed Securities", and a new law "On Credit Bureaus". By means of these laws, Russian legislators have intended to make mortgage lending attractive to banks and affordable to individuals by simplifying the applicable procedures and making them more transparent and less costly. Another purpose of this new legislation is to provide improved regulation of mortgage-backed securities in order to make them more attractive for investors.

On 10 December 2003, President Putin signed the Federal Law "On Currency Regulation and Currency Control" (the "New Currency Control Law") which replaced the former Federal Law "On Currency Regulation and Currency Control" of 1992. The New Currency Control Law came into force on 18 June 2004. The New Currency Control Law is generally aimed at the gradual liberalisation of Russian currency control regulations, but at the same time it introduces some new forms of currency control (such as the placement of mandatory deposits with the CBR and the use of special accounts).

With respect to certain operations, the mandatory reserve (i.e., rouble cash deposit) requirement may be imposed from time to time on residents or non-residents in the amount of either up to 100% of the amount of the operation for a period of up to 60 days or up to 20% for a period of up to one year (excluding export/import operations for which special rules are established). In addition, the CBR has the power to require residents and non-residents to carry out certain operations through special accounts which may also be accompanied by the above mandatory reserve requirements. In particular, settlements between residents and non-residents in relation to foreign currency and rouble loans, settlements in relation to securities, non-banking operations of banks and conversion operations may be restricted in various combinations by such special account and mandatory reserve requirements (however, conversion restrictions may not be imposed on authorised banks).

Pursuant to the New Currency Control Law, the new restrictive measures should be applied by the CBR and/or the Russian Government with reference to the current economic situation in order to

prevent a substantial reduction in the gold and foreign exchange reserves, to neutralise the currency rate swings and secure a stable balance of payments of the Russian Federation. This implies that these restrictions should not be applied unless the Russian economy is subject to adverse trends. At the same time, the criteria for the introduction of these restrictive measures are vague enough to allow the CBR and the Russian Government to apply those at their discretion and on a long-term basis and unexpectedly vary the regime depending on their view of market conditions.

Furthermore, under the New Currency Control Law, the CBR retains a right to introduce special rules relating to application of currency control restrictions set out in the New Currency Control Law to banking operations of credit organisations.

As part of implementing legislation contemplated by the New Currency Control Law, the CBR passed Directive No. 1425-U of 28 April 2004 which came into force on 18 June 2004. Directive No. 1425-U confirms that no currency control limitations will apply to bank operations between authorised banks and sets forth a list of non-banking transactions between authorised banks that are exempt from currency control restrictions. Directive No. 1425-U specifically provides that all other non-banking transactions of authorised banks will fall under general currency control regime applicable to resident legal entities.

CERTAIN LEGAL ASPECTS OF THE TRANSACTION

General

The following is a general discussion of certain issues under the laws of New York, the United States and Russia relating to the offering of the Class 2004 Notes and is based upon the advice of Freshfields Bruckhaus Deringer, New York, English and Russian counsel for ROSBANK and UCS, and White & Case LLP, New York, English and Russian counsel for the Managers. This discussion is based upon the laws of the State of New York, the United States and Russia in effect on the date of this Offering Circular, all of which are subject to change, and does not constitute and should not be considered, legal advice to the Trustee or the Noteholders.

Governing Law

The Class 2004 Notes, the Loan Agreement, the Trust Deed, the Bank Account Assignment, the Agency Agreement, the Servicing Agreement and the UCS Parent Undertaking are governed by, and will be construed in accordance with, the laws of England. The Rosbank Security Agreement, the Issuer Security Agreement, the Accounts Control Agreement and the Obligor Notices and Consents are governed by, and will be construed in accordance with, the laws of the State of New York. The UCS Parent Pledge will be governed by, and construed in accordance with, the laws of Russia.

Jurisdiction

The Loan Agreement, the Trust Deed, the Agency Agreement, the Bank Account Assignment, the Servicing Agreement, and the UCS Parent Undertaking provide for disputes, controversies and proceedings arising in connection therewith to be settled by the courts of England. The Issuer, ROSBANK, UCS, and the UCS Parent have submitted to the jurisdiction of such courts. The Rosbank Security Agreement, the Issuer Security Agreement, the Accounts Control Agreement and the Obligor Notices and Consents provide for disputes, controversies and proceedings arising in connection therewith to be settled by the courts of the State of New York in the Borough of Manhattan and the federal courts sitting in the State of New York, and the Issuer and ROSBANK have submitted to the jurisdiction of such courts.

In addition, all such disputes brought by any party to the transactions described herein against ROSBANK, UCS, or the UCS Parent may be referred to and finally resolved by arbitration in London pursuant to the Rules of the LCIA (the London Court of International Arbitration). The UCS Parent Pledge provides for disputes brought by the Trustee against KM Invest to be settled by arbitration in accordance with the Rules of the LCIA.

Service of process on the Issuer, UCS, ROSBANK, and the UCS Parent may be delivered to Law Debenture Corporate Services Limited at 5th Floor, 100 Wood Street, London EC2V 7EX. In addition, process may be served in any other manner permitted by law.

Judgments against ROSBANK, UCS, and the UCS Parent rendered by a court in any jurisdiction outside the Russian Federation and arbitral awards obtained in an arbitral tribunal outside the Russian Federation may be subject to limitations regarding their recognition and enforcement in the Russian Federation as described under “Enforceability of Judgments”.

The Rosbank Security Agreement, the Issuer Security Agreement, the Accounts Control Agreement, the Bank Account Assignment, the Trust Deed, and the UCS Parent Pledge are referred to as the “Security Documents”.

Perfection

Pursuant to the Rosbank Security Agreement, ROSBANK has granted a security interest in the Receivables, its interest in the USD Collateral Account, and its interest in the 2004 Debt Service Reserve Account in favor of the Issuer, which in turn has assigned its rights in the same property to the Trustee for the benefit of the Secured Creditors pursuant to the Issuer Security Agreement. Both the Issuer and the Trustee have taken the necessary steps under the applicable Uniform Commercial Code to perfect their respective security interests by filing financing statements (in the case of the Receivables) in the appropriate filing office and by entering into the Accounts Control Agreement (in the case of the USD Collateral Account and the 2004 Debt Service Reserve Account).

ROSBANK has represented that there are no prior security interests in the relevant property, with the result that the foregoing security interests should be first priority security interests (assuming the accuracy of such representation), subject only to customary legal exceptions, and subject to the allocations of funds set forth in the Priority of Payments. In addition, with respect to the Euro Collateral Account and the HSBC Account, both the Issuer and (to the extent required) ROSBANK have granted security in such accounts in favor of the Trustee.

The Issuer, pursuant to the Trust Deed (together with the Issuer Security Agreement referred to above), has granted security in favor of the Trustee for the benefit of the Secured Creditors over substantially all of its assets, including all rights under the Loan Agreement including the right to obtain payments from ROSBANK under the Loan Agreement.

Pursuant to U.S. bankruptcy law, the security interest granted by ROSBANK in the Receivables would not extend to Receivables arising after a bankruptcy of ROSBANK. This rule could be applied to ROSBANK in the event that either ROSBANK commences a bankruptcy proceeding in U.S. courts, or ROSBANK commences a proceeding in U.S. courts that is “ancillary” to a Russian bankruptcy. Given the scope of ROSBANK’s operations and the strong desire of Russian courts and regulators for Russian law to govern the bankruptcy of a Russian bank, it is unlikely that ROSBANK could or would commence a bankruptcy proceeding in the U.S. In addition, if ROSBANK were to engage in the banking business in the U.S., it would become ineligible as a matter of U.S. law to commence a bankruptcy proceeding in U.S. courts. In the case of a Russian bankruptcy proceeding, ROSBANK could commence an ancillary proceeding in the U.S. to determine the rights of ROSBANK and other creditors (such as the Issuer and the Trustee) in property such as the Receivables and the Collections located in the U.S.

Russian Law

Given that the Security Documents (other than the UCS Parent Pledge) are governed by non-Russian law (a) the courts of the Russian Federation should recognise and give effect to the choice of the relevant non-Russian law; (b) the issue of creation of security interest in the Receivables should be determined in accordance with the relevant non-Russian law; (c) as a matter of Russian conflict of laws rules, the permissibility of the creation of security interest in the Receivables, the relationship between the Issuer and Receivables Obligors, the circumstances in which claims may be presented by the Issuer to the Receivables Obligors and the question of due performance by the Receivables Obligors should be determined in accordance with laws governing the agreements between ROSBANK and the Receivables Obligors pursuant to which the Receivables arise, which for the time being are the laws of the State of California, in the case of VISA International, and New York, in the case of MasterCard International; (d) there are no regulatory consents, approvals, authorisations or orders required in the Russian Federation of ROSBANK in connection with ROSBANK entering into the Security Documents or the performance of its obligations thereunder; and (e) there are no registration, statutory filing, notarisation or similar formalities required in the Russian Federation in connection with ROSBANK entering into the Security Documents that may affect its validity or enforceability in Russia. The opinion of Russian counsel with respect to the foregoing will be subject to certain qualifications and assumptions.

Choice of Law

Under Article 1210 of the Russian Civil Code (the “Civil Code”), Russian persons are permitted to choose foreign law as the governing law of their agreements with foreign persons.

It should be noted that recognition (application) of foreign law in Russia may be limited on the following grounds:

- (a) Article 1191 of the Civil Code provides for the procedure of establishing the meaning and content of foreign law by the Russian courts under which the meaning and content of foreign law must be established in accordance with the official interpretation, application practices and legal doctrine in the relevant foreign state. To ascertain the meaning of a provision of foreign law, a Russian court may seek clarification from the Russian Ministry of Justice or other Russian and foreign agencies and organisations and/or engage experts. Alternatively, the court is authorised to impose the onus of proof in relation to the

meaning of such provision on the parties to a commercial dispute. If, notwithstanding these procedures, it proves impossible to establish the meaning and content of relevant foreign law within a reasonable timeframe, the Russian court may apply Russian law.

- (b) Article 1192 of the Civil Code provides that “mandatory provisions” of Russian legislation apply regardless of the choice of law if (i) the relevant provision states so expressly or (ii) such provision is of “special significance”. It is not clear which mandatory rules may be treated as being of “special significance” and, therefore, in the absence of any official guidance Russian courts have wide discretion in interpreting this concept.
- (c) Article 1193 of the Civil Code provides that application of foreign law in Russia may be limited on public policy grounds, in particular where the consequences of such application would be contrary to “legal order (public order)” of the Russian Federation. The meaning of the term “legal order (public order)” is not clearly defined in the Russian legislation or by Russian court practice. The Civil Code establishes, however, that “a provision of a foreign governing law” may be disapplied only in “exceptional circumstances” where the consequences of its application would be in “obvious contradiction” with fundamental principles of the Russian legal order. The Civil Code further provides that application of foreign law cannot be refused solely on the basis of differences between Russia’s “legal, political or economic system” and that of the relevant foreign state.
- (d) Article 1210 (5) of the Civil Code also provides that where the facts indicate that, as at the time of the choice of law by the parties, the agreement was “in reality connected with only one country”, the choice of law of another country cannot prejudice the effect of mandatory provisions of the law of the country with which such agreement is actually connected.

Russian Insolvency Law

Bankruptcy of any Russian entity is governed by the Law “On Insolvency (Bankruptcy)” of 26 October 2002 (the “Bankruptcy Law”). In addition to the Bankruptcy Law, the bankruptcy of banks, such as ROSBANK, is regulated by the Law “On Insolvency (Bankruptcy) of Credit Organisations” of 25 February 1999, as amended (the “Bank Insolvency Law”).

Foreign creditors participate in the distribution of the assets of the bankrupt entity in the same way as Russian creditors. Foreign currency claims against corporate entities are converted into Russian roubles at the Central Bank exchange rate in effect on the date of the commencement of the relevant bankruptcy procedure introduced following the date when the relevant claim fell due. Foreign currency claims against banks are recorded in Russian roubles at the Central Bank exchange rate in effect on the date of the revocation of their banking licence.

Bankruptcy of Companies

Bankruptcy proceedings may be initiated against a Russian company, such as UCS, by filing an application with a Russian court requesting that such company is declared bankrupt, provided there are “signs” of its insolvency that are described in the Bankruptcy Law (in particular, the overall amount of the outstanding obligations of the company is not less than Rbl 100,000 (approximately US\$3,450) and the company has failed to perform such obligations within three months after their due date).

There are five bankruptcy procedures applicable to Russian companies generally: “financial rehabilitation”, “supervision”, “external management”, “competition management” and “amicable settlement agreement”.

“Supervision” is a bankruptcy procedure aimed at preserving the debtor’s property, analysing the financial condition of the debtor, drawing up a register of creditors’ claims and holding the first meeting of creditors to decide on the relevant bankruptcy procedure to be introduced next. Once bankruptcy proceedings have been initiated and supervision has been introduced, creditors whose monetary claims fell due before the commencement of supervision must file their claims only in the course of bankruptcy proceedings and subject to bankruptcy rules, while most executions instituted against the debtor by its creditors will be suspended.

“Financial rehabilitation” is a bankruptcy procedure aimed at restoring the debtor’s solvency and repayment of debt to creditors in accordance with an agreed debt repayment schedule. The repayment of debt claims at this stage is usually backed by security provided by shareholders or third parties.

“External management” is a bankruptcy procedure applied to restore the debtor’s solvency under external management by an arbitration manager following the dismissal of the company’s CEO. This procedure also entails the introduction of the moratorium on performance of payment obligations that fell due prior to the introduction of external management.

“Competition management” is a bankruptcy procedure that is introduced for the purpose of meeting creditors’ claims on a proportionate basis after a debtor has been declared bankrupt.

“Amicable settlement agreement” is a bankruptcy procedure that may be introduced at any stage of bankruptcy proceedings for the purpose of terminating such proceedings by means of an agreement between the debtor and its creditors approved by the court.

Bankruptcy of Banks

Unlike other companies, Russian banks including ROSBANK are subject only to the “competition management” procedure.

Bankruptcy proceedings against a Russian bank may be initiated only after the revocation by the Central Bank of its banking licence. Following the revocation of the bank’s licence, *inter alia*, all obligations of the bank are deemed to have fallen due and the bank is prohibited from entering into transactions and performing its obligations until the liquidator or the competition manager is appointed.

Bankruptcy proceedings may be initiated against a Russian bank provided that its business has “signs” of insolvency described in the Bank Insolvency Law (the overall amount of the outstanding obligations is not less than 1,000 times the statutory minimum wage amount (currently Rbl 100,000 or approximately US\$3,450) and the bank has failed to perform such obligations within 14 days after their due date, or after the revocation of the bank’s licence its total assets do not cover all of its outstanding obligations).

Prior to the institution of bankruptcy proceedings, the Central Bank, on its own initiative or upon the application of the authorised body of the bank, has the right to take action aimed at preventing the bank’s bankruptcy. Such action may include (a) financial rehabilitation of the bank (i.e., financial support, changing the structure of assets and liabilities or organisational structure of the bank, etc.), (b) appointment of a temporary administration to the bank or (c) reorganisation.

Temporary Administration of Banks

The Bank Insolvency Law provides for a special pre-bankruptcy procedure called “temporary administration” which is aimed at financial rehabilitation of a bank. Technically, temporary administration precedes, and does not necessarily result in, the commencement of bankruptcy proceedings. Temporary administration may be imposed by the Central Bank in certain negative financial circumstances listed in Article 17 of the Bank Insolvency Law. The grounds for the appointment of a temporary administration include, among other things, breach of certain financial and regulatory capital ratios and the bank’s failure to perform its payment obligations to some of its creditors for a period greater than seven days due to insufficiency of funds in its correspondent accounts.

Introduction of a temporary administration may entail a limitation or suspension of the powers of the executive bodies of the bank. The temporary administration can manage the bank and is further entitled to request that the Central Bank impose a 3-month moratorium on all payments of the bank to counterparties and creditors. The temporary administration may also refuse performance of agreements or challenge transactions under Articles 27 and 28 of the Bank Insolvency Law. See “Invalidity of Transactions – Russian law”.

The announcement of the appointment of a temporary administration is required to be published by the Central Bank within ten days following such appointment.

Liquidation and Revocation of the Banking Licence

Mandatory Liquidation

The procedure for the revocation of banking licences and liquidation of banks is regulated by the Law “On banks and banking activities”, as restated on 3 February 1996, with subsequent amendments (the “Banking Law”). Article 20 of the Banking Law lists a number of grounds on which the Central Bank can or must revoke the banking licence of a Russian bank. Among other things, these grounds include: (i) material inaccuracy of reporting statements; (ii) a delay of more than 15 days in the submission of monthly financial statements; (iii) effecting transactions that are not covered by its banking licence; (iv) persistent failure to comply with federal laws governing banking activities and Central Bank regulations and persistent breach of reporting, client identification and various internal control requirements of anti-money laundering legislation; (v) certain breaches of capital adequacy and regulatory capital ratios and; (vi) inability to discharge creditors’ claims within one month of their due date where such claims exceed 1000 minimum wages (currently Rbl 100,000 or approximately US\$3,450).

Upon revocation of the licence, the bank must be liquidated either under mandatory solvent liquidation procedures set out in the Banking Law or under bankruptcy procedures set out in the Bank Insolvency Law.

Article 20 of the Banking Law also establishes the consequences of the revocation of the banking licence, including that the Central Bank must impose the “temporary administration” on the relevant bank, that all obligations of the bank are deemed to have fallen due, that enforcement of execution documents issued on the basis of court judgments, with certain exceptions, is suspended and that entering into transactions and performance by the bank of its obligations is prohibited until the liquidator or the competition manager is appointed.

The Central Bank must make a public announcement of the revocation of the banking licence within a week of resolving to revoke such banking licence.

Voluntary Liquidation

In case of voluntary liquidation of the bank, the shareholders (founders), upon adoption of the relevant decision, must apply to the Central Bank for cancellation of the banking licence and, upon its cancellation, the liquidation should be carried out in accordance with the general rules on liquidation of companies and certain Central Bank regulations. In particular, shareholders will appoint the liquidation commission to oversee the liquidation process.

Restriction of Banking Operations

In accordance with Article 74 of the Law of 10 July 2002 “On the Central Bank of the Russian Federation (the Bank of Russia)”, as amended, if a bank breaches federal laws, the rules regulating banking activities or individual instructions of the Central Bank, the Central Bank may, among other things, restrict or prohibit specific types of operations and transactions of the bank.

Invalidity of Transactions

Russian law

Russian law provides for two main sets of grounds for invalidation of transactions that may potentially be relevant to the Transaction Documents to which any of ROSBANK, UCS or UCS Parent are parties and the offering of the Class 2004 Notes: (i) general civil law grounds outlined in the Civil Code; and (ii) certain specific grounds that are set out in the Bankruptcy Law and the Bank Insolvency Law.

The Civil Code

Paragraph 2 of Chapter 9 of the Civil Code contains general civil law grounds for invalidity of transactions. In particular, the following transactions may be invalidated: those contradicting the law; transactions whose goals obviously conflict with fundamental principles of legal order and morality; fictitious transactions; certain *ultra vires* transactions; transactions made without due authorisation or authority, etc. Also, in accordance with Article 170(2) of the Civil Code, a sham transaction, i.e., a transaction which is entered into in order to conceal another transaction, is deemed to be void, and

the court should instead apply the rules applicable to “the transaction which the parties actually had in mind, considering the essence of the transaction”. The concept of a sham transaction is fairly widely used by Russian courts to recharacterise transactions where the economic goals of a transaction do not coincide with its legal form.

Bankruptcy legislation

The Bank Insolvency Law (Articles 28 and 50.34) and the Bankruptcy Law (Article 103) establish further grounds (in addition to those provided by the general law) on which transactions entered into by a distressed bank before the appointment of a temporary administration (or introduction of competition management) may be invalidated in the course of temporary administration or competition management proceedings. A transaction of a bank which is subject to temporary administration or bankruptcy proceedings may be invalidated if:

- (a) it is entered into by a debtor with an “interested party” (within the meaning of the Bankruptcy Law), provided that such transaction has resulted or may result in losses to the creditors or the bank;
- (b) it is entered into or performed by the debtor within six months preceding the initiation of the bankruptcy proceedings and results in satisfaction of claims of particular creditors in preference to the claims of other creditors;
- (c) it is entered into within a three year period preceding the appointment of a temporary administration or the declaration of bankruptcy, provided that the price and other terms of such transaction are materially worse for the bank compared to similar transactions made in similar circumstances; or
- (d) it involves repayment of a participatory share in the bank’s assets to its founder (participant) and is entered into within six months prior to the filing of an application for declaring the bank bankrupt, provided the performance of such transaction violates creditors’ rights and lawful interests.

The grounds for invalidation of transactions set out in (a), (b) and (d) above also apply to Russian corporate entities pursuant to Article 103 of the Bankruptcy Law.

Applicability of Russian law

As noted above, the courts of the Russian Federation should, as a general rule, apply the relevant non-Russian law chosen by the parties to the Security Documents. Therefore (for example) the validity of the Rosbank Security Agreement should be a matter of the laws of the State of New York.

However, in the absence of definitive judicial or other official guidance on this matter, there is some risk that Russian courts may regard the provisions of Russian law on invalidity of transactions as “mandatory provisions of special significance” or otherwise have regard to them due to the limitations on the application of foreign law. See “Security over Receivables – Russian Law – Choice of Law”. However, in such a case the challenger would still have to enforce its claims outside Russia where the Receivables, Collections, and Collateral Accounts are held. In doing so, the courts of England and New York (for example) may themselves choose not to be bound by the result under Russian Laws in this issue.

If the courts of the Russian Federation were to apply Russian law to the Rosbank Security Agreement, there is some risk that the Rosbank Security Agreement may be successfully challenged in Russia. In particular, the courts of the Russian Federation have on a number of occasions declared assignments of, or security in, “future rights” similar in nature to the Receivables invalid and have also treated certain Russian law-governed assignments of rights (where the parties were found to have structured other types of transactions as assignments) as sham transactions. However, Russian counsel to ROSBANK and UCS and Russian counsel to the Managers are not aware of any cases where a foreign law-governed assignment (such as that contained in the Rosbank Security Agreement) was successfully challenged in Russia and invalidated by the courts of the Russian Federation.

Priority of claims

Under Russian bankruptcy law, claims of unsecured creditors against Russian banks such as ROSBANK are generally subordinated to the claims of individual clients arising out of deposit and bank account agreements, certain claims of creditors arising after the initiation of the bankruptcy proceedings and certain other ongoing payments, workplace injury and moral damages obligations, severance pay, employment-related obligations and royalties. There is also some risk that claims of unsecured creditors may be further subordinated to claims under certain tax and mandatory payment obligations to the government. Furthermore, unsecured claims are also effectively subordinated to claims secured by a Russian law pledge. Under the Bankruptcy Law, claims of creditors secured by a Russian law pledge are settled with the money received from the sale of pledged assets. Claims of creditors secured by a Russian law pledge will be subordinated to the following obligations: (i) injury obligations and moral damages obligations and (ii) severance pay, employment-related obligations and royalties, if such obligations arose prior to the creation of the pledge. Claims of creditors secured by a Russian law pledge remaining unsatisfied upon the sale of pledged assets would be ranked as claims of unsecured creditors after the obligations mentioned above, irrespective of the moment of creation thereof.

Other

A Russian court may not treat as final, binding or conclusive a determination, designation or calculation made by one party as to the amount of indebtedness, notwithstanding that the relevant document provides that it should be conclusive. Any statement which purports to be *prima facie* evidence of indebtedness for a Russian court may be re-examined.

UCS Parent Pledge

Under the UCS Parent Pledge, the UCS Parent has pledged its entire holding (100%) of shares in the Servicer in favour of the Trustee to secure its undertakings under the UCS Parent Undertaking. The pledge is enforceable against the UCS Parent in an event of any breach by it of the UCS Parent Undertaking, subject to an Event of Default having been declared under the Loan Agreement and ROSBANK not having satisfied the claims of the Issuer made under default remedies provided for under the Loan Agreement.

Collateral Trustee as the Pledgeholder

Under the Civil Code, only creditors may take and hold security for the purposes of securing their own claims. Russian law does not envisage granting a pledge to a third party acting for the benefit of a creditor. However, under Russian law a pledge agreement may be concluded by a creditor's representative or agent acting on behalf of the creditor.

The Trustee, which is named as a Pledgeholder under the Parent Pledge, acts in its capacity as the Trustee for the benefit of the Noteholders pursuant to the Trust Deed. Russian legal doctrine generally does not recognise the concept of trust, and the outcome of analysis of the Trustee's legal status and its relationship with the Noteholders is uncertain. However, there is a possibility that if the Trustee is deemed to act under the Parent Pledge for its own benefit, the Parent Pledge may be found to be invalid as a matter of Russian law.

On the contrary, if the Trustee is viewed by the Russian court as a representative or agent acting on behalf of the Noteholders, the Parent Pledge may be deemed concluded on behalf of the Noteholders. It is unclear under Russian law whether a single unranked pledge may secure obligations to several creditors. A Russian court may find it either difficult or impossible to apply Russian law provisions for the enforcement of a pledge to a pledge securing such obligations to several creditors, which might cause it to hold such pledge invalid.

Pledge of Future Property or Rights

The Civil Code specifically permits the pledge of property or property rights to be acquired in the future provided they are sufficiently specifically described. However, in light of several judicial decisions it is not certain that the Parent Pledge will be effective to create a pledge of property or rights (including any additional shares issued by UCS) acquired by the Pledgor in the future which cannot be described in sufficient detail to identify how the specific property or rights which will

become subject to the pledge. In addition, we note that Russian law prohibits a holder of securities from entering into any transactions with such securities before such securities are paid in full and a report on the results of their issuance is registered.

Priority of Parent Pledge

Under the Insolvency Law, creditors' claims secured by a pledge are satisfied from the proceeds of the public sale of the pledged property. The creditors whose claims are secured by a pledge enjoy priority in relation to unsecured creditors, but not against the creditors claiming for compensation for personal injury or death, employee salaries, or severance and similar payments, provided such claims arose before the execution of the relevant pledge agreements. If the proceeds of the sale of pledged property are insufficient to fully satisfy the relevant creditor's claim secured by a pledge, the remaining secured claims shall be satisfied together with the claims of other creditors.

Invalidity of Parent Pledge

If the obligations of the UCS Parent under the Parent Undertaking which is secured by the pledge created under the Parent Pledge are held invalid, the Parent Pledge would be rendered ineffective.

Enforcement of UCS Pledge

Russian law contains rules and envisages procedures that may potentially hinder the enforcement of the UCS Parent Pledge. For example:

- (a) the cooperation of the Pledgor is necessary for the sale or realisation of pledged property or rights without resorting to a court, which, in practice, is unlikely to be a practical remedy in a dispute;
- (b) the sale of the pledged property or rights may be deferred for up to one year at the court's discretion upon the request of a pledgor. Although we note that under the Civil Code such deferral shall be stated in the resolution on levying the execution on the pledged property, and the literal interpretation of this provision allows the conclusion that such deferral is not applicable in extra-judicial enforcement, there is a theoretical risk of a wider interpretation of this rule by courts;
- (c) enforcement of the UCS Parent Pledge may be limited by a Russian court if the contractual breach or other event giving rise to such rights is insignificant, and the amount demanded by the pledgeholder is clearly not commensurate to the value of the Pledged Shares; and
- (d) enforcement of the UCS Parent Pledge will be subject to applicable procedural rules of a mandatory nature that would prevail over any conflicting provisions of the Transaction Documents (for example, a determination, designation or calculation made by one party under the Transaction Documents and considered to be binding on the other party may be re-examined by a Russian court).

Termination of the Parent Pledge

The pledge created under the Parent Pledge will be terminated by operation of law in the following instances:

- (a) if the record of the title over the Pledged Shares is lost, or the pledged rights are terminated and the UCS Parent has not, within a reasonable period, restored or replaced the Pledged Shares or pledged rights with shares or rights of equal value;
- (b) if the secured obligations are discharged; or
- (c) if the Pledged Shares or rights are sold at a public auction, or if the pledgeholder does not exercise its right to assume ownership of the pledged shares or rights within one month after a second public auction initiated after the failure of a first auction is also declared to have failed.

Recording of Parent Pledge

There is no effective public system in the Russian Federation for the registration of pledges generally. It is therefore generally not possible to ascertain the existence of any other pledges or other security interests or to determine the priority of the security interests created by a given pledge. Russian law requires the pledgors to note their pledges in a pledge book (*kniga zapisi zalogov*). However, Russian law specifically requires the pledge of shares to be registered with the registrar maintaining the register of the issuer's shareholders (or a custodian, as the case may be). There is also a view that a pledge of shares becomes effective only upon such registration. However, failure to effect this notation would not affect the validity of the Parent Pledge.

TAXATION

Prospective purchasers of the Further Class 2004 Notes are advised to consult their own tax advisers as to the consequences under the tax laws of the country of which they are residents of a purchase of Class 2004 Notes, including but not limited to, the consequences of the purchase and ownership of the Class 2004 Notes, receipt of interest and sale or redemption of the Further Class 2004 Notes. The following is a general description of certain tax laws relating to the Further Class 2004 Notes and the Loans as in effect on the date hereof and does not purport to be a comprehensive discussion of the tax treatment of the Further Class 2004 Notes.

The Russian Federation

General

The following is a summary of certain Russian tax considerations relevant to purchase, ownership and disposition of the Further Class 2004 Notes. The summary is based on the laws of Russia in effect on the date of this Offering Circular. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal-level authorities of Russia. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there may be practical difficulties involved in claiming double tax treaty relief. Prospective investors should consult their own advisers regarding the tax consequences of investing in the Further Class 2004 Notes. No representation with respect to the Russian tax consequences to any particular holder 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 may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectorates.

For the purposes of this summary, a “non-resident holder” means a physical person actually present in Russia for an aggregate period of less than 183 days in a given calendar year or a legal person or organisation in each case not organised under Russian law which purchases, holds and disposes of the Further Class 2004 Notes, otherwise than through its permanent establishment in Russia.

Non-Resident Holders

A non-resident holder of a Further Class 2004 Note will not be subject to any Russian taxes in respect of payments of interest and principal on the Further Class 2004 Notes received from the Issuer.

A non-resident holder which is a legal person or organisation should not be subject to withholding tax on any gain on the disposal of the Further Class 2004 Notes even if payment is received from within Russia, although there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Class 2004 Notes. Accrued interest may be distinguished from the total gain and taxed at a rate of 20%. 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 Further Class 2004 Notes.

The withholding (income) tax, if imposed, may be reduced or eliminated under the provisions of an applicable double tax treaty. In order to claim the exemption or reduction relief, a non-resident holder that is a legal person or organisation must provide an official confirmation of its residence, certified by a tax authority of the treaty country, to the Russian payer. It should be noted that obtaining a refund is theoretically possible but can be difficult in practice.

A non-resident holder who is a physical person will generally be subject to tax at the rate of 30% on the gross proceeds from the disposal of the Further Class 2004 Notes less any available cost deductions (taxable base) where the proceeds of such disposal are received from a source within Russia, subject to any available double tax treaty relief. If the Further Class 2004 Notes are treated as disposed of in Russia, the proceeds of such disposal are likely to be regarded for personal income tax purposes as income from a source within Russia. In certain circumstances, if the disposal

proceeds are payable by a Russian organisation, individual entrepreneur or a Russian permanent establishment of a foreign organisation, the payer may be required to withhold this tax. There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Further Class 2004 Notes, the currency of sale and roubles.

The withholding (income) tax may be reduced or eliminated by the provisions of an applicable double tax treaty, but it is not certain that advance treaty relief will be available in practice, and obtaining a subsequent refund can be extremely difficult, if not impossible. In order to claim the exemption or reduction relief, a non-resident holder must provide the Russian tax authorities with an official confirmation of residence from the tax authorities in a treaty country, as well as an official confirmation of taxes paid.

Resident Holders

A holder of a Further Class 2004 Note who is a physical person and tax resident or a legal person which is not a non-resident in Russia is subject to all applicable Russian taxes in respect of gains from disposal of the Further Class 2004 Notes and interest received on the Further Class 2004 Notes.

Luxembourg

The following is a summary of current Luxembourg tax law as at the date of this Offering Circular relating to certain aspects of the Luxembourg taxation of the Further Class 2004 Notes. It is not a comprehensive analysis of the tax consequences arising in respect of the Class 2004 Notes. Prospective Noteholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than Luxembourg should seek their own professional advice.

Withholding Tax

Under Luxembourg tax laws currently in effect, there is no withholding tax for residents or non-residents on payment of principal, premium or interest, nor on accrued but unpaid interest, in respect of the Further Class 2004 Notes, nor is any Luxembourg withholding tax payable upon sale, redemption or repurchase of the Further Class 2004 Notes.

Taxes on Income and Capital Gains

Noteholders will not become resident, nor will they be deemed to be resident, in Luxembourg by reason only of holding the Further Class 2004 Notes.

Noteholders who are non-residents of Luxembourg and who do not hold Further Class 2004 Notes through a permanent establishment in Luxembourg are not liable to Luxembourg income tax on (i) payments of principal, premium and interest, (ii) accrued but unpaid interest or (iii) payments received upon redemption or repurchase of any Further Class 2004 Notes, or (iv) capital gains on sale of any Further Class 2004 Notes.

Noteholders resident in Luxembourg (“Resident Holders”) (except (i) holding companies governed by the law of 31 July 1929 and (ii) undertakings for collective investments which are not subject to income tax and net wealth tax) or who have a permanent establishment in Luxembourg (a “Permanent Establishment”) with which the holding of the Further Class 2004 Notes is effectively connected must for income tax purposes include any interest received in their taxable income. Noteholders will not be liable for any Luxembourg taxation on repayment of principal.

Resident Holders who are individuals are not subject to taxation on capital gains upon the disposal of Further Class 2004 Notes unless the disposal of Further Class 2004 Notes precedes the acquisition thereof or the Further Class 2004 Notes are disposed of within six months of the date of acquisition thereof. Upon a sale, repurchase or redemption of Further Class 2004 Notes, Resident Holders who are individuals will however need to include the portion of the purchase, repurchase or redemption price corresponding to accrued but unpaid interest in their taxable income.

A corporate entity (*société de capitaux*) which is a Resident Holder or a foreign entity of the same type which has a Permanent Establishment will need to include in its taxable income the difference between the purchase, repurchase or redemption price (including accrued but unpaid interest) and the book value of the Further Class 2004 Notes sold, repurchased or redeemed.

These Noteholders will not be liable for any Luxembourg income tax on payment of principal upon redemption of Further Class 2004 Notes.

Other Taxes

No stamp, value added, issue, registration, transfer or similar taxes or duties will, under present Luxembourg law, be payable in Luxembourg by the Noteholders in connection with the issue of the Further Class 2004 Notes or in respect of the payment of interest or principal under the Further Class 2004 Notes or the transfer of Further Class 2004 Notes.

Luxembourg net wealth tax will not be levied on a Noteholder unless (i) such Noteholder is resident in Luxembourg for the purpose of the relevant legal provisions or (ii) the Further Class 2004 Notes are attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

No gift, estate or inheritance taxes are levied on the transfer of Further Class 2004 Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

Proposed European Union Directive on Taxation of Certain Interest Payments

On 3 June 2003 the Council of Economic and Finance Ministers of the European Union (the "EU") adopted a new directive regarding the taxation of savings income. The directive is scheduled to be applied by EU member states beginning 1 July 2005, provided that certain non-EU countries adopt similar measures from the same date. Under the directive, each EU member state will be required to provide to the tax authorities of another EU member state details of payments of interest or other similar income paid by a person within its jurisdiction to or for an individual resident in that other member state; however, Austria, Belgium and Luxembourg may instead apply an alternative system for a transitional period in relation to such payments of withholding tax at rates rising over time to 35 per cent. The transitional period is scheduled to run from the date on which the directive is to be applied by EU member states to the end of the first fiscal year following the later of the agreement by certain non-EU countries to the exchange of information relating to such payments.

SUBSCRIPTION AND SALE

Subject to the terms and conditions contained in a subscription agreement (the “Subscription Agreement”), dated 4 February 2005 among ROSBANK, the Issuer and the managers listed below (the “Managers”), the Issuer has agreed to sell and the Managers have agreed to purchase the principal amount of the Further Class 2004 Notes set forth opposite their names below:

| <i>Managers</i> | <i>Principal balance of Further Class 2004 Notes</i> |
|---|--|
| Credit Suisse First Boston (Europe) Limited | US\$37,500,000 |
| Merrill Lynch International..... | US\$37,500,000 |
| Total..... | US\$75,000,000 |

The Managers have advised ROSBANK and the Issuer that they propose initially to offer the Further Class 2004 Notes (or beneficial interests therein) at the respective prices listed on the cover page of this Offering Circular. After the initial offering, the price to investors may be changed. ROSBANK has agreed to reimburse the Managers for certain expenses incurred in connection with the Offering.

ROSBANK and the Issuer have agreed to indemnify the Managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Managers may be required to make in respect of those liabilities.

The Managers are offering the Further Class 2004 Notes (or beneficial interests therein), subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Further Class 2004 Notes, and other conditions contained in the Subscription Agreement, such as the receipt by the Managers of officers’ certificates and legal opinions. The Managers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

Investors in the Further Class 2004 Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price of the Further Class 2004 Notes (or beneficial interests therein) so purchased.

The Managers are not obligated to facilitate trading the Further Class 2004 Notes (or beneficial interests therein) and any such activities, if commenced, may be discontinued at any time, for any reason, without notice. If the Managers do not facilitate trading in the Further Class 2004 Notes (or beneficial interests therein) for any reason, there can be no assurance that another firm or person will do so.

United States

The Further Class 2004 Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Further Class 2004 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 Closing Date within the United States or to, or for the account or benefit of, US Persons and that it will have sent to each dealer to which it sells any Further Class 2004 Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Further Class 2004 Notes within the United States or to, or for the account or benefit of, US Persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the Further Class 2004 Notes within the United States by any dealer that is not participating in the Offering may violate the registration requirements of the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

- (a) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, will not offer or sell any Further Class 2004 Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);
- (b) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (“FSMA”) with respect to anything done by it in relation to the Further Class 2004 Notes in, from or otherwise involving the United Kingdom; and
- (c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of the Further Class 2004 Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

Russian Federation

The Further Class 2004 Notes shall not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless to the extent permitted by Russian law.

Grand Duchy of Luxembourg

No action has or will be taken that would permit a public offer of the Further Class 2004 Notes in Luxembourg. Accordingly, the Further Class 2004 Notes may not be publicly offered or sold, directly or indirectly, in the Grand Duchy of Luxembourg. The Further Class 2004 Notes are being issued to a limited number of investors, in all cases under circumstances designed to preclude a distribution which would be other than a private placement.

Republic of Italy

The Further Class 2004 Notes have not been registered in the Republic of Italy with the *Commissione Nazionale per le Società e la Borsa* (“CONSOB”) pursuant to Italian securities legislation nor has such offering been notified to the Bank of Italy pursuant to Article 129 of Legislative Decree No. 385 of 1 September 1993. Therefore, no offering, marketing, solicitation, delivering or selling activity in relation to the Further Class 2004 Notes can be carried out in the Republic of Italy in the primary and in the secondary market, nor may copies of the offering memorandum or of any other document relating to the Further Class 2004 Notes be distributed in the Republic of Italy.

The Netherlands

The Further Class 2004 Notes may only be offered, sold, delivered or transferred, as part of their initial distribution or at any time thereafter, directly or indirectly, to or for the account of persons that qualify as professional market parties within the meaning of the Exemption Regulation under the Dutch Banking Act 1992 (*Vrijstellingsregeling Wvk 1992*) that trade or invest in securities in the conduct of a profession or trade.

By purchasing a Further Class 2004 Note, each Noteholder represents and agrees that it will send to each person to which it sells a Further Class 2004 Note (including rights representing an interest in a Global Note Certificate) a confirmation or other notice setting forth these restrictions

and stating that by purchasing a Further Class 2004 Note, such purchaser represents and agrees that it will send to any other person to which it sells a Further Class 2004 Note a confirmation or notice containing substantially the same statement as contained in this sentence.

General

No action has been or will be taken by the Issuer or any Manager that would permit a public offering of the Further Class 2004 Notes or possession or distribution of this Offering Circular or any other offering material in relation to the Further Class 2004 Notes in any jurisdiction where action for the purpose is required. No offers, sales or deliveries of any Further Class 2004 Notes, or distribution of this Offering Circular or other offering material relating to the Further Class 2004 Notes, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws and regulations and will not impose any obligations on the Issuer or the Managers.

GENERAL INFORMATION

1. The Further Class 2004 Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear clearing systems. The Further Class 2004 Notes will be fungible for trading purposes with the Original Class 2004 Notes on whichever date is the later of the Payment Date falling in March 2005 and the date immediately following the end of the distribution compliance period (as defined in Regulation S) under the Securities Act applicable to the Further Class 2004 Notes. Until that time, the Global Note Certificate relating to the Further Class 2004 Notes will have a temporary Common Code of 020966165 and a temporary International Securities Identification Number of XS0209661650. Thereafter, the Global Note Certificate relating to the Further Class 2004 Notes will have the same Common Code and International Securities Identification Number as the Original Class 2004 Notes, namely 020404566 and XS0204045669, respectively. This temporary ISIN has been issued to facilitate compliance with terms of Subscription and Sale (see "Subscription and Sale"). Russia International Card Finance S.A. understands that Clearstream will not monitor compliance with the terms of Subscription and Sale or provide certification of non-US beneficial ownership.
2. In connection with the application for the Further Class 2004 Notes to be listed on the Luxembourg Stock Exchange, a copy of a legal notice relating to the issue of the Further Class 2004 Notes and the articles of incorporation of ROSBANK and of the Issuer will be deposited prior to listing with the *Registre de Commerce et des Sociétés à Luxembourg* where they may be inspected and copies obtained upon request. Copies (and English translations where the documents in question are not in English) of the following documents may be obtained upon request or inspected at, and are available at the specified offices of the Paying Agents and Transfer Agents during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted), so long as any of the Class 2004 Notes are listed on the Luxembourg Stock Exchange:
 - (i) a copy of this Offering Circular, together with any supplement to this Offering Circular;
 - (ii) the Agency Agreement;
 - (iii) the Trust Deed, which includes the form of the Global Note Certificate;
 - (iv) the consolidated financial statements of ROSBANK in respect of the financial years ended 31 December 2003, 2002 and 2001;
 - (v) the consolidated financial statements of ROSBANK in respect of the nine months ended 30 September 2004; the interim financial statements have only been prepared for the purpose of this issue and ROSBANK currently only prepares audited consolidated accounts on an annual basis and does not publish any interim accounts;
 - (vi) the most recent monthly report showing the levels of Receivables acquired by ROSBANK;
 - (vii) the most recently published audited annual financial statements of ROSBANK;
 - (viii) the most recently published audited annual financial statements of the Issuer;
 - (ix) copies (with an English translation) of the authorisations listed below; and
 - (x) the Loan Agreement.
3. The Issuer and ROSBANK have obtained all necessary consents, approvals and authorisations in the United Kingdom and the Russian Federation in connection with the issue and performance of the Class 2004 Notes. The issue of the Further Class 2004 Notes was authorised by a resolution of the Board of Directors of the Issuer passed on 3 February 2005.
4. The Transaction Documents and the other documents to be entered into by ROSBANK in relation to the issue of the Further Class 2004 Notes have been approved and authorised by resolutions of the Board of Directors of ROSBANK dated 26 January 2005.
5. Except as disclosed in this Offering Circular there has been no significant change in the financial or trading position and no material adverse change in the financial position or prospects of ROSBANK since 30 September 2004.

6. Except as disclosed in “Description of ROSBANK—Litigation”, neither ROSBANK nor any of its subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Further Class 2004 Notes nor so far as ROSBANK is aware is any such litigation or arbitration pending or threatened.
7. In the event that there is a substitution of the Issuer, a supplemental Offering Circular will be prepared, copies of which will be made available at the specified office of the Paying Agents. The supplemental Offering Circular will be subject to review by the Luxembourg Stock Exchange.
8. Deloitte & Touche have audited, and rendered unqualified audit reports on, the accounts of ROSBANK for the nine months ended 30 September 2004 and the three years ended 31 December 2003, 2002 and 2001 and have given and have not withdrawn their consent to the issue of this Offering Circular with the inclusion in it of their reports in the form and context in which they are included.
9. ROSBANK was registered with the CBR as an open joint stock company on 2 March 1993 (registration number 2272). ROSBANK was included in the United State Registry of Juridical Persons maintained by the Ministry on Taxes and Levies on 25 October 2002 (registration number 1027739460737).
10. The Trust Deed provides, *inter alia*, that the Trustee may act and/or rely on the opinion or advice of or a certificate or 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 abovementioned persons in respect thereof.

INDEX TO FINANCIAL STATEMENTS

ROSBANK

| | |
|---|------|
| Independent auditors' report of ZAO Deloitte & Touche dated 14 January 2005..... | F-3 |
| Consolidated profit and loss account for the nine months ended 30 September 2004 | F-4 |
| Consolidated balance sheet as at 30 September 2004..... | F-5 |
| Consolidated statement of changes in shareholders' equity for the nine months ended 30 September 2004 | F-6 |
| Consolidated statement of cash flows for the nine months ended 30 September 2004..... | F-7 |
| Notes to the consolidated financial statements for the nine months ended 30 September 2004 | F-8 |
| Independent auditors' report of ZAO Deloitte & Touche dated 12 March 2004..... | F-48 |
| Consolidated profit and loss accounts for the years ended 31 December 2003, 2002 and 2001 | F-49 |
| Consolidated balance sheets as at 31 December 2003, 2002 and 2001 | F-50 |
| Consolidated statements of changes in shareholders' equity for the years ended 31 December 2003, 2002 and 2001 | F-51 |
| Consolidated statements of cash flows for the years ended 31 December 2003, 2002 and 2001 | F-52 |
| Notes to the consolidated financial statements for the years ended 31 December 2003, 2002 and 2001 | F-53 |

JSB ROSBANK AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
9 Months Ended 30 September 2004

JSB ROSBANK AND SUBSIDIARIES

TABLE OF CONTENTS

| | <i>Page</i> |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT..... | F-3 |
| CONSOLIDATED FINANCIAL STATEMENTS | |
| FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2004: | |
| Consolidated profit and loss account | F-4 |
| Consolidated balance sheet..... | F-5 |
| Consolidated statement of changes in shareholders' equity | F-6 |
| Consolidated statement of cash flows..... | F-7 |
| Notes to consolidated financial statements | F-8-47 |

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Bank ROSBANK:

We have audited the accompanying consolidated balance sheet of Joint Stock Bank ROSBANK and subsidiaries (hereinafter – the “Bank”) as of 30 September 2004 and the related consolidated profit and loss account and statements of cash flows and changes in shareholders' equity for the nine months then ended. These financial statements are the responsibility of the Bank'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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 30 September 2004, and the results of its operations and its cash flows for the nine months then ended, in accordance with International Financial Reporting Standards.

14 January 2005

Moscow

JSB ROSBANK AND SUBSIDIARIES

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2004**

(in Russian Roubles and in thousands, except for earnings per share which are in Russian Roubles)

| | | <i>9 months ended 30 September 2004</i> | <i>3 months ended 30 September 2004</i> | <i>9 months ended 30 September 2003 <i>(unaudited)</i></i> | <i>3 months ended 30 September 2003 <i>(unaudited)</i></i> |
|---|-------|---|---|--|--|
| Interest income | 5, 25 | 7,071,429 | 2,172,825 | 5,070,291 | 1,677,221 |
| Interest expense | 5, 25 | <u>(4,087,579)</u> | <u>(1,254,425)</u> | <u>(3,249,504)</u> | <u>(1,170,814)</u> |
| NET INTEREST INCOME BEFORE (PROVISION)/RECOVERY OF PROVISION FOR LOAN LOSSES | | 2,983,850 | 918,400 | 1,820,787 | 506,407 |
| (Provision)/recovery of provision for loan losses | 6 | <u>(587,366)</u> | <u>104,204</u> | <u>6,017</u> | <u>(50,633)</u> |
| NET INTEREST INCOME | | <u>2,396,484</u> | <u>1,022,604</u> | <u>1,826,804</u> | <u>455,774</u> |
| Net gain on trading securities | | 69,076 | 25,913 | 352,095 | 28,667 |
| Net gain on foreign exchange operations | | 109,051 | 93,458 | 40,757 | 117,010 |
| Net gain on precious metals operations | | 56,528 | 5,992 | 10,355 | 22,596 |
| Fee and commission income | 7, 25 | 1,088,141 | 380,627 | 606,738 | 231,987 |
| Fee and commission expense | 7 | <u>(319,147)</u> | <u>(104,249)</u> | <u>(212,530)</u> | <u>(100,950)</u> |
| Fair value adjustment on securities available-for-sale | | <u>(6,682)</u> | <u>6,429</u> | <u>2,913</u> | <u>(28,355)</u> |
| Dividend income | | 5,602 | 1,629 | 1,332 | 1,069 |
| Other income/(expense) | 4 | <u>31,827</u> | <u>(6,598)</u> | <u>97,458</u> | <u>8,769</u> |
| NET NON-INTEREST INCOME | | <u>1,034,396</u> | <u>403,201</u> | <u>899,118</u> | <u>280,793</u> |
| OPERATING INCOME | | <u>3,430,880</u> | <u>1,425,805</u> | <u>2,725,922</u> | <u>736,567</u> |
| OPERATING EXPENSES | 8, 25 | <u>(2,524,762)</u> | <u>(956,765)</u> | <u>(2,209,845)</u> | <u>(662,232)</u> |
| PROFIT BEFORE OTHER PROVISIONS, INCOME TAX AND MINORITY INTEREST | | <u>906,118</u> | <u>469,040</u> | <u>516,077</u> | <u>74,335</u> |
| (Provision)/recovery of provision for impairment of investment securities | 6 | <u>(26,048)</u> | <u>(15,627)</u> | <u>17,902</u> | <u>14,326</u> |
| (Provision)/recovery of provision for losses on other transactions | 6 | <u>(34,648)</u> | <u>(30,798)</u> | <u>79,934</u> | <u>54,831</u> |
| PROFIT BEFORE INCOME TAX AND MINORITY INTEREST | | <u>845,422</u> | <u>422,615</u> | <u>613,913</u> | <u>143,492</u> |
| Income tax expense | 9 | <u>(458,098)</u> | <u>(225,472)</u> | <u>(314,958)</u> | <u>(104,416)</u> |
| PROFIT BEFORE MINORITY INTEREST | | <u>387,324</u> | <u>197,143</u> | <u>298,955</u> | <u>39,076</u> |
| Minority interest | 4 | <u>43,518</u> | <u>43,518</u> | <u>—</u> | <u>—</u> |
| NET PROFIT | | <u><u>430,842</u></u> | <u><u>240,661</u></u> | <u><u>298,955</u></u> | <u><u>39,076</u></u> |
| Earnings per share, basic and diluted | 28 | 1.27 | 0.71 | 0.88 | 0.11 |

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages F-8 to F-47 form an integral part of these financial statements.

JSB ROSBANK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF 30 SEPTEMBER 2004

(in Russian Roubles and in thousands)

| | <i>Notes</i> | <i>30 September 2004</i> | <i>31 December 2003</i> |
|--|--------------|------------------------------|-----------------------------|
| ASSETS: | | | |
| Cash and balances with Central and National banks | 10 | 9,154,450 | 18,155,721 |
| Loans and advances to banks, less allowance for loan losses | 11, 25 | 37,126,789 | 9,428,494 |
| Trading assets..... | 12, 25 | 4,151,233 | 8,265,705 |
| Loans and advances to customers, less allowance for loan losses..... | 13, 25 | 61,599,013 | 52,344,311 |
| Investment securities, less allowance for impairment | 14, 25 | 1,275,492 | 2,903,324 |
| Fixed and intangible assets, less accumulated depreciation..... | 15 | 128,700 | 129,530 |
| Other assets, less allowance for losses | 16 | 245,224 | 444,966 |
| | | <u>113,680,901</u> | <u>91,672,051</u> |
| TOTAL ASSETS | | | |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES: | | | |
| Deposits from banks..... | 17, 25 | 7,603,112 | 7,560,389 |
| Customer accounts..... | 18, 25 | 78,321,377 | 58,805,058 |
| Debt securities issued..... | 19 | 17,197,897 | 15,828,489 |
| Provisions..... | 20 | 165,085 | 347,395 |
| Income tax liabilities | 9 | 1,529 | 214,320 |
| Other liabilities..... | 21 | 414,212 | 487,665 |
| | | <u>103,703,212</u> | <u>83,243,316</u> |
| Subordinated debt..... | 25, 27 | 1,450,000 | — |
| | | <u>105,153,212</u> | <u>83,243,316</u> |
| Total liabilities | | 105,153,212 | 83,243,316 |
| Minority interest | 4 | 48,877 | 92,395 |
| SHAREHOLDERS' EQUITY: | | | |
| Share capital..... | 22 | 5,478,179 | 5,478,179 |
| Reserves | | 3,000,633 | 2,858,161 |
| | | <u>8,478,812</u> | <u>8,336,340</u> |
| Total shareholders' equity | | 8,478,812 | 8,336,340 |
| | | <u>113,680,901</u> | <u>91,672,051</u> |
| TOTAL LIABILITIES AND EQUITY | | | |

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages F-8 to F-47 form an integral part of these financial statements.

JSB ROSBANK AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2004**

(in Russian Roubles and in thousands)

| | <i>Share capital</i> | <i>Share premium</i> | <i>Translation reserve</i> | <i>Accumulated deficit</i> | <i>Total shareholders' equity</i> |
|--|--------------------------|--------------------------|--------------------------------|--------------------------------|---|
| 31 December 2002 | 5,478,179 | 3,672,190 | (213,500) | (984,582) | 7,952,287 |
| Changes in translation reserve (unaudited) | — | — | 52,748 | — | 52,748 |
| Dividends declared (Note 22) (unaudited) | — | — | — | (115,780) | (115,780) |
| Net profit (unaudited) | — | — | — | 298,955 | 298,955 |
| 30 September 2003 (unaudited) | <u>5,478,179</u> | <u>3,672,190</u> | <u>(160,752)</u> | <u>(801,407)</u> | <u>8,188,210</u> |
| 31 December 2003 | 5,478,179 | 3,672,190 | (120,636) | (693,393) | 8,336,340 |
| Changes in translation reserve | — | — | 11,295 | — | 11,295 |
| Dividends declared (Note 22)..... | — | — | — | (299,665) | (299,665) |
| Net profit | — | — | — | 430,842 | 430,842 |
| 30 September 2004 | <u><u>5,478,179</u></u> | <u><u>3,672,190</u></u> | <u><u>(109,341)</u></u> | <u><u>(562,216)</u></u> | <u><u>8,478,812</u></u> |

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages F-8 to F-47 form an integral part of these financial statements.

JSB ROSBANK AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2004

(in Russian Roubles and in thousands)

| | <i>9 months ended 30 September 2004</i> | <i>9 months ended 30 September 2003 (unaudited)</i> |
|--|---|---|
| <i>Notes</i> | | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Profit before income tax and minority interest | 845,422 | 613,913 |
| Adjustments for: | | |
| Provision/(recovery of provision) for loan losses | 587,366 | (6,017) |
| Provision/(recovery of provision) for impairment of investment securities | 26,048 | (17,902) |
| Provision/(recovery of provision) for losses on other transactions | 34,648 | (79,934) |
| Fair value adjustment on securities available-for-sale | 6,682 | (2,913) |
| Net change in net replacement value of derivative financial instruments | 48,423 | 94,995 |
| Depreciation charge on fixed and intangible assets | 37,777 | 22,573 |
| Net change in interest accruals | 650,724 | (28,398) |
| | 2,237,090 | 596,317 |
| Cash flow from operating activities before changes in operating assets and liabilities | | |
| Changes in operating assets and liabilities | | |
| (Increase)/decrease in operating assets: | | |
| Minimum reserve deposit with Central and National banks | 3,968,544 | (1,151,719) |
| Loans and advances to banks | (28,373,056) | (2,407,341) |
| Trading assets | 4,211,523 | (458,342) |
| Loans and advances to customers | (9,984,033) | (16,949,475) |
| Other assets | 190,393 | (294,418) |
| Increase/(decrease) in operating liabilities: | | |
| Deposits from banks | 23,930 | 3,793,308 |
| Customer accounts | 19,304,441 | 16,439,687 |
| Provisions | (207,609) | — |
| Other liabilities | (93,015) | (107,979) |
| | (8,721,792) | (539,962) |
| Cash outflow from operating activities before income taxes | | |
| Income tax paid | (670,889) | (317,703) |
| | (9,392,681) | (857,665) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of fixed and intangible assets | (38,413) | (21,656) |
| Proceeds on sale of fixed and intangible assets | 1,466 | 13,561 |
| Net sale/(purchase) of investment securities | 1,588,400 | (2,226,997) |
| | 1,551,453 | (2,235,092) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividends paid | (299,665) | (115,780) |
| Net proceeds on sale of debt securities issued | 1,249,035 | 1,634,724 |
| Subordinated debt | 1,450,000 | — |
| | 2,399,370 | 1,518,944 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (5,441,858) | (1,573,813) |
| CHANGE IN TRANSLATION RESERVE | 11,295 | 52,748 |
| CASH AND CASH EQUIVALENTS, beginning of the period | 10 16,943,978 | 8,154,246 |
| CASH AND CASH EQUIVALENTS, end of the period | 10 11,513,415 | 6,633,181 |

Interest paid and received by the Bank in cash during the 9 months ended 30 September 2004 amounted to RUR 3,736,535 thousand and RUR 7,371,109 thousand, respectively.

Interest paid and received by the Bank in cash during the 9 months ended 30 September 2003 amounted to RUR 3,110,947 thousand and RUR 4,903,336 thousand, respectively.

On behalf of the Management Board

Chairman

Chief Financial Officer

JSB ROSBANK AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2004

(in Russian Roubles and in thousands unless otherwise stated)

1. ORGANISATION

ROSBANK is a joint stock bank which was incorporated in the Russian Federation in 1993. ROSBANK is regulated by the Central Bank of the Russian Federation (the “**CBR**”) and conducts its business under license number 2272. ROSBANK’s primary business consists of commercial banking activities, securities dealings, foreign currency transactions and retail banking. On 7 June 1999 ROSBANK re-registered its legal status from a limited liability bank to a joint-stock bank.

On 14 September 2000, at a joint shareholders meeting, it was approved to merge UNEXIM Bank into ROSBANK. UNEXIM Bank was a joint stock bank incorporated in the Russian Federation.

On 21 November 2000, the CBR approved the merger and de-registered UNEXIM Bank with ROSBANK as the successor bank.

ROSBANK has 15 branches in the Russian Federation and a representative office in Beijing (China). ROSBANK is registered at: 11, Masha Poryvaeva Street, Moscow, 107078, Russia.

ROSBANK is a parent company of the Banking group (the “**Bank**”) which consists of the following enterprises consolidated in the financial statements:

| <i>Name</i> | <i>Country of incorporation</i> | <i>ROSBANK’s ownership interest and voting power</i> |
|---|---------------------------------|--|
| <i>Rosbank (Switzerland) SA</i> | <i>Switzerland</i> | <i>100%</i> |
| <i>Rosbank International Finance BV</i> | <i>The Netherlands</i> | <i>100%</i> |
| <i>RosInvest SA</i> | <i>Luxembourg</i> | <i>100%</i> |
| <i>Belrosbank</i> | <i>Byelorussia</i> | <i>50.00002%</i> |

In 2003 Interros, the major shareholder of the Bank, purchased controlling interest in OVK group. OVK group consists of 6 commercial banks and 35 other financial or service companies. The main activity of these banks is retail banking. There is a plan to merge OVK banks with the Bank during 2004-2005. The management of Rosbank has commenced the process of merging the operations of OVK with those of Rosbank and, on 26 January 2004, the CBR approved Rosbank’s proposed plan of consolidation. The integration of banks as large as OVK will require extensive management, personnel and monetary resources. The integration is expected to be completed by the second half of 2005, prior to which time management will be faced with modernising the OVK network, integrating its operations and personnel with those of Rosbank, merging its information technology systems with those of Rosbank, and implementing group-wide financial and management information systems and controls. As of 30 September 2004 and from the date Interros acquired controlling interest in OVK group, the latter is considered to be a related party to the Bank (Note 25).

Total number of employees of the Bank as of 30 September 2004 and 31 December 2003 was 3,592 and 2,365, respectively.

As of 30 September 2004, the following shareholders owned the outstanding shares:

| <i>Shareholder</i> | <i>Share</i> |
|------------------------------|--------------|
| CJSC “Interros estate” | 94.98% |
| Other | 5.02% |
| Total..... | 100.00% |

These consolidated financial statements were authorized for issue by the Chairman of the Management Board of the Bank on 5 November 2004.

2. BASIS OF PRESENTATION

Accounting basis – These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities, financial assets and financial liabilities and derivative financial instruments held for trading and according to International Accounting Standard (IAS) 29 “Financial Reporting in Hyperinflationary Economies”.

ROSBANK maintains its accounting records in accordance with the Russian law. Other companies of the Banking Group maintain their accounting records in accordance with statutory accounting standards generally accepted in the countries where they carry out their activities. For the purpose of incorporation in the consolidated financial statements, the financial statements of ROSBANK, Rosbank (Switzerland) SA, Rosbank International Finance BV, RosInvest SA and Belrosbank prepared under the statutory accounting standards generally accepted in the countries of their origin have been adjusted to conform with IFRS.

In accordance with IAS 29 the economy of the Russian Federation was considered to be hyperinflationary during 2002 and prior years. As of 1 January 2003, the Russian economy is no longer considered to be hyperinflationary for accounting purposes and the values of the Bank’s non-monetary assets, liabilities and equity as stated in measuring units as of 31 December 2002 have formed the basis for the opening balances at 1 January 2003.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the allowance for losses and impairment and the fair value of financial instruments.

As the results of the Bank’s normal operations are closely connected with and depend on the changing market conditions, the results of the Bank’s operations for the interim period are not necessarily indicative of results for the year.

Measurement currency – The measurement currency of these financial statements is the Russian Rouble.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements include the financial statements of subsidiaries where ROSBANK, directly or indirectly, owns a majority voting interest.

All significant transactions between ROSBANK and the subsidiaries, as well as the relevant balances have been eliminated. The effective ownership interest of ROSBANK and voting power of ROSBANK in the significant subsidiaries of ROSBANK as of 30 September 2004 are presented in Note 1.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed off during the reporting period are included in the consolidated financial statements from the date of acquisition or to the date of disposal. The equity and net income attributable to minority shareholders’ interests are shown separately in the balance sheet and profit and loss account, respectively.

In translating the financial statements of a foreign subsidiary into reporting currency for incorporation in the consolidated financial statements, the Bank follows a translation policy in accordance with IAS 21, “The Effects of Changes in Foreign Exchange Rates” and the following procedures are done:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the date of transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of investment in a foreign entity related exchange differences are recognized in the profit and loss statement.

Negative goodwill – Any excess of the Bank’s interest in the fair values of the identifiable assets and liabilities of subsidiaries over the cost of acquisition as of the acquisition date is recognized as negative goodwill. To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognized as income in the profit and loss account as follows:

- The amount of negative goodwill not exceeding the fair values of the acquired identifiable non-monetary assets is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable assets and recorded in the profit and loss account as part of other income;
- The amount of negative goodwill in excess of the fair value of the acquired identifiable non-monetary assets is recognized as income immediately.

Investments in other subsidiaries and associates – Investments in corporate shares where the Bank owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not significantly affect the financial statements of the Bank as a whole, or the Bank has an intention to resell such investments in the nearest future, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or at approximate fair value. If such value cannot be estimated, investments are accounted for at cost. Management periodically assesses realizability of the carrying values of such investments and provides valuation allowances, if necessary. Such investments are accounted for as securities available-for-sale.

Recognition and measurement of financial instruments – The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – Cash and cash equivalents include cash, unrestricted balances on correspondent and time deposit accounts with central and national banks, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”) with remaining maturity within 90 days, except for margin deposits for operations with plastic cards, as well as precious metals in vault and placed at nostro accounts with OECD banks, and government debt securities included in trading portfolio which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by central and national banks is not included as a cash equivalent due to restrictions on its availability (Note 10).

Loans and advances to banks – In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

Repurchase and reverse repurchase agreements – The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of

its business. Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in financial statements and consideration received under these agreements are recorded as collateralized deposit received.

Assets purchased under reverse repos are recoded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

Trading securities – The trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value.

The Bank uses quoted market prices to determine fair value for the Bank's trading securities.

When reliable information about market prices is not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

Derivative financial instruments – The Bank enters into derivative financial instruments to manage currency and liquidity risks. However, such instruments are not qualified for hedging purposes. Derivatives entered into by the Bank for trading purposes include forwards, swaps as well as combinations of such instruments on foreign currency, precious metals and securities.

Derivative financial instruments are initially recorded at cost with their subsequent re-measurement to fair value. Fair values are obtained from interest rates' model. Most of derivatives the Bank enters into are of short-term and speculative nature. The results of the valuation of derivatives are reported in trading assets or other liabilities, respectively. Both positive and negative valuation results are recognised in the profit and loss account for the period in which they arise under net gain on foreign exchange operations, net gain on trading securities and net gain on precious metals operations for respective contracts.

Derivative instruments embedded in other financial instruments are treated as a separate derivative as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in profit and loss account for a period. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Gains/(losses) arising from changes in the value of derivatives are included in the profit and loss account for the period as net gain/(loss) on respective underlying assets.

Precious metals – Assets and liabilities denominated in precious metals are translated at the rate computed based on the fixing of the London Bullion Market Association on 30 September 2004 and 31 December 2003 using the RUR/USD exchange rate effective at the date.

Originated loans – Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as trading investments.

Loans granted by the Bank are initially recognized in accordance with the policy stated above.

The difference between nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in profit and loss account. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective

interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

Write off of loans and receivables – Loans and receivables are written off against allowance for loan losses and losses on other assets in case of uncollectibility of loans and receivables, including through repossession of collateral. Loans and receivables are written off after 3 years overdue according to the legislation or under arbitrage decision.

Non-accrual loans – Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 90 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Purchased loans and receivables – Loans and receivables acquired from another lender subsequently to the original date are either classified as trading or held to maturity investments. For purchased loans classified as available-for-sale investments, fair value is based on an active market or using an interest rates model. If market price is not available and the interest model is not practicable, the price for similar assets is used.

Allowance for losses – The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial asset. For financial assets that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realize the loan.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Provisions are made as a result of a detailed appraisal of risk assets.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted in arriving at loans and advances to customers and banks. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity – Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in the interest income using the effective interest method over the period to maturity.

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine fair value for these securities available-for-sale. If such quotes do not exist, management estimation is used.

Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and workable methods of reasonably estimating their fair value. The financial result of sales of securities available-for-sale that are valued at cost is calculated using FIFO method.

Fixed and intangible assets – Fixed and intangible assets acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Fixed and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any accumulated impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

| | |
|-------------------------|--------------------------------|
| Buildings | 2 % |
| Leasehold improvements | Over the period of lease |
| Furniture and equipment | 20 % |
| Intangible assets | Over useful life of 3-10 years |

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Impairment loss – If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the profit and loss account for the period in which it arises.

Operating leases – Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

The Bank, which acts as lessee under operating lease contracts, includes relevant lease costs in operating expenses over the term of the lease contract as they incur.

Taxation – Taxes on income are computed in accordance with the laws of the Russian Federation and countries of domicile of the members of the Bank. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- The Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;
- The Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority in the each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Russian Federation also has various other taxes, which are assessed on the Bank's activities.

These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers – Deposits from banks and customers are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts with fixed maturity are stated at amortized cost and any difference between net proceeds and the

redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method. Balances without fixed maturity are stated at cost.

Debt securities issued – Debt securities issued represent promissory notes, certificates of deposit, and bonds issued by the Bank to customers. They are accounted using the same principles as for deposits from banks and customers.

Provisions – Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital and share premium – Share capital and share premium are recognized at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Retirement and other benefit obligations – The Bank does not have any material pension arrangements separate from the state pension systems of countries of residence of the Bank and consolidated enterprises that require current contributions by employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits or other compensated benefits requiring accrual.

Contingencies – Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense – Interest income and expense are recognized on an accrual basis calculated using the effective interest rate method. The recognition of interest income is suspended when loans become overdue by more than 90 days. Interest income includes also interest income earned on securities. Commission and other income is credited to income when the related transactions are completed. Non-interest expenses are recognized on an accrual basis.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from the translations are included in net gain on foreign exchange operations.

Rates of exchange – The exchange rates at period-end used by the Bank in the preparation of the consolidated financial statements are as follows:

| | <i>30 September</i> | <i>31 December</i> | <i>30 September</i> |
|------------------------------|---------------------|--------------------|---------------------|
| | <i>2004</i> | <i>2003</i> | <i>2003</i> |
| RUR/USD..... | 29.2171 | 29.4545 | 30.6119 |
| RUR/EUR..... | 35.9896 | 36.8240 | 35.0751 |
| RUR/CHF..... | 23.1882 | 23.5995 | 22.7446 |
| RUR/gold (1 ounce)..... | 12,144.09 | 12,289.90 | 11,877.42 |
| RUR/palladium (1 ounce)..... | 6,340.11 | 6,397.89 | 6,397.89 |
| RUR/platinum (1 ounce)..... | 24,951.40 | 21,734.45 | 21,734.45 |

Offset of financial assets and liabilities – A financial asset and financial liability are offset and the net amount is recorded in the balance sheet, if the Bank has a legally enforceable right to set off the amounts recognized in the balance sheet and it has an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Fiduciary activities – The Bank provides fiduciary services to its customers. Assets accepted and liabilities incurred under such activities are not included in the Bank’s consolidated financial statements. The Bank also provides depository services to its customers that include transactions with securities on their depo accounts. The Bank accepts the operational risk on these activities, but does not bear credit or market risks related to such transactions.

Reclassifications – Certain reclassifications have been made to the consolidated balance sheet as of 31 December 2003 and consolidated profit and loss account for the nine months ended 30 September 2003 to conform to the presentation as of 30 September 2004 and for the nine months then ended.

4. ACQUISITION OF A SUBSIDIARY

In December 2003 the Bank acquired 50.00002% interest in CB Belrosbank in exchange of cash consideration. At the date of acquisition the Bank recognized identifiable assets and liabilities of the CB Belrosbank at its fair value and negative goodwill arising on the acquisition. Negative goodwill was calculated as difference between net assets of CB Belrosbank calculated based on market value and/or discounted cash flow (interest rate) model and the amount of cash paid.

Below is the calculation of negative goodwill recorded in the Bank’s consolidated financial statements with respect to the Bank’s acquisition of CB Belrosbank and computed as of the date of acquisition:

| | <i>CB Belrosbank 16 December 2003</i> |
|--|---|
| Assets | |
| Cash and cash equivalents..... | 112,031 |
| Other current assets..... | 365,008 |
| Non-current assets..... | 6,328 |
| | <hr/> |
| Total assets..... | 483,367 |
| Liabilities | |
| Current liabilities..... | 298,577 |
| | <hr/> |
| Net assets | 184,790 |
| Share in net assets acquired by the Bank | 50.00002% |
| Value of the consideration given..... | 84,054 |
| | <hr/> |
| Negative goodwill..... | 8,341 |
| | <hr/> <hr/> |

Negative goodwill of RUR 8,341 thousand was recorded in the profit and loss account for the year ended 31 December 2003 as part of other income.

Movement in minority interest during the 9 months ended 30 September 2004 comprise:

| | <i>9 months ended 30 September 2004</i> |
|-----------------------------|---|
| 31 December 2003 | 92,395 |
| Change for the period | (43,518) |
| | <hr/> |
| 30 September 2004..... | 48,877 |
| | <hr/> <hr/> |

5. NET INTEREST INCOME

Net interest income comprises:

| | <i>9 months ended 30 September 2004</i> | <i>3 months ended 30 September 2004</i> | <i>9 months ended 30 September 2003</i> | <i>3 months ended 30 September 2003</i> |
|--|---|---|---|---|
| Interest income | | | | |
| Interest on loans and advances to customers: | | | | |
| – corporate customers..... | 5,689,240 | 1,660,391 | 3,061,310 | 1,149,203 |
| – individuals..... | 134,367 | 63,978 | 38,164 | 12,870 |
| Interest on loans and advances to banks | 724,293 | 289,956 | 462,352 | 192,954 |
| Interest on debt securities..... | 507,400 | 157,935 | 1,498,831 | 322,043 |
| Interest on securities purchased under agreement to resell | 16,129 | 565 | 9,634 | 151 |
| Total interest income..... | <u>7,071,429</u> | <u>2,172,825</u> | <u>5,070,291</u> | <u>1,677,221</u> |
| Interest expense | | | | |
| Interest on customer accounts: | | | | |
| – corporate customers..... | 1,447,665 | 371,154 | 1,155,976 | 371,399 |
| – individuals..... | 1,267,330 | 393,141 | 824,849 | 312,027 |
| Interest on debt securities issued | 882,443 | 328,624 | 1,035,698 | 384,502 |
| Interest on deposits from banks | 490,141 | 161,506 | 222,266 | 99,486 |
| Other interest expense..... | — | — | 10,715 | 3,400 |
| Total interest expense | <u>4,087,579</u> | <u>1,254,425</u> | <u>3,249,504</u> | <u>1,170,814</u> |
| Net interest income before (provision)/recovery of provision for loan losses..... | <u>2,983,850</u> | <u>918,400</u> | <u>1,820,787</u> | <u>506,407</u> |

6. ALLOWANCE FOR LOSSES, IMPAIRMENT AND PROVISIONS

The movements in allowance for loan losses were as follows:

| | <i>Loans and advances to banks</i> | <i>Loans and advances to customers</i> | <i>Total</i> |
|----------------------------|--|--|--------------|
| 31 December 2002..... | 89,270 | 2,180,775 | 2,270,045 |
| Provision/(recovery) | 5,066 | (61,716) | (56,650) |
| 30 June 2003 | 94,336 | 2,119,059 | 2,213,395 |
| (Recovery)/provision | (20,779) | 71,412 | 50,633 |
| 30 September 2003 | 73,557 | 2,190,471 | 2,264,028 |
| (Recovery)/provision | (42,401) | 231,939 | 189,538 |
| 31 December 2003..... | 31,156 | 2,422,410 | 2,453,566 |
| 31 December 2003..... | 31,156 | 2,422,410 | 2,453,566 |
| Provision | 107,175 | 584,395 | 691,570 |
| 30 June 2004 | 138,331 | 3,006,805 | 3,145,136 |
| Write offs | (200) | — | (200) |
| Recovery | (4,799) | (99,405) | (104,204) |
| 30 September 2004..... | 133,332 | 2,907,400 | 3,040,732 |

The movements in allowance for other losses were as follows:

| | <i>Investment securities</i> | <i>Other assets</i> | <i>Provisions for guarantees, claims and other commitments</i> | <i>Total</i> |
|---------------------------|----------------------------------|---------------------|--|--------------|
| 31 December 2002 | 90,166 | 18,372 | 218,255 | 326,793 |
| Recovery | (3,576) | (199) | (24,904) | (28,679) |
| 30 June 2003 | 86,590 | 18,173 | 193,351 | 298,114 |
| (Recovery)/provision..... | (14,326) | 627 | (55,458) | (69,157) |
| 30 September 2003..... | 72,264 | 18,800 | 137,893 | 228,957 |
| Provision..... | 22,330 | 41 | 209,502 | 231,873 |
| 31 December 2003 | 94,594 | 18,841 | 347,395 | 460,830 |
| 31 December 2003 | 94,594 | 18,841 | 347,395 | 460,830 |
| Write offs..... | — | — | (207,609) | (207,609) |
| Provision/(recovery) | 10,421 | 7,727 | (3,877) | 14,271 |
| 30 June 2004 | 105,015 | 26,568 | 135,909 | 267,492 |
| Provision..... | 15,627 | 1,622 | 29,176 | 46,425 |
| 30 September 2004..... | 120,642 | 28,190 | 165,085 | 313,917 |

Allowance for losses on assets is deducted from the related assets. Provisions for guarantees, claims and other commitments are recorded in liabilities.

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | <i>9 months ended 30 September 2004</i> | <i>3 months ended 30 September 2004</i> | <i>9 months ended 30 September 2003</i> | <i>3 months ended 30 September 2003</i> |
|---|---|---|---|---|
| Fee and commission income: | | | | |
| Settlements..... | 439,619 | 165,415 | 240,403 | 107,401 |
| Depository and securities operations..... | 260,928 | 91,479 | 83,134 | 38,656 |
| Guarantees..... | 124,157 | 13,294 | 139,144 | 56,829 |
| Foreign exchange operations..... | 103,568 | 51,535 | 43,936 | 6,525 |
| Cash operations | 98,047 | 32,739 | 80,871 | 18,016 |
| Documentary operations | 14,042 | 5,438 | 8,512 | 897 |
| Other operations..... | 47,780 | 20,727 | 10,738 | 3,663 |
| | <u>1,088,141</u> | <u>380,627</u> | <u>606,738</u> | <u>231,987</u> |
| | <i>9 months ended 30 September 2004</i> | <i>3 months ended 30 September 2004</i> | <i>9 months ended 30 September 2003</i> | <i>3 months ended 30 September 2003</i> |
| Fee and commission expense: | | | | |
| Settlements..... | 291,776 | 94,245 | 180,716 | 89,016 |
| Securities operations | 15,729 | 5,867 | 18,541 | 7,264 |
| Cash operations | 8,059 | 2,995 | 8,922 | 2,983 |
| Foreign exchange operations..... | 3,583 | 1,142 | 4,351 | 1,687 |
| | <u>319,147</u> | <u>104,249</u> | <u>212,530</u> | <u>100,950</u> |

8. OPERATING EXPENSES

| | <i>9 months ended 30 September 2004</i> | <i>3 months ended 30 September 2004</i> | <i>9 months ended 30 September 2003</i> | <i>3 months ended 30 September 2003</i> |
|--|---|---|---|---|
| Salary and bonuses | 1,613,119 | 639,748 | 1,443,170 | 409,368 |
| Operating lease expense | 309,875 | 124,889 | 306,880 | 103,830 |
| Taxes, other than income tax | 105,871 | 28,577 | 116,840 | 33,375 |
| Repairs and maintenance expense | 104,061 | 23,170 | 50,956 | 23,187 |
| Professional services fees | 70,956 | 4,967 | 49,521 | 11,264 |
| Advertising and marketing expenses | 63,560 | 32,304 | 47,608 | 249 |
| Depreciation charge on fixed and intangible assets..... | 37,777 | 11,795 | 22,573 | 3,670 |
| Security costs | 35,550 | 13,920 | 25,833 | 8,610 |
| Telecommunication service expenses | 30,737 | 19,046 | 10,891 | 3,067 |
| Insurance | 23,595 | 13,870 | 13,164 | 6,028 |
| Expenses on stationery and other office expenses..... | 22,557 | 11,170 | 11,401 | 3,272 |
| Customs duties..... | 21,682 | 9,953 | 24,134 | 7,891 |
| Business trip expenses..... | 13,862 | 3,930 | 10,738 | 6,663 |
| Penalties paid..... | 12,813 | 12,304 | 805 | 306 |
| Charity expenses | 11,792 | 1,873 | 9,376 | 4,187 |
| Representation expenses | 10,016 | 3,601 | 10,053 | 6,282 |
| Other..... | 36,939 | 1,648 | 55,902 | 30,983 |
| | <u>2,524,762</u> | <u>956,765</u> | <u>2,209,845</u> | <u>662,232</u> |

9. INCOME TAXES

The operations of the Bank are subject to multiple taxation jurisdictions that are listed in Note 1. ROSBANK pays the majority of the Bank's profit tax. The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with statutory tax regulations which may differ from International Financial Reporting Standards.

As of 30 September 2004 and 31 December 2003 income tax liabilities of RUR 1,529 thousand and RUR 214,320 thousand comprise current income tax liability.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of exchange losses and other expenses and tax-free regime under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 30 September 2004 and 31 December 2003 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 30 September 2004 and 31 December 2003 comprise:

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|------------------------------|-----------------------------|
| Deferred assets: | | |
| Loans to banks and customers | 2,100,077 | 2,559,632 |
| Other liabilities | 82,681 | 8,701 |
| Deposits from banks and customer accounts | 43,715 | 25,135 |
| Other assets | 27,438 | — |
| Fixed assets | 24,414 | 1,083 |
| Total deferred assets | <u>2,278,325</u> | <u>2,594,551</u> |

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|------------------------------|-----------------------------|
| Deferred liabilities: | | |
| Trading assets..... | (99,023) | (121,076) |
| Securities available-for-sale | (8,050) | (7,494) |
| Other assets | — | (150,063) |
| Total deferred liabilities | <u>(107,073)</u> | <u>(278,633)</u> |
| Net deferred assets | <u>2,171,252</u> | <u>2,315,918</u> |
| Deferred tax assets at the statutory rate of 24% | 521,100 | 557,619 |
| Deferred tax liability at the statutory rate of 15% | — | (1,124) |
| Total deferred tax assets | <u>521,100</u> | <u>556,495</u> |
| Less: valuation allowance..... | (521,100) | (556,495) |
| Net deferred tax asset | <u>—</u> | <u>—</u> |

Relationships between income tax expenses and accounting profit for the 9 and 3 months ended 30 September 2004 and 2003 are explained as follows:

| | <i>9 months ended 30 September 2004</i> | <i>3 months ended 30 September 2004</i> | <i>9 months ended 30 September 2003</i> | <i>3 months ended 30 September 2003</i> |
|---|---|---|---|---|
| Profit before income taxes and minority interest | <u>845,422</u> | <u>422,615</u> | <u>613,913</u> | <u>143,492</u> |
| Statutory tax rate..... | 24% | 24% | 24% | 24% |
| Theoretical tax at the statutory tax rate | 202,901 | 101,428 | 147,339 | 34,438 |
| Tax effect of permanent differences | 290,592 | (92,171) | 313,698 | 128,143 |
| Change in valuation allowance..... | (35,395) | 216,215 | (146,079) | (58,165) |
| Income tax expense | <u>458,098</u> | <u>225,472</u> | <u>314,958</u> | <u>104,416</u> |
| Current income tax expense | 458,098 | 225,472 | 314,958 | 104,416 |
| Deferred income tax expense..... | — | — | — | — |
| Income tax expense..... | <u>458,098</u> | <u>225,472</u> | <u>314,958</u> | <u>104,416</u> |

10. CASH AND BALANCES WITH CENTRAL AND NATIONAL BANKS

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|------------------------------|-----------------------------|
| Cash in vault | 1,246,710 | 1,896,617 |
| Balance with Central and National banks..... | 7,907,740 | 13,759,104 |
| Time deposit with the Central Bank of the Russian Federation..... | — | 2,500,000 |
| | <u>9,154,450</u> | <u>18,155,721</u> |

The balances with Central and National banks comprise of balances with the Central Bank of the Russian Federation, the National Bank of Switzerland and the National Bank of Byelorussia as of 30 September 2004, 31 December 2003 and 30 September 2003 and include RUR 3,046,737 thousand, RUR 7,015,281 thousand and RUR 5,694,333 thousand, respectively, which represent the minimum reserve deposits required by Central and National banks. The Bank is required to maintain the reserve balance at Central and National banks at all times.

| | <i>30 September 2004</i> | <i>31 December 2003</i> | <i>30 September 2003</i> |
|---|------------------------------|-----------------------------|------------------------------|
| Cash and balances with Central and National banks | 9,154,450 | 18,155,721 | 9,632,431 |
| Loans and advances to banks in OECD countries..... | 5,004,810 | 5,585,212 | 2,073,718 |
| Trading government debt securities..... | 95,645 | 179,776 | 284,197 |
| Precious metals in vault | 305,247 | 38,550 | 337,168 |
| | <u>14,560,152</u> | <u>23,959,259</u> | <u>12,327,514</u> |
| Less minimum reserve deposit with Central and National banks | <u>(3,046,737)</u> | <u>(7,015,281)</u> | <u>(5,694,333)</u> |
| Cash and cash equivalents | <u><u>11,513,415</u></u> | <u><u>16,943,978</u></u> | <u><u>6,633,181</u></u> |

11. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|--|------------------------------|-----------------------------|
| Loans to banks..... | 29,719,380 | 2,306,845 |
| Advances to banks | 7,489,320 | 7,109,401 |
| Accrued interest income on loans and advances to banks | 51,421 | 43,404 |
| | <u>37,260,121</u> | <u>9,459,650</u> |
| Less allowance for loan losses | <u>(133,332)</u> | <u>(31,156)</u> |
| | <u><u>37,126,789</u></u> | <u><u>9,428,494</u></u> |

Movements in allowance for loan losses for the 9 months ended 30 September 2004 and 2003, and year ended 31 December 2003 are disclosed in Note 6.

As of 30 September 2004 and 31 December 2003 the Bank had loans and advances to nine and one counterparties totaling RUR 30,753,615 thousand and RUR 5,669,067 thousand, respectively, which individually exceeded 10% of the Bank's equity.

12. TRADING ASSETS

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|----------------------------------|------------------------------|-----------------------------|
| Trading securities | 3,783,018 | 8,135,326 |
| Precious metals | 305,247 | 38,550 |
| Derivative financial instruments | 62,968 | 91,829 |
| | <u>4,151,233</u> | <u>8,265,705</u> |

Trading securities comprise:

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|------------------------------|-----------------------------|
| Debt securities of local authorities | 1,816,269 | 2,414,616 |
| Debt securities of corporates | 1,347,103 | 3,688,092 |
| Debt securities of financial institutions | 291,649 | 218,241 |
| Equity securities | 232,352 | 1,534,992 |
| Debt securities of central government | 95,645 | 179,776 |
| Other securities | — | 99,609 |
| | <u>3,783,018</u> | <u>8,135,326</u> |

| | <i>% rate to nominal</i> | <i>30 September 2004</i> | <i>% rate to nominal</i> | <i>31 December 2003</i> |
|--|------------------------------|------------------------------|------------------------------|-----------------------------|
| Debt securities: | | | | |
| Local authorities: | | | | |
| Bonds of Yakutia Region Authority | 11-15% | 461,528 | — | — |
| Bonds of Moscow City Authority | 10% | 303,487 | 10-15% | 587,593 |
| Bonds of Novosibirsk City Authority | 16% | 277,624 | 16% | 367,984 |
| Bonds of Moscow Region Authority | 11% | 159,442 | 11-17% | 101,609 |
| Bonds of Irkutsk Region Authority | 12% | 154,045 | — | — |
| Bonds of Krasnoyarsk Region Authority | 10% | 153,544 | 14% | 881,904 |
| Bonds of Chuvashia Region Authority | 10-12% | 135,559 | 12% | 39,308 |
| Bonds of Krasnoyarsk City Authority | 11% | 84,000 | 11% | 239,404 |
| Bonds of St-Peterburg City Authority | 9-14% | 40,366 | 9-15% | 81,640 |
| Bonds of Yaroslavl Region Authority | 15% | 24,433 | 14% | 28,204 |
| Bonds of Khabarovsk Region Authority | 13% | 22,241 | 13% | 62,921 |
| Bonds of Ufa City Authority | — | — | 10% | 24,049 |
| | | 1,816,269 | | 2,414,616 |
| Corporates: | | | | |
| Bonds of JSC Uglemet-trading..... | 12% | 283,881 | 12% | 488,586 |
| Citigroup Global Markets Dt. DL-Notes 04 (14) Reg.S Severstal..... | 9% | 215,323 | — | — |
| Credit Linked Notes of OAO Salavatnefteorgsintez SNOS due May 2008 | 9% | 195,425 | — | — |
| Bonds of MIG finance..... | 16% | 154,429 | — | — |
| Bonds of SU-155 Capital..... | 12% | 149,592 | — | — |
| Bonds of LLC Russky Aluminy Finance..... | 10% | 112,497 | 10% | 187,774 |
| Promissory notes of Byelorussian companies | 0-16% | 65,132 | — | — |
| Bonds of JSC Gazprom..... | 8% | 60,668 | — | — |
| Bonds of JSC Chelyabinsky Metallurgichesky Kombinat..... | 12% | 50,115 | 11% | 72,425 |
| Eurobonds of MMK Finance | 8-10% | 44,250 | 8-10% | 795,326 |
| Eurobonds of JSC Sistema | 10% | 15,791 | 10-11% | 204,182 |
| Bonds of JSC Eastline | — | — | 14% | 600,805 |
| Bonds of JSC IAPO | — | — | 12-17% | 254,250 |
| Eurobonds of Euraz Securities | — | — | 9% | 240,096 |
| Bonds of RAO UES..... | — | — | 15% | 167,590 |
| Eurobonds of JSC Rosneft..... | — | — | 13% | 137,202 |
| Bonds of JSC Alrosa | — | — | 16% | 113,301 |
| Eurobonds of JSC MTS..... | — | — | 10% | 99,560 |
| Bonds of JSC Mikoyanovsky Myasokombinat | — | — | 15% | 81,644 |
| Eurobonds of JSC Sibneft..... | — | — | 11-12% | 69,224 |
| Bonds of RITEK..... | — | — | 9% | 68,694 |
| Bonds of JSC Severo-Zapadny Telecom | — | — | 14% | 50,886 |
| Eurobonds of JSC Alrosa..... | — | — | 8% | 40,283 |
| Bonds of JSC Centrtelecom..... | — | — | 12% | 16,264 |
| | | 1,347,103 | | 3,688,092 |

| | <i>% rate to nominal</i> | <i>30 September 2004</i> | <i>% rate to nominal</i> | <i>31 December 2003</i> |
|--|------------------------------|------------------------------|------------------------------|-----------------------------|
| Financial institutions: | | | | |
| Bonds of RUSSIA SPREAD TRUST | 1% | 235,170 | — | — |
| Promissory notes of Byelorussian banks | 0-22.5% | 55,482 | — | — |
| Promissory notes of JSC Gazprombank | 11% | 997 | — | — |
| Bonds of JSC Vneshtorgbank | — | — | 15% | 218,241 |
| | | 291,649 | | 218,241 |
| Central government: | | | | |
| Bonds of MF of Byelorussia | 16.9-33% | 68,110 | — | — |
| OVGYZ Bonds | 3% | 25,511 | 3% | 78,898 |
| RF Government Eurobonds | 5-10% | 2,024 | 5-10% | 55,214 |
| OFZ bonds | — | — | 11% | 45,664 |
| | | 95,645 | | 179,776 |
| | | 291,649 | | 218,241 |
| | | | <i>30 September 2004</i> | <i>31 December 2003</i> |
| Equity securities: | | | | |
| Ordinary shares of RAO UES | | | 106,214 | 420,241 |
| Ordinary shares of JSC Avtovaz | | | 76,100 | 82,811 |
| Ordinary shares of JSC YUKOS | | | 41,234 | — |
| Ordinary shares of Easter Prop. Hold | | | 2,285 | — |
| Ordinary shares of Lukoil | | | 1,856 | — |
| Preferred shares of RAO UES | | | 1,400 | — |
| Ordinary shares of Deutsche Telekom | | | 1,206 | — |
| Ordinary shares of GUM | | | 1,059 | — |
| Preferred shares of JSC Transneft | | | — | 615,515 |
| Ordinary shares of JSC Gazprom | | | — | 407,748 |
| Other | | | 998 | 8,677 |
| | | | 232,352 | 1,534,992 |

As of 30 September 2004 and 31 December 2003 included in trading securities is accrued interest income on debt securities amounting to RUR 61,844 thousand and RUR 118,498 thousand, respectively.

As of 30 September 2004 included in trading securities are Bonds of MF of Byelorussia sold under the agreement to repurchase (see Note 17).

Corporate bonds and promissory notes represent medium and long term bonds and promissory notes of Russian and Byelorussian corporations.

Russian State Bonds (OFZ bonds) are Rouble denominated government securities issued at discount to face value and guaranteed by the Ministry of Finance of the Russian Federation with a medium to long-term maturities. Interest on Bonds is paid on a quarterly basis.

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. As of 30 September 2004 and 31 December 2003 the Bank's portfolio of Russian Eurobonds consisted of three and four tranches, respectively, that mature in 2007 — 2030. Interest on these bonds is paid semi-annually.

MinFin Bonds (OYGYZ Bonds) are securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. As of 30 September 2004 and 31 December 2003 the Bank's portfolio of the bonds consisted of two tranches that mature in 2007-2008. Interest on these bonds is paid on an annual basis.

Precious metals (bullion in vault) comprise:

| | <i>30 September</i> | <i>31 December</i> |
|----------------|---------------------|--------------------|
| | <i>2004</i> | <i>2003</i> |
| Platinum | 221,544 | 12,395 |
| Gold | 83,478 | 4,417 |
| Silver | 225 | 21,738 |
| | <u>305,247</u> | <u>38,550</u> |

13. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

| | <i>30 September</i> | <i>31 December</i> |
|---|---------------------|--------------------|
| | <i>2004</i> | <i>2003</i> |
| Loans collateralized by pledge of equipment..... | 10,435,710 | 5,755,331 |
| Loans collateralized by pledge of goods in turnover..... | 6,307,877 | 3,696,142 |
| Loans collateralized by corporate guarantees..... | 4,519,748 | 4,573,423 |
| Loans collateralized by pledge of securities..... | 4,382,004 | 2,582,241 |
| Loans collateralized by pledge of real estate | 2,640,302 | 588,030 |
| Loans collateralized by others | 617,322 | 1,313,686 |
| Unsecured loans | 35,355,480 | 35,765,557 |
| Accrued interest income on loans and advances to customers..... | 247,970 | 492,311 |
| | <u>64,506,413</u> | <u>54,766,721</u> |
| Less allowance for loan losses | (2,907,400) | (2,422,410) |
| | <u>61,599,013</u> | <u>52,344,311</u> |

Movements in allowances for loan losses for the 9 months ended 30 September 2004 and 2003, and year ended 31 December 2003 are disclosed in Note 6.

As of 30 September 2004 and 31 December 2003 the Bank had loans to twelve and ten customers totaling RUR 18,146,256 thousand and RUR 12,670,152 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As of 30 September 2004 and 31 December 2003 included in loans and advances to customers are loans of RUR 2,168,684 thousand and RUR 2,178,180 thousand, respectively, pledged under advances received from the National Bank of Byelorussia of RUR 1,384,660 thousand and RUR 1,391,600 thousand, respectively (see Note 17).

As of 30 September 2004 and 31 December 2003 included in loans and advances to customers are non-accrual loans amounted to RUR 226,347 thousand and RUR 517,011 thousand, respectively.

Analysis by sector

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|--|------------------------------|-----------------------------|
| Trade | 7,671,436 | 8,347,963 |
| Finance | 7,327,746 | 6,420,555 |
| Government | 5,442,661 | 5,199,675 |
| Individuals | 5,332,390 | 1,231,482 |
| Telecommunications | 5,313,323 | 2,706,987 |
| Aircraft engineering | 4,888,465 | 4,017,582 |
| Engineering | 4,748,963 | 1,822,878 |
| Food industry | 2,862,296 | 1,638,833 |
| Real estate and leasing | 2,586,134 | 2,310,450 |
| Ferrous metals manufacturing | 2,571,986 | 1,856,822 |
| Construction | 2,375,535 | 1,066,827 |
| Oil and gas | 2,137,709 | 2,041,057 |
| Precious metals and diamond extraction and manufacturing | 2,060,411 | 2,000,206 |
| Chemical | 1,778,771 | 590,594 |
| Energy industry | 1,756,171 | 514,328 |
| Manufacturing | 1,336,902 | 4,843,035 |
| Transport | 853,856 | 4,322,154 |
| Hotel business | 465,445 | 578,064 |
| Agriculture | 211,486 | 697,663 |
| Non-ferrous metals manufacturing | 146,409 | 40,140 |
| Heavy industry | — | 398,665 |
| Other | 2,390,348 | 1,628,450 |
| Accrued interest income on loans and advances to customers | 247,970 | 492,311 |
| | <u>64,506,413</u> | <u>54,766,721</u> |
| Less allowance for loan losses | (2,907,400) | (2,422,410) |
| | <u>61,599,013</u> | <u>52,344,311</u> |

As of 31 December 2003 included in loans to customers are loans collateralized by pledge of securities purchased under agreement to resell amounting to RUR 80,408 thousand. The reverse repurchase agreements matured within January 2004. Securities purchased under the agreement to resell comprise of Bonds of Leningrad Region Authority with fair value of RUR 104,087 thousand as of 31 December 2003.

14. INVESTMENT SECURITIES

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|-------------------------------------|----------------------------------|---------------------------------|
| Securities available-for-sale | 1,396,134 | 2,865,540 |
| Securities held-to-maturity | — | 132,378 |
| | <u>1,396,134</u> | <u>2,997,918</u> |
| Less allowance for impairment | (120,642) | (94,594) |
| | <u>1,275,492</u> | <u>2,903,324</u> |

Movements in allowance for impairment for the 9 months ended 30 September 2004 and 2003, and year ended 31 December 2003 are disclosed in Note 6.

Available-for-sale securities comprise:

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|--|------------------------------|-----------------------------|
| Bonds of JSC Centrtelecom | 437,243 | — |
| Ordinary shares of JSC Kamaz | 197,097 | 176,661 |
| Ordinary shares of JSC Silovie Mashini-ZTL | 164,604 | 133,598 |
| Ordinary shares of JSC Surgutneftegaz | 143,303 | — |
| ADR on shares of GMK Norilsky Nickel..... | 136,364 | — |
| Non-consolidated subsidiaries, associates and other investments..... | 120,211 | 135,270 |
| Ordinary shares of GMK Norilsky Nickel | 48,306 | — |
| Ordinary shares of JSC NPO IRKUT..... | 38,942 | — |
| Ordinary shares of JSC Sibirtelecom | 35,460 | 37,853 |
| Preferred shares of JSC Sberbank..... | 14,744 | — |
| Ordinary shares of Monchebank | 14,598 | — |
| Preferred shares of JSC Sibirtelecom | 11,511 | 11,730 |
| Ordinary shares of Hotel Nizhny Novgorod | 10,200 | — |
| Ordinary shares of JSC Sosnovo-Borsky Aluminiyevy Zavod..... | 6,340 | — |
| Ordinary shares of Stock Exchange JSC MMVB..... | 4,774 | — |
| Eurobonds of Russian Federation | 635 | — |
| Promissory notes of JSC Sberbank..... | — | 790,448 |
| Promissory notes of JSC Gazprombank..... | — | 272,100 |
| OFZ Bonds..... | — | 435,768 |
| Promissory notes of JSC Alfa-Bank | — | 411,668 |
| Bonds of MMK Finance..... | — | 103,390 |
| Promissory notes of JSC MDM-Bank..... | — | 101,719 |
| Ordinary shares of JSC Krasnoyarskenergo | — | 100,925 |
| Promissory notes of Impexbank | — | 70,029 |
| Promissory notes of JSC Uralo-Sibirsky Bank..... | — | 28,431 |
| Promissory notes of JSC Vneshtorgbank..... | — | 28,382 |
| Other securities..... | 11,802 | 27,568 |
| | <u>1,396,134</u> | <u>2,865,540</u> |
| Less allowance for impairment | <u>(120,642)</u> | <u>(94,594)</u> |
| | <u><u>1,275,492</u></u> | <u><u>2,770,946</u></u> |

As of 30 September 2004 and 31 December 2003 included in securities available-for-sale was accrued interest income on debt securities amounting to RUR 7,164 thousand and RUR 13,866 thousand.

As of 31 December 2003 included in securities available-for-sale are OFZ bonds of RUR 327,190 thousand, that are pledged under general agreements on money market transactions. As of 31 December 2003 the Bank had no funds received under the above-mentioned agreements.

Corporate bonds and promissory notes represent medium and long term bonds and promissory notes of Russian corporations.

Russian State Bonds (OFZ Bonds) are Rouble denominated government securities issued at discount to face value and guaranteed by the Ministry of Finance of the Russian Federation with a medium to long-term maturities. Interest on OFZ Bonds is paid on a quarterly basis.

Securities held-to-maturity comprise:

| | <i>31 December</i> <i>2003</i> |
|--|-----------------------------------|
| OFZ Bonds | 18,189 |
| Promissory notes of Russian corporations | 114,189 |
| | <u>132,378</u> |

Non-consolidated subsidiaries and associates and other investments comprise:

| | <i>30 September</i> <i>2004</i> | <i>31 December</i> <i>2003</i> |
|-------------------------------------|------------------------------------|-----------------------------------|
| Subsidiaries | 560 | 560 |
| Associates | 21,563 | 21,565 |
| Other | 98,088 | 113,145 |
| | <u>120,211</u> | <u>135,270</u> |
| Less allowance for impairment | (11,603) | (42,159) |
| | <u>108,608</u> | <u>93,111</u> |

Investments in non-consolidated subsidiaries and associates comprise:

| | | | | <i>30</i> <i>September</i> <i>2004</i> | | <i>31 Dec</i> <i>2003</i> |
|--|----------------|---------------------------------|-------------------------------------|--|-------------------------------------|------------------------------|
| | <i>Country</i> | <i>Industry</i> | <i>Share of</i> <i>ownership</i> | | <i>Share of</i> <i>ownership</i> | |
| Subsidiaries | | | | | | |
| LLC Security Agency Shield Plus | Russia | Security | 100% | 300 | 100% | 300 |
| LLC OP Regional detective agency | Russia | Security | 100% | 110 | 100% | 110 |
| LLC PMD-Shield | Russia | Services | 100% | 80 | 100% | 80 |
| LLC Trapeznaya | Russia | Catering | 100% | 50 | 100% | 50 |
| LLC Processing company Nickel | Russia | Plastic cards and processing | 100% | 10 | 100% | 10 |
| CJC RB Finance | Russia | Finance | 100% | 10 | 100% | 10 |
| | | | | <u>560</u> | | <u>560</u> |
| Associates | | | | | | |
| JSC National Registration Company | Russia | Finance | 20% | 9,394 | 20% | 9,394 |
| LLC Interbank Loan Union | Russia | Finance | 31% | 8,466 | 31% | 8,466 |
| JSC DCC | Russia | Finance | 27% | 3,690 | 27% | 3,692 |
| JSC Rosinspektorat | Russia | Other | 28% | 13 | 28% | 13 |
| | | | | <u>21,563</u> | | <u>21,565</u> |

Currently, it is not possible to reasonably estimate the fair value of the investments listed above, therefore these investments are stated at cost less allowance for impairment (if any).

On 25 August 2004 the Board of Directors of the Bank made a decision to sell 17% of shares held by the Bank in LLC PMD-Shield.

On 27 September 2004 the Board of Directors of the Bank made a decision to sell all shares held by the Bank in JSC "Depository Clearing Company" (DCC).

15. FIXED AND INTANGIBLE ASSETS

| | <i>Buildings and leasehold improvements</i> | <i>Furniture and equipment</i> | <i>Intangible assets</i> | <i>Total</i> |
|---------------------------------|---|--|------------------------------|--------------|
| At cost/inflated cost | | | | |
| 31 December 2003 | 77,227 | 125,016 | 118,826 | 321,069 |
| Additions | 322 | 38,045 | 46 | 38,413 |
| Disposals..... | — | (4,487) | — | (4,487) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 30 September 2004..... | 77,549 | 158,574 | 118,872 | 354,995 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Accumulated depreciation | | | | |
| 31 December 2003 | 31,331 | 88,548 | 71,660 | 191,539 |
| Charge for the period | 1,057 | 20,071 | 16,649 | 37,777 |
| Disposals..... | — | (3,021) | — | (3,021) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 30 September 2004..... | 32,388 | 105,598 | 88,309 | 226,295 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| 30 September 2004..... | 45,161 | 52,976 | 30,563 | 128,700 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book value | | | | |
| 31 December 2003 | 45,896 | 36,468 | 47,166 | 129,530 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

16. OTHER ASSETS

Other assets comprise:

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|------------------------------|-----------------------------|
| Debtors on plastic cards settlements | 101,163 | 104,987 |
| Receivable financial asset on spot deals | 51,699 | — |
| Due from suppliers and other contractors | 49,637 | 84,264 |
| Taxes, other than income tax, recoverable..... | 365 | 459 |
| Accrued commissions on fiduciary operations | — | 174,694 |
| Other | 70,550 | 99,403 |
| | <hr/> | <hr/> |
| | 273,414 | 463,807 |
| Less allowance for losses on other assets | (28,190) | (18,841) |
| | <hr/> | <hr/> |
| | 245,224 | 444,966 |
| | <hr/> <hr/> | <hr/> <hr/> |

Movements in allowance for losses for the 9 months ended 30 September 2004 and 2003, and year ended 31 December 2003 are disclosed in Note 6.

17. DEPOSITS FROM BANKS

Deposits from banks comprise:

| | <i>30 September</i> | <i>31 December</i> |
|--|---------------------|--------------------|
| | <i>2004</i> | <i>2003</i> |
| Time deposits | 6,187,152 | 6,572,276 |
| Demand deposits..... | 1,322,779 | 959,609 |
| Securities sold under agreement to repurchase..... | 45,884 | — |
| Accrued interest expense on deposits from banks..... | 47,297 | 28,504 |
| | <u>7,603,112</u> | <u>7,560,389</u> |

As of 30 September 2004 and 31 December 2003 included in deposits from banks are time and demand deposits denominated in gold bullion of RUR 702,922 thousand and RUR 397,354 thousand, respectively.

As of 30 September 2004 and 31 December 2003 included in deposits from banks are time deposits from the National Bank of Byelorussia of RUR 2,115,088 thousand and RUR 2,127,963 thousand, respectively, that represents significant concentration. Out of these amounts RUR 1,384,660 thousand and RUR 1,391,600 thousand, respectively, were secured by pledge of loans granted to customers by the Bank of RUR 2,168,660 thousand and RUR 2,178,180 thousand as of 30 September 2004 and 31 December 2003, respectively (see Note 13).

As of 30 September 2004 securities sold under the agreement to repurchase represent Bonds of MF of Byelorussia that are included in trading securities at the fair value of RUR 45,844 thousand (see Note 12).

18. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | <i>30 September</i> | <i>31 December</i> |
|--|---------------------|--------------------|
| | <i>2004</i> | <i>2003</i> |
| Repayable on demand | 39,184,738 | 23,828,278 |
| Time deposits | 38,680,628 | 34,732,647 |
| Accrued interest expense on customer accounts..... | 456,011 | 244,133 |
| | <u>78,321,377</u> | <u>58,805,058</u> |

As of 30 September 2004 and 31 December 2003 included in customer accounts are time and demand deposits denominated in precious metals of RUR 349,521 thousand and RUR 326,390 thousand, respectively.

As of 30 September 2004 and 31 December 2003, customer accounts of RUR 595,287 thousand and RUR 1,945,095 thousand were held as security against letters of credit and guarantees issued by the Bank.

Analysis of customer accounts by industry:

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|--|------------------------------|-----------------------------|
| Finance..... | 19,173,717 | 13,606,173 |
| Individuals | 19,630,148 | 19,029,581 |
| Non-ferrous metallurgy..... | 11,452,241 | 8,617,516 |
| Oil and gas..... | 9,452,480 | 1,983,672 |
| Ferrous metallurgy..... | 3,892,882 | 5,598,109 |
| Trading..... | 3,453,630 | 1,635,581 |
| Housing..... | 2,106,238 | 2,325,067 |
| Insurance..... | 1,419,853 | 78,713 |
| Professional services..... | 1,084,758 | 525,456 |
| Communications | 1,030,531 | 376,682 |
| Supply and production distribution..... | 727,578 | 32,140 |
| Precious metals and diamond extraction and manufacturing | 633,009 | 369,857 |
| Electric power | 479,320 | 158,228 |
| Building construction..... | 479,054 | 466,992 |
| Social organizations | 469,301 | 144,067 |
| Public health and tourism..... | 405,231 | 456,447 |
| Geology..... | 394,688 | 844,518 |
| Real estate dealership | 329,268 | 601,956 |
| Hotel business | 272,313 | 334,733 |
| Mechanical engineering..... | 209,069 | 255,852 |
| Aircraft industry | 198,463 | 96,495 |
| Leasing..... | 175,903 | 442,321 |
| Publishing..... | 162,567 | 44,721 |
| Defence industry | 148,836 | 328,019 |
| Culture & art | 40,882 | 27,116 |
| Food industry | 36,633 | 82,805 |
| Agriculture | — | 1,682 |
| Other | 6,773 | 96,426 |
| Accrued interest expense on customer accounts..... | 456,011 | 244,133 |
| | <u>78,321,377</u> | <u>58,805,058</u> |

19. DEBT SECURITIES ISSUED

Debt securities issued comprise:

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|------------------------------|-----------------------------|
| Certificates of deposit | 6,938,936 | 6,834,666 |
| Discount bearing promissory notes | 3,991,640 | 6,284,947 |
| Bonds due in 2009 | 3,000,000 | — |
| Discount/interest free promissory notes..... | 1,415,416 | 1,455,089 |
| Adjustable Rate Guaranteed Bonds due in 2012 | 1,153,296 | 1,162,667 |
| Interest bearing promissory notes..... | 521,711 | 34,595 |
| Accrued interest expense on debt securities issued..... | 176,898 | 56,525 |
| | <u>17,197,897</u> | <u>15,828,489</u> |

As of 30 September 2004 and 31 December 2003 interest rates on certificates of deposit denominated in Russian Roubles range from 8% to 9% per annum payable on an annual basis.

As of 30 September 2004 and 31 December 2003 interest rates on promissory notes denominated in Russian Roubles range from 1% to 30% per annum and from 6% to 12% per annum, respectively.

Discount on the promissory notes is amortized over the life of the note and is recorded in interest expense on debt securities issued using the effective interest rate method.

Adjustable Rate Guaranteed Bonds due in 2012 bear interest rate at 7% payable semi-annually which is subject to subsequent scheduled correction.

Bonds due in 2009 bear interest rate at 9.91% to nominal payable semi-annually.

20. PROVISIONS

Provisions comprised of the following:

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|------------------------------|-----------------------------|
| Provisions for guarantees and credit related commitments..... | 165,085 | 139,786 |
| Provisions for legal claims | — | 207,609 |
| | <u>165,085</u> | <u>347,395</u> |

Movements in provisions for the 9 months ended 30 September 2004 and 2003, and year ended 31 December 2003 are disclosed in Note 6.

Provision for legal claims represents payments accrued according to a court decision with regard to lending operations of the Bank.

21. OTHER LIABILITIES

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|------------------------------|-----------------------------|
| Creditors on plastic cards settlements | 130,058 | 86,003 |
| Creditors on operations with securities and precious metals | 87,651 | 85,255 |
| Financial liability on spot deals..... | 61,918 | — |
| Dividends and coupon received on behalf of customers | 46,451 | 16,199 |
| Negative replacement value of derivatives..... | 28,263 | 8,701 |
| Taxes, other than income tax, payable..... | 619 | 790 |
| Accrued bonuses | — | 225,000 |
| Other | 59,252 | 65,717 |
| | <u>414,212</u> | <u>487,665</u> |

22. SHARE CAPITAL AND SHARE PREMIUM

As of 30 September 2004 and 31 December 2003 nominal share capital authorized, issued and fully paid comprised 340,528,420 ordinary shares with par value of RUR 10 each. All shares are ranked equally and carry one vote.

Share premium of RUR 3,672,190 thousand represents the excess of contributions received in share capital over the nominal value of shares issued.

On 27 April 2004 Annual Shareholders' Meeting of the Bank authorized payment of dividends of RUR 0.88 per share for the year 2003. Dividends were paid before 30 September 2004. As at 19 June 2003 Annual Shareholders' Meeting authorized payment of dividends of RUR 0.34 per share for the year 2002. Dividends were paid 31 July 2003.

The Bank's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in statutory accounts of ROSBANK. As of 30 September 2004 and 31 December 2003, non-distributable reserves are represented by a general reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with the ROSBANK's statutes that provide for the creation of a reserve for these purposes.

23. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative financial instruments for trading purposes. The Bank's position and fair value of derivatives outstanding as of 30 September 2004 and 31 December 2003 comprise:

| | 30 September 2004 | | | Net fair value | 31 December 2003 | | | Net fair value |
|--|--------------------|------------------|--------------------|----------------|--------------------|------------------|--------------------|----------------|
| | Notional principal | Asset | Liability | | Notional principal | Asset | Liability | |
| Foreign exchange contracts | | | | | | | | |
| Forwards | | | | | | | | |
| Positive replacement value..... | 1,640,770 | 1,652,483 | (1,640,770) | 11,713 | 421,995 | 431,668 | (421,995) | 9,673 |
| Negative replacement value..... | 255,619 | 254,154 | (255,619) | (1,465) | 1,137,764 | 1,132,559 | (1,137,764) | (5,205) |
| Swaps | | | | | | | | |
| Positive replacement value..... | 591,365 | 595,851 | (591,365) | 4,486 | 1,381,416 | 1,463,259 | (1,381,416) | 81,843 |
| Negative replacement value..... | 67,013 | 66,994 | (67,013) | (19) | 36,824 | 36,508 | (36,824) | (316) |
| Total foreign exchange contracts asset/(liabilities)..... | 2,554,767 | 2,569,482 | (2,554,767) | 14,715 | 2,977,999 | 3,063,994 | (2,977,999) | 85,995 |
| Contracts on precious metals | | | | | | | | |
| Forwards | | | | | | | | |
| Positive replacement value..... | 241,003 | 245,774 | (241,003) | 4,771 | 397,102 | 397,415 | (397,102) | 313 |
| Negative replacement value..... | 76,941 | 75,236 | (76,941) | (1,705) | 318,795 | 315,615 | (318,795) | (3,180) |
| Swaps | | | | | | | | |
| Positive replacement value..... | 785,405 | 810,057 | (785,405) | 24,652 | — | — | — | — |
| Negative replacement value..... | 343,500 | 338,859 | (343,500) | (4,641) | — | — | — | — |
| Total contracts on precious metals asset/(liabilities)..... | 1,446,849 | 1,469,926 | (1,446,849) | 23,077 | 715,897 | 713,030 | (715,897) | (2,867) |
| Contracts on securities | | | | | | | | |
| Forwards | | | | | | | | |
| Positive replacement value..... | 951,525 | 968,871 | (951,525) | 17,346 | — | — | — | — |
| Negative replacement value..... | 1,464,571 | 1,444,138 | (1,464,571) | (20,433) | — | — | — | — |
| Total contracts on securities asset/(liabilities)..... | 2,416,096 | 2,413,009 | (2,416,096) | (3,087) | — | — | — | — |

24. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 30 September 2004 and 31 December 2003, the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

| | <i>30 September 2004</i> | | <i>31 December 2003</i> | |
|---|--------------------------|-----------------------------|-------------------------|-----------------------------|
| | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> |
| Contingent liabilities and credit commitments | | | | |
| Guarantees issued and similar commitments | 9,034,094 | 8,971,370 | 9,568,390 | 8,130,555 |
| Letters of credit and other transaction related contingent obligations..... | 1,124,597 | 296,017 | 949,178 | 208,684 |
| Commitments on credits and unused credit lines... | 14,913,468 | 3,294,490 | 16,881,354 | 3,326,165 |
| | <u>25,072,159</u> | <u>12,561,877</u> | <u>27,398,922</u> | <u>11,665,404</u> |

As of 30 September 2004 and 31 December 2003, letters of credit issued by the Bank of RUR 532,563 thousand and RUR 531,810 thousand, respectively, were collateralised by cash deposited with the Bank. As of 30 September 2004 and 31 December 2003, a provision of RUR 4,882 thousand and RUR 7,908 thousand was created with respect to losses on issued letters of credit.

As of 30 September 2004 and 31 December 2003 guarantees issued by the Bank of RUR 62,724 thousand and RUR 1,413,285 thousand respectively were collateralized by cash deposited with the Bank. The Bank has made a provision of RUR 160,203 thousand and RUR 131,878 thousand against commitments on guarantees issued as of 30 September 2004 and 31 December 2003, respectively.

As of 30 September 2004 and 31 December 2003, the nominal or contract amounts and the risk weighted credit equivalents of derivative financial instruments were:

| | <i>30 September 2004</i> | | <i>31 December 2003</i> | |
|--|--------------------------|-----------------------------|-------------------------|-----------------------------|
| | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> |
| Forward and swap contracts (amounts payable): | | | | |
| Forward foreign exchange contracts | 1,896,389 | 75,856 | 1,559,759 | 62,390 |
| Swap foreign exchange contracts | 658,378 | 26,335 | 1,418,240 | 56,730 |
| Forward contracts on precious metals | 317,944 | 12,718 | 715,897 | 28,636 |
| Swap contracts on precious metals | 1,128,905 | 45,156 | — | — |
| Forward contracts on securities | 2,416,096 | 96,644 | — | — |
| | <u>6,417,712</u> | <u>256,709</u> | <u>3,693,896</u> | <u>147,756</u> |

Capital commitments – The Bank had no material commitments for capital expenditures outstanding as of 30 September 2004.

Operating leases – The Bank's future minimum rental payments under non-cancelable operating leases of buildings and equipment in effect as of 30 September 2004 and 31 December 2003 are presented in the table below.

| | <i>30 September 2004</i> | <i>31 December 2003</i> |
|---|--------------------------|-------------------------|
| Not later than 1 year | 377,307 | 198,216 |
| Later than 1 year but not later than 5 years..... | 939,314 | 322,840 |
| Later than 5 years..... | 65,433 | 16,368 |
| | <u>1,382,054</u> | <u>537,424</u> |

Fiduciary activities – In the normal course of its business the Bank enters into agreements with limited right on decision making with clients for their assets management in accordance with specific

criteria established by clients. The Bank may be liable for losses or actions aimed at appropriation of the clients' funds until such funds or securities are not returned to the client.

The maximum potential financial risk of the Bank at any given moment is equal to the volume of the clients' funds plus/minus any unrealized income/loss on the client's position. In the judgment of management, as of 30 September 2004 and 31 December 2003 the maximum potential financial risk on securities accepted by the Bank on behalf of its clients does not exceed RUR 985,751 thousand and RUR 290,757 thousand, respectively.

The Bank also provides depositary services to its customers. As of 30 September 2004 and 31 December 2003 the Bank held the clients' securities on its accounts for number of securities of 6,094,730,130 and 7,626,416,272 securities, respectively.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers. Management is of the opinion that no material unaccrued losses will be incurred.

Taxes – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management's judgment of the Bank's business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans – As of 30 September 2004 and 31 December 2003, the Bank was not liable for any material supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Bank's principal business activities are within the Russian Federation. Laws and regulations affecting businesses operating in the Russian Federation are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

25. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24 "Related Party Disclosures", are those counter parties that represent:

- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) Associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;
- (d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- (e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

| | <i>30 September 2004</i> | | <i>31 December 2003</i> | |
|--|-----------------------------------|---|-----------------------------------|---|
| | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> |
| Loans and advances to banks, gross | 3,362,351 | 37,260,121 | 509,116 | 9,459,650 |
| Allowance for loans and advances to banks . | (66,140) | (133,332) | (10,182) | (31,156) |
| Trading securities..... | — | 3,783,018 | 351,164 | 8,135,326 |
| Loans and advances to customers, gross..... | 3,948,647 | 64,506,413 | 4,525,139 | 54,766,721 |
| Allowance for loans to customers | (168,551) | (2,907,400) | (196,236) | (2,422,410) |
| Securities available-for-sale, gross | 22,123 | 1,396,134 | 22,125 | 2,865,540 |
| Allowance for impairment losses..... | (11,063) | (120,642) | (11,063) | (94,594) |
| Deposits from banks..... | 163,529 | 7,603,112 | 200,703 | 7,560,389 |
| Customer accounts | 4,737,060 | 78,321,377 | 5,581,093 | 58,805,058 |
| Subordinated debt | 1,450,000 | 1,450,000 | — | — |
| Commitments on credits and unused credit line..... | — | 14,913,468 | 7,778 | 16,881,354 |
| Guarantees issued and similar commitments | 5,341 | 9,034,094 | 396,848 | 9,568,390 |

During the 9 months ended 30 September 2004 and 2003 the Bank originated loans and advances to banks and customers – related parties amounting to RUR 52,096,114 thousand and RUR 3,313,605 thousand, respectively, and received loans and advances repaid of RUR 49,819,371 thousand and RUR 2,826,963 thousand, respectively. The Bank has interest income accrued with respect to loans and advances granted to related parties totaling RUR 28,303 thousand and RUR 52,965 thousand, respectively, as of 30 September 2004 and 31 December 2003.

During the 9 months ended 30 September 2004 and 2003 the Bank received advances from banks and customers – related parties of RUR 166,798,769 thousand and RUR 68,301,528 thousand, respectively, and repaid deposits and advances totaling RUR 167,679,976 thousand and RUR 61,780,195 thousand, respectively. The Bank has interest expense accrued with respect to deposits and advances received from related parties, totaling RUR 65,294 thousand and RUR 42,793 thousand as of 30 September 2004 and 31 December 2003, respectively.

Included in the profit and loss account for the 9 and 3 months ended 30 September 2004 and 2003 are the following amounts which arose due to transactions with related parties:

| | <i>9 months ended 30 September 2004</i> | | <i>9 months ended 30 September 2003</i> | |
|--------------------------------|---|---|---|---|
| | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> |
| Interest income | 935,979 | 7,071,429 | 235,161 | 5,070,291 |
| Interest expense..... | (233,232) | (4,087,579) | (211,510) | (3,249,504) |
| Fee and commission income..... | 9,791 | 1,088,141 | 26,612 | 606,738 |
| Operating expenses | (97,079) | (2,524,762) | (74,554) | (2,209,845) |

| | <i>3 months ended</i> 30 September 2004 | | <i>3 months ended</i> 30 September 2003 | |
|--------------------------------|--|---|--|---|
| | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> |
| Interest income | 358,572 | 2,172,825 | 79,633 | 1,677,221 |
| Interest expense..... | (186,484) | (1,254,425) | (36,358) | (1,170,814) |
| Fee and commission income..... | 6,468 | 380,627 | 8,866 | 231,987 |
| Operating expenses | (32,450) | (956,765) | (22,705) | (662,232) |

Transactions with related parties entered by the Bank during the 9 months ended 30 September 2004 and 2003 and outstanding as of 30 September 2004 and 31 December 2003 were made in the normal course of business and mostly under arm-length conditions.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 30 September 2004 and 31 December 2003 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with Central and National banks – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks – For these instruments the carrying amounts as of 30 September 2004 and 31 December 2003 are a reasonable estimate of their fair value that was determined based on an interest rates model using interest rates on loans with similar credit risk level and maturity period current at the reporting dates.

Trading securities – As of 30 September 2004 and 31 December 2003 trading securities are stated at fair value that was determined with reference to an active market.

Derivative financial instruments – As of 30 September 2004 and 31 December 2003 derivative financial instruments are stated at fair value. Fair values of derivative financial instruments are determined based on quoted market prices (if available) and interest rates models.

Loans and advances to customers – The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Securities available-for-sale – As of 30 September 2004 and 31 December 2003 marketable securities available-for-sale are stated at fair value amounting to RUR 872,946 thousand and RUR 2,526,041 thousand, respectively. Fair value of securities available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market. As of 30 September 2004 and 31 December 2003 non-marketable securities of RUR 523,188 thousand and

RUR 339,499 thousand before allowance for impairment that do not have fixed maturities are stated at cost, less allowance for impairment as there are other appropriate and workable methods of reasonably estimating their fair value.

Securities held-to-maturity – As of 31 December 2003 securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively, which approximates the fair value.

Deposits from banks – As of 30 September 2004 and 31 December 2003 the carrying amount of deposits from banks is a reasonable estimate of their fair value that was determined based on an interest rates model using interest rates on deposits with similar credit risk level and maturity period current at the reporting dates.

Customer accounts and subordinated debt – As of 30 September 2004 and 31 December 2003 the carrying amount of customer accounts is a reasonable estimate of their fair value that was determined based on an interest rates model using interest rates on deposits with similar credit risk level and maturity period current at the reporting dates.

Debt securities issued – Debt securities issued by the Bank as of 30 September 2004 and 31 December 2003 are stated at cost, adjusted for amortization of premium and discounts, which approximates their fair value.

Securities purchased and sold under agreements to resell and repurchase – As of 30 September 2004 and 31 December 2003, the fair value of securities purchased and sold under agreements to resell and repurchase is determined based on market value of backed securities and other assets with reference to an active market.

27. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus minority interest and the Bank's provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

| <i>Estimate</i> | <i>Description of position</i> |
|-----------------|---|
| 0% | Cash and balances with the Central Bank of the Russian Federation |
| 0% | State debt securities in Roubles |
| 20% | Loans and advances to banks for up to 1 year |
| 100% | Loans and advances to customers |
| 100% | Other assets |
| 0% | Standby letters of credit secured by customer funds |
| 50% | Other standby letters of credit and other transaction related contingent obligations and commitments on unused loans with the initial maturity of over 1 year |
| 100% | Guarantees issued and similar commitments |

The Bank's actual capital amounts and ratios are presented in the following table:

| <i>Capital amounts and ratios</i> | <i>Actual Amount in RUR thousand</i> | <i>For Capital Adequacy purposes Amount in RUR thousand</i> | <i>Ratio For Capital Adequacy purposes</i> | <i>Minimum Required Ratio</i> |
|-----------------------------------|--------------------------------------|---|--|-------------------------------|
| As of 30 September 2004 | | | | |
| Total capital..... | 8,527,689 | 10,885,223 | 13.25% | 8% |
| Tier 1 capital..... | 8,527,689 | 8,527,689 | 10.38% | 4% |
| As of 31 December 2003 | | | | |
| Total capital..... | 8,428,735 | 9,391,949 | 12.05% | 8% |
| Tier 1 capital..... | 8,428,735 | 8,428,735 | 10.81% | 4% |

As of 30 September 2004 the Bank included in the computation of total capital for capital adequacy purposes the subordinated debts received, limited to 50% of Tier 1 capital. The loans mature on 2012 and 2010 and bear interest rate of 10% and 8% per annum, respectively. In the event of bankruptcy or liquidation of the Bank repayment of this loan is subordinate to the repayments of the Bank's liabilities to all other creditors.

28. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to ordinary shareholders is the net profit or loss for the period after deducting preference dividends; the number of ordinary shares is the weighted average number of ordinary shares outstanding during the period adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding, without a corresponding change in resources.

For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding is adjusted for the effects of all dilutive potential ordinary shares, if any.

The Bank's earnings per share comprise:

| | | <i>Basic</i> | | <i>Diluted</i> | | |
|-------------------|--|----------------------------------|--|--|----------------------------------|--|
| | <i>Weighted average number of shares outstanding during the period</i> | <i>Profit for the period</i> | <i>Earnings per share (in RUR)</i> | <i>Weighted average number of shares outstanding during the period</i> | <i>Profit for the period</i> | <i>Earnings per share (in RUR)</i> |
| 9 months ended | | | | | | |
| 30 September 2004 | 340,528,420 | 430,842 | 1.27 | 340,528,420 | 430,842 | 1.27 |
| 3 months ended | | | | | | |
| 30 September 2004 | 340,528,420 | 240,661 | 0.71 | 340,528,420 | 240,661 | 0.71 |
| 9 months ended | | | | | | |
| 30 September 2003 | 340,528,420 | 298,955 | 0.88 | 340,528,420 | 298,955 | 0.88 |
| 3 months ended | | | | | | |
| 30 September 2003 | 340,528,420 | 39,076 | 0.11 | 340,528,420 | 39,076 | 0.11 |

29. SUBSEQUENT EVENTS

On 3 November 2004 the Bank issued bonds of USD 225 mln at 9.75% per annum. The bonds are secured by future receivables under debit and credit card transactions. The Bank is a settlement bank of a processing company United Card Systems on such transactions.

In December 2004 the Bank received a syndicated loan of US Dollars 50 million that matures in December 2005 and bears interest at an annual rate of US Dollar LIBOR plus 2.75%.

30. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

The Bank manages the following risks:

Liquidity risk

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

Liquidity and cash flow risks are managed by the Treasury department. Strategic decisions and overall risk monitoring is provided by the Management Board and Credit Committee.

The following tables present an analysis of interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

| | <i>Up to 1 month</i> | <i>1 month to 3 months</i> | <i>3 months to 1 year</i> | <i>1 year to 5 years</i> | <i>Over 5 years</i> | <i>Overdue</i> | <i>Maturity undefined (incl. allowance for losses and impairment)</i> | <i>30 Sept 2004 RUR thousand Total</i> |
|---|--------------------------|--------------------------------|-------------------------------|------------------------------|-------------------------|----------------|---|--|
| ASSETS | | | | | | | | |
| Interest rate bearing assets | | | | | | | | |
| Loans and advances to banks, less allowance for loan losses..... | 25,739,534 | 2,811,930 | 1,021,653 | 131,263 | 15,000 | — | (118,028) | 29,601,352 |
| Trading assets..... | 3,488,822 | — | — | — | — | — | — | 3,488,822 |
| Loans and advances to customers, less allowance for loan losses..... | 17,704,095 | 7,939,440 | 24,826,910 | 13,561,651 | — | — | (2,669,894) | 61,362,202 |
| Investment securities, less allowance for impairment..... | — | — | — | 434,250 | 635 | — | (2,614) | 432,271 |
| Total interest rate bearing assets | 46,932,451 | 10,751,370 | 25,848,563 | 14,127,164 | 15,635 | — | (2,790,536) | 94,884,647 |
| Cash and balances with Central and National banks..... | 6,107,713 | — | — | — | — | — | 3,046,737 | 9,154,450 |
| Loans and advances to banks, less allowance for loan losses..... | 7,533,877 | 4,868 | 1,769 | 227 | — | — | (15,304) | 7,525,437 |
| Trading assets..... | 662,411 | — | — | — | — | — | — | 662,411 |
| Loans and advances to customers, less allowance for loan losses..... | 67,634 | 30,905 | 96,641 | 52,790 | — | 226,347 | (237,506) | 236,811 |
| Investment securities, less allowance for impairment..... | — | — | 841,038 | — | 120,211 | — | (118,028) | 843,221 |
| Fixed and intangible assets, less accumulated depreciation..... | — | — | — | 83,539 | 45,161 | — | — | 128,700 |
| Other assets, less allowance for losses.... | 153,227 | 49,637 | 70,550 | — | — | — | (28,190) | 245,224 |
| TOTAL ASSETS | 61,457,313 | 10,836,780 | 26,858,561 | 14,263,720 | 181,007 | 226,347 | (142,827) | 113,680,901 |
| LIABILITIES | | | | | | | | |
| Interest rate bearing liabilities | | | | | | | | |
| Deposits from banks..... | 1,104,233 | 1,896,062 | 1,868,529 | 1,360,679 | 3,533 | — | — | 6,233,036 |
| Customer accounts and subordinated debt..... | 12,057,264 | 12,915,333 | 7,578,202 | 797,145 | 6,782,684 | — | — | 40,130,628 |
| Debt securities issued..... | 620,739 | 696,050 | 9,056,926 | 4,058,389 | 1,173,479 | — | — | 15,605,583 |
| Total interest rate bearing liabilities | 13,782,236 | 15,507,445 | 18,503,657 | 6,216,213 | 7,959,696 | — | — | 61,969,247 |
| Deposits from banks..... | 1,336,990 | 15,222 | 8,931 | 939 | 7,994 | — | — | 1,370,076 |
| Customer accounts..... | 39,321,747 | 146,759 | 86,112 | 9,058 | 77,073 | — | — | 39,640,749 |
| Debt securities issued..... | 1,397,647 | 7,820 | 141,544 | 45,302 | 1 | — | — | 1,592,314 |
| Provisions..... | — | — | — | — | — | — | 165,085 | 165,085 |
| Income tax liabilities..... | — | 1,529 | — | — | — | — | — | 1,529 |
| Other liabilities..... | 267,309 | 146,903 | — | — | — | — | — | 414,212 |
| TOTAL LIABILITIES | 56,105,929 | 15,825,678 | 18,740,244 | 6,271,512 | 8,044,764 | — | 165,085 | 105,153,212 |
| Liquidity gap | 5,351,384 | (4,988,898) | 8,118,317 | 7,992,208 | (7,863,757) | | | |
| Interest sensitivity gap | 33,150,215 | (4,756,075) | 7,344,906 | 7,910,951 | (7,944,061) | | | |
| Cumulative interest sensitivity gap | 33,150,215 | 28,394,140 | 35,739,046 | 43,649,997 | 35,705,936 | | | |
| Cumulative interest sensitivity gap as a percentage of total assets | 29% | 25% | 31% | 38% | 31% | | | |

| | <i>Up to 1 month</i> | <i>1 month to 3 months</i> | <i>3 month to 1 year</i> | <i>Maturity undefined (incl. allowance for losses and impairment)</i> | <i>Over 5 years</i> | <i>Overdue</i> | <i>Maturity undefined (incl. allowance for losses and impairment)</i> | <i>31 Dec 2003 RUR thousand Total</i> |
|---|--------------------------|--------------------------------|------------------------------|---|---------------------|----------------|---|---|
| ASSETS | | | | | | | | |
| Interest rate bearing assets | | | | | | | | |
| Time deposits with the CBR..... | 2,500,000 | — | — | — | — | — | — | 2,500,000 |
| Loans and advances to banks, less allowance for loan losses..... | 922,615 | 815,639 | 376,925 | 214,591 | 16,936 | — | (30,324) | 2,316,382 |
| Trading assets..... | 6,600,334 | — | — | — | — | — | — | 6,600,334 |
| Loans and advances to customers, less allowance for loan losses..... | 7,809,299 | 4,873,942 | 25,017,783 | 15,158,204 | — | — | (1,944,776) | 50,914,452 |
| Investment securities, less allowance for impairment..... | 311,010 | 243,950 | 678,512 | 1,027,372 | 102,197 | — | (2,614) | 2,360,427 |
| Total interest rate bearing assets.... | 18,143,258 | 5,933,531 | 26,073,220 | 16,400,167 | 119,133 | — | (1,977,714) | 64,691,595 |
| Cash and balances with Central and National banks..... | 8,640,440 | — | — | — | — | — | 7,015,281 | 15,655,721 |
| Loans and advances to banks, less allowance for loan losses..... | 7,112,744 | — | — | — | — | 200 | (832) | 7,112,112 |
| Trading assets..... | 1,665,371 | — | — | — | — | — | — | 1,665,371 |
| Loans and advances to customers, less allowance for loan losses..... | — | — | 1,390,482 | — | — | 517,011 | (477,634) | 1,429,859 |
| Investment securities, less allowance for impairment..... | — | 13,886 | 485,720 | 135,271 | — | — | (91,980) | 542,897 |
| Fixed and intangible assets, less accumulated depreciation..... | — | — | — | 83,634 | 45,896 | — | — | 129,530 |
| Other assets, less allowance for losses..... | 108,806 | 274,589 | 80,412 | — | — | — | (18,841) | 444,966 |
| TOTAL ASSETS..... | 35,670,619 | 6,222,006 | 28,029,834 | 16,619,072 | 165,029 | 517,211 | 4,448,280 | 91,672,051 |
| LIABILITIES | | | | | | | | |
| Interest rate bearing liabilities | | | | | | | | |
| Deposits from banks..... | 2,419,478 | 869,670 | 2,441,736 | 869,896 | — | — | — | 6,600,780 |
| Customer accounts..... | 16,094,438 | 13,130,565 | 2,578,228 | 483,689 | 2,689,860 | — | — | 34,976,780 |
| Debt securities issued..... | 1,575,722 | 889,640 | 3,215,770 | 7,529,600 | 1,162,668 | — | — | 14,373,400 |
| Total interest rate bearing liabilities | 20,089,638 | 14,889,875 | 8,235,734 | 8,883,185 | 3,852,528 | — | — | 55,950,960 |
| Deposits from banks..... | 959,609 | — | — | — | — | — | — | 959,609 |
| Customer accounts..... | 23,828,278 | — | — | — | — | — | — | 23,828,278 |
| Debt securities issued..... | 1,206,208 | 210,001 | 38,880 | — | — | — | — | 1,455,089 |
| Provisions..... | — | 207,609 | — | — | — | — | 139,786 | 347,395 |
| Income tax liabilities..... | — | 214,320 | — | — | — | — | — | 214,320 |
| Other liabilities..... | 197,066 | 65,599 | 225,000 | — | — | — | — | 487,665 |
| TOTAL LIABILITIES..... | 46,280,799 | 15,587,404 | 8,499,614 | 8,883,185 | 3,852,528 | — | 139,786 | 83,243,316 |
| Liquidity gap..... | (10,610,180) | (9,365,398) | 19,530,220 | 7,735,887 | (3,687,499) | — | — | — |
| Interest sensitivity gap..... | (1,946,380) | (8,956,344) | 17,837,486 | 7,516,982 | (3,733,395) | — | — | — |
| Cumulative interest sensitivity gap | (1,946,380) | (10,902,724) | 6,934,762 | 14,451,744 | 10,718,349 | — | — | — |
| Cumulative interest sensitivity gap as a percentage of total assets | (2%) | (12%) | 8% | 16% | 12% | — | — | — |

Substantially all of the Bank's interest earning assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest bearing liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

The maturity of term deposits of individuals is based on contractual terms. However, term deposits can be withdrawn by individuals on demand.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Bank's previous experience indicate that these deposits are a stable and long-term source of finance for the Bank.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

Interest rate and market risks are managed within the limit framework as established in accordance with the standards set by the Bank. Interest rate risks are controlled via regular interest rate gap reporting. The Bank does not perform hedging activities thus no risk management policy for hedging transactions has been developed.

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Average effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

| | <i>30 Sept 2004</i> | | | <i>31 Dec 2003</i> | | |
|---|-------------------------|------------|-----------------------------|------------------------|------------|-----------------------------|
| | <i>RUR</i> | <i>USD</i> | <i>Other currencies</i> | <i>RUR</i> | <i>USD</i> | <i>Other currencies</i> |
| ASSETS | | | | | | |
| Cash and balances with Central and National banks..... | — | — | — | 1.3% | — | — |
| Loans and advances to banks | 8.7% | 2.0% | 2.0% | 8.5% | 2.7% | 0.7% |
| Trading assets..... | 10.2% | 6.7% | 5.4% | 13.0% | 9.2% | 9.1% |
| Loans and advances to customers..... | 15.0% | 11.5% | 10.4% | 16.2% | 11.4% | 10.3% |
| Investment securities..... | 9.1% | — | 9.3% | 10.0% | — | 10.0% |
| LIABILITIES | | | | | | |
| Deposits from banks..... | 3.3% | 1.6% | — | 2.5% | 4.2% | 2.0% |
| Customer accounts | 9.1% | 6.5% | 5.1% | 6.9% | 5.4% | 5.2% |
| Debt securities issued..... | 9.3% | 4.4% | — | 13.6% | 5.1% | — |
| Subordinated debt | 9.2% | — | — | — | — | — |

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

| | <i>RUR</i> | <i>USD</i> <i>1 USD =</i> <i>29.2171</i> <i>RUR</i> | <i>EUR</i> <i>1 EUR =</i> <i>35.9896</i> <i>RUR</i> | <i>Gold bullion</i> <i>1 ounce =</i> <i>12,144.09</i> <i>RUR</i> | <i>Other</i> <i>currency</i> | <i>Currency</i> <i>undefined</i> <i>(incl.</i> <i>allowance for</i> <i>losses and</i> <i>impairment)</i> | <i>30 Sept 2004</i> <i>RUR</i> <i>thousand</i> <i>Total</i> |
|---|-------------------|--|--|---|---------------------------------|---|--|
| ASSETS | | | | | | | |
| Cash and balances with Central and National banks | 8,436,502 | 448,685 | 222,680 | — | 46,583 | — | 9,154,450 |
| Loans and advances to banks, less allowance for loan losses..... | 7,547,912 | 26,464,773 | 3,038,016 | — | 209,420 | (133,332) | 37,126,789 |
| Trading assets | 2,868,413 | 818,161 | 1,206 | 83,478 | 379,975 | — | 4,151,233 |
| Loans and advances to customers, less allowance for loan losses | 28,522,082 | 34,473,162 | 376,560 | — | 1,134,609 | (2,907,400) | 61,599,013 |
| Investment securities, less allowance for impairment..... | 1,259,135 | 136,999 | — | — | — | (120,642) | 1,275,492 |
| Fixed and intangible assets, less accumulated depreciation | 128,700 | — | — | — | — | — | 128,700 |
| Other assets, less allowance for losses..... | 196,780 | 33,321 | 4,313 | 71 | 38,929 | (28,190) | 245,224 |
| TOTAL ASSETS | 48,959,524 | 62,375,101 | 3,642,775 | 83,549 | 1,809,516 | (3,189,564) | 113,680,901 |
| LIABILITIES | | | | | | | |
| Deposits from banks..... | 2,373,990 | 3,401,427 | 210,688 | 702,922 | 914,085 | — | 7,603,112 |
| Customer accounts and subordinated debt..... | 34,536,820 | 41,943,940 | 2,588,022 | 8,189 | 694,406 | — | 79,771,377 |
| Debt securities issued..... | 13,903,435 | 3,185,391 | 78,936 | — | 30,135 | — | 17,197,897 |
| Provisions | — | — | — | — | — | 165,085 | 165,085 |
| Income tax liabilities..... | 380 | — | — | — | 1,149 | — | 1,529 |
| Other liabilities | 177,618 | 184,489 | 25,453 | 2,012 | 24,640 | — | 414,212 |
| TOTAL LIABILITIES | 50,992,243 | 48,715,247 | 2,903,099 | 713,123 | 1,664,415 | 165,085 | 105,153,212 |
| OPEN BALANCE SHEET POSITION | | | | | | | |
| | (2,032,719) | 13,659,854 | 739,676 | (629,574) | 145,101 | | |

Derivative financial instruments

Fair values of the derivative financial instruments are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivatives' contracts as of 30 September 2004:

| | | USD 1 USD = 29.2171 RUR | EUR 1 EUR = 35.9896 RUR | Gold bullion 1 ounce = 12,144.09 RUR | Other currency | Currency undefined | 30 Sep 2004 RUR thousand Total |
|---|--------------------|----------------------------------|----------------------------------|---|-------------------|--|---|
| Payable under forward and swap contracts..... | (91,484) | (5,800,797) | (212,045) | (76,941) | (236,445) | — | (6,417,712) |
| Receivables under forward and swap contracts..... | 1,054,831 | 2,647,504 | — | 734,422 | 2,015,660 | — | 6,452,417 |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS..... | 963,347 | (3,153,293) | (212,045) | 657,481 | 1,779,215 | — | 34,705 |
| TOTAL OPEN POSITION | (1,069,372) | 10,506,561 | 527,631 | 27,907 | 1,924,316 | | |
| | | | | | | Currency undefined (incl. allowance for losses and impair- ment) | 31 Dec 2003 RUR thousand Total |
| ASSETS | | USD 1 USD = 29.4545 RUR | EUR 1 EUR = 36.8240 RUR | Gold bullion 1 ounce = 12,289.90 RUR | Other currency | | |
| Cash and balances with Central and National banks..... | 16,802,438 | 1,099,242 | 229,866 | — | 24,175 | — | 18,155,721 |
| Loans and advances to banks, less allowance for loan losses | 1,311,893 | 7,104,983 | 821,736 | — | 221,038 | (31,156) | 9,428,494 |
| Trading assets..... | 6,272,578 | 1,446,240 | 398,919 | 4,417 | 143,551 | — | 8,265,705 |
| Loans and advances to customers, less allowance for loan losses | 21,276,487 | 33,071,201 | 251,189 | — | 167,844 | (2,422,410) | 52,344,311 |
| Investment securities, less allowance for impairment | 2,892,815 | 1,208 | 103,821 | — | 74 | (94,594) | 2,903,324 |
| Fixed and intangible assets, less accumulated depreciation..... | 117,002 | — | — | — | 12,528 | — | 129,530 |
| Other assets, less allowance for losses..... | 248,915 | 174,511 | 6,043 | — | 34,338 | (18,841) | 444,966 |
| TOTAL ASSETS | 48,922,128 | 42,897,385 | 1,811,574 | 4,417 | 603,548 | (2,567,001) | 91,672,051 |
| LIABILITIES | | | | | | | |
| Deposits from banks | 1,924,943 | 5,107,433 | 130,150 | 397,354 | 509 | — | 7,560,389 |
| Customer accounts | 26,315,331 | 30,698,524 | 1,363,690 | 37,643 | 389,870 | — | 58,805,058 |
| Debt securities issued | 13,000,691 | 2,799,101 | — | — | 28,697 | — | 15,828,489 |
| Provisions | 207,609 | — | — | — | — | 139,786 | 347,395 |
| Income tax liabilities | 214,320 | — | — | — | — | — | 214,320 |
| Other liabilities | 296,616 | 143,110 | 28,244 | — | 19,695 | — | 487,665 |
| TOTAL LIABILITIES | 41,959,510 | 38,748,168 | 1,522,084 | 434,997 | 438,771 | 139,786 | 83,243,316 |
| OPEN BALANCE SHEET POSITION . | 6,962,618 | 4,149,217 | 289,490 | (430,580) | 164,777 | | |

Derivative financial instruments

Fair values of the derivative financial instruments are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivatives' contracts as of 31 December 2003:

| | | <i>USD</i> <i>1 USD =</i> <i>29.4545</i> | <i>EUR</i> <i>1 EUR =</i> <i>36.8240</i> | <i>Gold bullion</i> <i>1 ounce =</i> <i>12,260.44</i> | | | <i>31 Dec 2003</i> <i>RUR</i> <i>thousand</i> <i>Total</i> |
|--|------------------|--|--|---|---------------------------------|-------------------------------------|---|
| | <i>RUR</i> | <i>RUR</i> | <i>RUR</i> | <i>RUR</i> | <i>Other</i> <i>currency</i> | <i>Currency</i> <i>undefined</i> | |
| Payable under forward and swap contracts..... | (1,030,750) | (1,135,779) | (14,707) | (21,831) | (1,490,829) | — | (3,693,896) |
| Receivables under forward and swap contracts..... | 404,350 | 2,547,369 | 128,090 | 691,433 | 5,782 | — | 3,777,024 |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS..... | (626,400) | 1,411,590 | 113,383 | 669,602 | (1,485,047) | — | 83,128 |
| TOTAL OPEN POSITION | 6,336,218 | 5,560,807 | 402,873 | 239,022 | (1,320,270) | | |

Credit risk

Credit activities are conducted in accordance with the regulatory framework set by the Central Bank of the Russian Federation as well as internationally accepted criteria. Credit Policy is defined by the Bank's Management Board and the Credit Committee. Credit Risk is taken based on the principles of risk adequacy, adequacy of profitability and strategic rationale. Credit operations conducted by the Bank include term loans, credit lines, overdraft facilities, syndications, documentary operations and other operations involving credit risk. The credit procedure is structured in line with a strict segregation of duties, based on the approved Credit Manual of the Bank.

The Bank performs the following activities to manage credit risk:

- Rating of credits;
- Performance of uncovered documentary operations;
- Purchase of debt bonds for issuers of which no credit risk limits have been established;
- Participation of the Bank in funding the corporate clients investment projects;
- Rendering of other services, equivalent to credit operations, by the Bank, its affiliates and branches;
- Approval of credit risk limits for counterparties;
- Approval of limits and check amounts for credit operations of the branches;
- Approval of the quotas of the Bank's branches in the limits for financial institutions, approval of the criteria for classification of loans in the Bank's loan portfolio for the creation of relevant loan loss allowance, formulation of proposals for the Board regarding the identification and modification of risk groups for specific loans;
- Approval of terms of credit for individuals;
- Approval of standard credit facilities;
- Approval of the procedures for evaluating various types of credit risk coverage.

The Credit Committee is a standing body of the Bank, authorized to take decisions on all issues relating to the credit operations of the Bank. Its task is to ensure formulation and implementation of the single credit policy of the Bank and its branches.

The Credit Committee consider issues regarding the assumption of credit risks for transactions for which the price does not exceed the relevant limit (there are separate limits for corporate clients, financial institutions and individuals) established and revised on an annual basis by the Board and/or for which the period does not exceed 12 months.

The assumption of credit risks for transactions which price exceeds the relevant limit established by the Board and/or for which the period exceeds 12 months is considered by the Board.

Market risk

Market risk is assessed by the Bank using value at risk (VAR) methodology. VAR is calculated based on internationally accepted approach. The Bank performs back testing of the adequacy of the methodology at least every 3 months with reference to current market terms to ensure that deviations for all statistics parameters included in the calculation are within expected values. Based on statistics for preceding six months and maturities of debt securities, the Bank produces a model securities portfolio, calculates a proportion of different types of securities in the portfolio and the overall risk of the portfolio which is viewed as a standard portfolio proportion in current terms.

A stop-loss instrument is also used to prevent unexpected significant losses resulted from fluctuations in the securities portfolio. The stop-loss limits are set for accumulated losses for a day and for a month as a percentage of investments. The month stop-loss limit is set at 3/2 of a daily limit. No operations are allowed after the loss reaches the stop-limit. Daily limit utilization is determined from realized and unrealized loss mark-to-market adjustment. Market prices used are based on quotations in REUTERS and by brokers of Tradition, ADIX, Eurobroker, Garban.

Geographical concentration

The geographical concentration of assets and liabilities is set out below:

| | <i>Russia</i> | <i>Other CIS countries</i> | <i>OECD countries</i> | <i>Other non-OECD countries</i> | <i>Undefined (incl. allowance for losses and impairment)</i> | <i>30 Sept 2004 RUR thousand Total</i> |
|---|--------------------|----------------------------|-----------------------|---------------------------------|--|--|
| ASSETS | | | | | | |
| Cash and balances with Central and National banks..... | 9,115,854 | 32,795 | 5,801 | — | — | 9,154,450 |
| Loans and advances to banks, less allowance for loan losses | 9,049,034 | 226,061 | 27,985,026 | — | (133,332) | 37,126,789 |
| Trading assets | 3,680,312 | 188,724 | 282,197 | — | — | 4,151,233 |
| Loans and advances to customers, less allowance for loan losses | 56,756,947 | 2,069,286 | 2,163,341 | 3,516,839 | (2,907,400) | 61,599,013 |
| Investment securities, less allowance for impairment | 1,396,062 | 72 | — | — | (120,642) | 1,275,492 |
| Fixed and intangible assets, less accumulated depreciation..... | 113,813 | 8,157 | 6,730 | — | — | 128,700 |
| Other assets, less allowance for losses | 259,972 | 10,272 | 3,170 | — | (28,190) | 245,224 |
| TOTAL ASSETS | 80,371,994 | 2,535,367 | 30,446,265 | 3,516,839 | (3,189,564) | 113,680,901 |
| LIABILITIES | | | | | | |
| Deposits from banks | 3,230,122 | 2,329,134 | 799,264 | 1,244,592 | — | 7,603,112 |
| Customer accounts..... | 68,006,930 | 271,275 | 1,492,846 | 10,000,326 | — | 79,771,377 |
| Debt securities issued | 15,994,283 | 30,135 | 1,173,479 | — | — | 17,197,897 |
| Provisions | — | — | — | — | 165,085 | 165,085 |
| Income tax liabilities | 380 | 530 | 619 | — | — | 1,529 |
| Other liabilities | 352,718 | 9,562 | 51,932 | — | — | 414,212 |
| TOTAL LIABILITIES | 87,584,433 | 2,640,636 | 3,518,140 | 11,244,918 | 165,085 | 105,153,212 |
| NET BALANCE SHEET POSITION | (7,212,439) | (105,269) | 26,928,125 | (7,728,079) | | |

| | <i>Russia</i> | <i>Other CIS countries</i> | <i>OECD countries</i> | <i>Other non-OECD countries</i> | <i>Undefined (incl. allowance for losses and impairment)</i> | <i>31 Dec 2003 RUR thousand Total</i> |
|---|-------------------|----------------------------|-----------------------|---------------------------------|--|---------------------------------------|
| ASSETS | | | | | | |
| Cash and balances with Central and National banks | 18,030,836 | 119,175 | 5,710 | — | — | 18,155,721 |
| Loans and advances to banks, less allowance for loan losses | 2,734,840 | 175,501 | 6,549,290 | 19 | (31,156) | 9,428,494 |
| Trading assets..... | 8,184,178 | — | 81,527 | — | — | 8,265,705 |
| Loans and advances to customers, less allowance for loan losses | 48,437,940 | 1,204,962 | 1,885,529 | 3,238,290 | (2,422,410) | 52,344,311 |
| Investment securities, less allowance for impairment | 2,996,206 | 1,281 | 431 | — | (94,594) | 2,903,324 |
| Fixed and intangible assets, less accumulated depreciation..... | 117,002 | 6,328 | 6,200 | — | — | 129,530 |
| Other assets, less allowance for losses | 451,477 | 8,526 | 3,804 | — | (18,841) | 444,966 |
| TOTAL ASSETS | 80,952,479 | 1,515,773 | 8,532,491 | 3,238,309 | (2,567,001) | 91,672,051 |
| LIABILITIES | | | | | | |
| Deposits from banks | 3,891,864 | 2,428,760 | 503,402 | 736,363 | — | 7,560,389 |
| Customer accounts..... | 45,239,896 | 67,100 | 3,565,537 | 9,932,525 | — | 58,805,058 |
| Debt securities issued | 15,828,489 | — | — | — | — | 15,828,489 |
| Provisions | 207,609 | — | — | — | 139,786 | 347,395 |
| Income tax liabilities | 214,320 | — | — | — | — | 214,320 |
| Other liabilities | 467,438 | 5,767 | 14,460 | — | — | 487,665 |
| TOTAL LIABILITIES | 65,849,616 | 2,501,627 | 4,083,399 | 10,668,888 | 139,786 | 83,243,316 |
| NET BALANCE SHEET POSITION | 15,102,863 | (985,854) | 4,449,092 | (7,430,579) | | |

JSB ROSBANK AND SUBSIDIARIES
Independent Auditors' Report
Consolidated Financial Statements
Years Ended 31 December 2003, 2002 and 2001

JSB ROSBANK AND SUBSIDIARIES

TABLE OF CONTENTS

| | <i>Page</i> |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT..... | F-50 |
| CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001: | |
| Consolidated profit and loss accounts..... | F-51 |
| Consolidated balance sheets | F-52 |
| Consolidated statements of changes in shareholders' equity..... | F-53 |
| Consolidated statements of cash flows | F-54 |
| Notes to consolidated financial statements | F-55 - F-97 |

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Joint Stock Bank ROSBANK:

We have audited the accompanying consolidated balance sheet of Joint Stock Bank ROSBANK and subsidiaries (hereinafter – the “**Bank**”) as of 31 December 2003, 2002 and 2001 and the related consolidated profit and loss account and statements of cash flows and changes in shareholders' equity for each of the three years then ended. These financial statements are the responsibility of the Bank'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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audits also include assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2003, 2002 and 2001, and the results of its operations and its cash flows for each of three years then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

12 March 2004, except for Note 27, for which the date is 27 April 2004
Moscow

JSB ROSBANK AND SUBSIDIARIES

CONSOLIDATED PROFIT AND LOSS ACCOUNTS FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001

(in Russian Roubles and in thousands, except for earnings per share which are in Russian Roubles)

| | Notes | 2003 | 2002 | 2001 |
|---|-------|-------------|-------------|-------------|
| Interest income | 5,25 | 7,232,460 | 5,193,525 | 4,051,467 |
| Interest expense | 5,25 | (4,476,455) | (3,172,326) | (2,304,981) |
| NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES | | 2,756,005 | 2,021,199 | 1,746,486 |
| Provision for loan losses | 6 | (126,015) | (9,198) | 572,601 |
| NET INTEREST INCOME | | 2,629,990 | 2,012,001 | 2,319,087 |
| Net gain on trading securities | | 964,198 | 326,026 | 663,366 |
| Net (loss)/gain on foreign exchange operations | | (9,687) | 603,734 | 532,499 |
| Net gain on precious metals operations | | 33,170 | 86,977 | 228,995 |
| Fee and commission income | 7,25 | 983,438 | 831,184 | 1,112,780 |
| Fee and commission expense | 7 | (285,866) | (202,572) | (176,155) |
| Fair value adjustment on securities available-for-sale | | 3,302 | (33,284) | 79,896 |
| Dividend income | | 12,887 | 44,117 | 3,212 |
| Other income | 4 | 83,455 | 41,701 | 27,644 |
| NET NON-INTEREST INCOME | | 1,784,897 | 1,697,883 | 2,472,237 |
| OPERATING INCOME | | 4,414,887 | 3,709,884 | 4,791,324 |
| OPERATING EXPENSES | 8,25 | (3,107,561) | (2,238,930) | (2,448,109) |
| PROFIT BEFORE OTHER PROVISIONS, INCOME TAX, EXTRAORDINARY LOSSES AND LOSS ON NET MONETARY POSITION | | 1,307,326 | 1,470,954 | 2,343,215 |
| Provision for impairment of securities | 6 | (4,428) | (15,515) | (15,193) |
| Provision for losses on other transactions | 6 | (129,609) | (176,220) | 6,342 |
| PROFIT BEFORE INCOME TAX, EXTRAORDINARY LOSSES AND LOSS ON NET MONETARY POSITION | | 1,173,289 | 1,279,219 | 2,334,364 |
| Income tax expense | 9 | (766,320) | (47,211) | (112,257) |
| PROFIT FROM ORDINARY ACTIVITIES BEFORE EXTRA-ORDINARY LOSSES AND LOSS ON NET MONETARY POSITION | | 406,969 | 1,232,008 | 2,222,107 |
| Extraordinary losses | 10 | — | — | (1,240,132) |
| PROFIT BEFORE LOSS ON NET MONETARY POSITION | | 406,969 | 1,232,008 | 981,975 |
| Loss on net monetary position due to inflation effect | | — | (1,037,764) | (1,597,771) |
| NET PROFIT/(LOSS) | | 406,969 | 194,244 | (615,796) |
| Earnings per share, basic and diluted | | 1.2 | 0.6 | (1.8) |

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages F-54 to F-96 form an integral part of these financial statements. The Independent Auditors' Report is presented on page F-49.

JSB ROSBANK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2003, 2002 AND 2001

(in Russian Roubles and in thousands)

| | <i>Notes</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|--------------|-------------------|-------------------|-------------------|
| ASSETS: | | | | |
| Cash and balances with Central and National banks..... | 11 | 18,155,721 | 6,064,192 | 6,212,116 |
| Loans and advances to banks, less allowance for loan losses | 12,25 | 9,428,494 | 8,589,104 | 9,565,931 |
| Trading assets..... | 13 | 8,265,705 | 7,049,989 | 4,792,581 |
| Loans and advances to customers, less allowance for loan losses | 14,25 | 52,344,311 | 33,734,172 | 28,001,653 |
| Investment securities, less allowance for impairment..... | 15,25 | 2,903,324 | 897,428 | 4,410,993 |
| Fixed and intangible assets, less accumulated depreciation.... | 16 | 129,530 | 133,371 | 131,953 |
| Other assets, less allowance for losses..... | 17 | 444,966 | 373,707 | 457,582 |
| TOTAL ASSETS..... | | 91,672,051 | 56,841,963 | 53,572,809 |
| LIABILITIES AND EQUITY | | | | |
| LIABILITIES: | | | | |
| Deposits from the Central Bank of the Russian Federation .. | | — | — | 3,122,203 |
| Deposits from banks | 18,25 | 7,560,389 | 4,737,460 | 2,552,068 |
| Customer accounts | 19,25 | 58,805,058 | 33,676,310 | 32,109,019 |
| Debt securities issued | 20 | 15,828,489 | 9,998,776 | 7,442,365 |
| Provisions | 21 | 347,395 | 218,255 | 79,226 |
| Income tax liabilities | 9 | 214,320 | 2,790 | 6,151 |
| Other liabilities | 22 | 487,665 | 256,085 | 348,118 |
| Total liabilities..... | | 83,243,316 | 48,889,676 | 45,659,150 |
| Minority interest..... | 4 | 92,395 | — | — |
| SHAREHOLDERS' EQUITY: | | | | |
| Share capital | 23 | 5,478,179 | 5,478,179 | 5,478,179 |
| Reserves | | 2,858,161 | 2,474,108 | 2,435,480 |
| Total shareholders' equity | | 8,336,340 | 7,952,287 | 7,913,659 |
| TOTAL LIABILITIES AND EQUITY | | 91,672,051 | 56,841,963 | 53,572,809 |
| FINANCIAL COMMITMENTS AND CONTINGENCIES | 24,25 | 27,398,922 | 13,278,554 | 7,741,750 |

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages F-54 to F-96 form an integral part of these financial statements. The Independent Auditors' Report is presented on page F-49.

JSB ROSBANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001

(in Russian Roubles and in thousands)

| | <i>Share Capital</i> | <i>Share premium</i> | <i>Translation reserve</i> | <i>Accumulated deficit</i> | <i>Total shareholders' equity</i> |
|---------------------------------------|----------------------|----------------------|----------------------------|----------------------------|-----------------------------------|
| 31 December 2000 | 5,478,179 | 3,672,190 | — | (563,030) | 8,587,339 |
| Changes in translation reserves | — | — | (57,884) | — | (57,884) |
| Net profit | — | — | — | (615,796) | (615,796) |
| 31 December 2001 | 5,478,179 | 3,672,190 | (57,884) | (1,178,826) | 7,913,659 |
| Changes in translation reserves | — | — | (155,616) | — | (155,616) |
| Net profit | — | — | — | 194,244 | 194,244 |
| 31 December 2002 | 5,478,179 | 3,672,190 | (213,500) | (984,582) | 7,952,287 |
| Changes in translation reserves | — | — | 92,864 | — | 92,864 |
| Dividends paid | — | — | — | (115,780) | (115,780) |
| Net profit | — | — | — | 406,969 | 406,969 |
| 31 December 2003 | 5,478,179 | 3,672,190 | (120,636) | (693,393) | 8,336,340 |

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages F-54 to F-96 form an integral part of these financial statements. The Independent Auditors' Report is presented on page F-49.

JSB ROSBANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001

(in Russian Roubles and in thousands)

| | <i>Notes</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|--------------|--------------|-------------|-------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Profit before income tax, extraordinary losses and loss on net monetary position..... | | 1,173,289 | 1,279,219 | 2,334,364 |
| Adjustments for: | | | | |
| Provision for loan losses..... | | 126,015 | 9,198 | (572,601) |
| Provision for impairment of securities..... | | 4,428 | 15,515 | 15,193 |
| Provision for losses on other transactions..... | | 129,609 | 176,220 | (6,342) |
| Fair value adjustment on securities available-for-sale..... | | (3,302) | 33,284 | (79,896) |
| Net change in net replacement value of derivative financial instruments..... | | (9,364) | (111,531) | 96,240 |
| Depreciation charge on fixed and intangible assets..... | | 33,820 | 39,297 | 35,615 |
| Net change in interest accruals..... | | (164,050) | (192,824) | 54,839 |
| Change in accrued commission income..... | | (174,694) | (15,585) | (15,585) |
| Change in other accruals..... | | 233,091 | — | — |
| Cash flow from operating activities before changes in operating assets and liabilities..... | | 1,348,842 | 1,263,963 | 1,861,827 |
| Changes in operating assets and liabilities (Increase)/decrease in operating assets: | | | | |
| Minimum reserve deposit with Central and National banks..... | | (2,465,523) | (302,609) | (717,606) |
| Loans and advances to banks..... | | (201,646) | (746,191) | 2,042,093 |
| Trading assets..... | | (2,447,349) | (2,825,563) | (1,450,667) |
| Loans and advances to customers..... | | (21,201,577) | (1,538,520) | (213,376) |
| Other assets..... | | 111,492 | (255,929) | 335,957 |
| Increase/(decrease) in operating liabilities: | | | | |
| Deposit from the Central Bank of the Russian Federation..... | | — | (3,122,203) | 3,122,203 |
| Deposits from banks..... | | 2,730,281 | 2,231,439 | (1,494,130) |
| Customer accounts..... | | 24,992,806 | 1,515,123 | 4,959,270 |
| Other liabilities..... | | 10,202 | (79,525) | (62,410) |
| Cash inflow/(outflow) from operating activities before income taxes..... | | 2,877,528 | (3,860,015) | 8,383,161 |
| Income tax paid..... | | (554,790) | (50,572) | (131,278) |
| Net cash inflow/outflow) from operating activities..... | | 2,322,738 | (3,910,587) | 8,251,883 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Purchase of fixed and intangible assets..... | | (49,086) | (48,027) | (84,128) |
| Proceeds on sale of fixed and intangible assets..... | | 19,107 | 7,312 | 11,558 |
| Purchase of investment securities..... | | (2,024,652) | (147,763) | 584,224 |
| Cash on acquisition of a subsidiary, net of consideration paid..... | | 27,977 | — | — |
| Net cash outflows from investing activities..... | | (2,026,654) | (188,478) | 511,654 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | |
| Dividends paid..... | | (115,780) | — | — |
| Net proceeds on sale of debt securities issued..... | | 8,516,564 | 2,556,171 | (3,809,522) |
| Net cash inflows from financing activities..... | | 8,400,784 | 2,556,171 | (3,809,522) |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS..... | | 8,696,868 | (1,542,894) | 4,954,015 |
| INFLATION EFFECT ON CASH (INCLUDING CHANGE IN VALUATION ALLOWANCES)..... | | — | (1,430,963) | (2,223,068) |
| CHANGE IN TRANSLATION RESERVE..... | | 92,864 | (155,616) | (57,884) |
| CASH AND CASH EQUIVALENTS, beginning of the period..... | 11 | 8,154,246 | 11,283,719 | 8,610,656 |
| CASH AND CASH EQUIVALENTS, end of the period..... | 11 | 16,943,978 | 8,154,246 | 11,283,719 |
| SUPPLEMENTARY INFORMATION: | | | | |
| Interest received in cash..... | | 6,927,775 | 4,446,336 | 4,124,451 |
| Interest paid in cash..... | | (4,335,820) | (3,165,965) | (2,373,163) |

On behalf of the Management Board

Chairman

Chief Financial Officer

The notes on pages F-54 to F-96 form an integral part of these financial statements. The Independent Auditors' Report is presented on page F-49.

JSB ROSBANK AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003, 2002 AND 2001

(in Russian Roubles and in thousands unless otherwise stated)

1. ORGANISATION

ROSBANK is a joint stock bank which was incorporated in the Russian Federation in 1993. ROSBANK is regulated by the Central Bank of the Russian Federation (the “CBR”) and conducts its business under license number 2272. ROSBANK’s primary business consists of commercial banking activities, securities dealings, foreign currency transactions and retail banking. On 7 June 1999 ROSBANK re-registered its legal status from a limited liability bank to a joint-stock bank. On 14 September 2000, at a joint shareholders meeting, it was approved to merge UNEXIM Bank into ROSBANK. UNEXIM Bank was a joint stock bank incorporated in the Russian Federation. On 21 November 2000, the CBR approved the merger and de-registered UNEXIM Bank with ROSBANK as the successor bank.

ROSBANK has 14 branches in the Russian Federation and a representative office in Beijing (China). ROSBANK is registered at: 11, Masha Poryvaeva, Moscow, 107078, Russia.

ROSBANK is a parent company of the Banking group (the “Bank”) which consists of the following enterprises consolidated in the financial statements:

| <i>Name</i> | <i>Country of incorporation</i> | <i>ROSBANK’s ownership interest and voting power</i> |
|----------------------------------|---------------------------------|--|
| Rosbank (Switzerland) SA | Switzerland | 100% |
| Rosbank International Finance BV | The Netherlands | 100% |
| RosInvest SA | Luxembourg | 100% |
| Belrosbank | Byelorussia | 50.00002% |

In 2003 Interros, the major shareholder of the Bank, purchased controlling interest in OVK group. OVK group is a banking network made up of six retail banks operating through 350 branches and offices in most regions and urban areas in Russia. The integration of a bank as large as OVK will require extensive management, personnel and monetary resources. The integration is expected to be completed by the second half of 2005, prior to which time management will be faced with the challenge of modernising the OVK network, integrating its operations and personnel with those of Rosbank, merging its IT systems with those of Rosbank, and implementing group-wide financial and management information systems and controls. As of 30 June 2004 and from the date Interros acquired controlling interest in OVK group, the latter is considered to be a related party to the Bank (Note 24).

The total number of employees of the Bank as of 31 December 2003, 2002 and 2001 was 2,365, 2,183 and 2,023, respectively.

As of 31 December 2003, the following shareholders owned the outstanding shares;

| <i>Shareholder</i> | <i>Share</i> |
|---------------------------------|--------------|
| CJSC “Interros estate” | 71.44% |
| CJSC “Holding company Interros” | 19.99% |
| Other | 8.57% |
| Total | 100.0% |

These consolidated financial statements were authorized for issue by the Management Board of the Bank on 12 March 2004

2. BASIS OF PRESENTATION

Accounting basis – These consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Russian Roubles (“RUR”), unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities, financial assets and financial liabilities held for trading and according to International Accounting Standard 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”).

ROSBANK maintains its accounting records in accordance with Russian law. These financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform to IFRS.

In accordance with IAS 29 the economy of the Russian Federation was considered to be hyperinflationary during 2002 and prior years. As of 1 January 2003, the Russian economy is no longer considered to be hyperinflationary and the values of the Bank’s non-monetary assets, liabilities and equity as stated in measuring units as of 31 December 2002 have formed the basis for the opening balances as of 1 January 2003.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the allowance for losses and impairment and the fair value of financial instruments.

Reporting currency – The reporting currency of these financial statements is the Russian Rouble (RUR).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation – The consolidated financial statements include the financial statements of subsidiaries where ROSBANK, directly or indirectly, owns a majority voting interest. All significant transactions between ROSBANK and its subsidiaries, as well as the relevant balances, have been eliminated. The effective ownership interest of ROSBANK and voting power of ROSBANK in the significant subsidiaries of ROSBANK as of 31 December 2003 are presented in Note 1.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed off during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. The equity and net income attributable to minority shareholders’ interests are shown separately in the balance sheet and profit and loss account, respectively.

In translating the financial statements of a foreign subsidiary into reporting currency for incorporation in the consolidated financial statements, the Bank follows a translation policy in accordance with IAS 21, “The Effects of Changes in Foreign Exchange Rates” and the following procedures are done:

- Assets and liabilities, both monetary and non-monetary, of the foreign entity are translated at the closing rate;
- Income and expense items of the foreign entity are translated at exchange rates at the date of the transactions;
- All resulting exchange differences are classified as equity until the disposal of the investment;
- On disposal of the investment in a foreign entity, related exchange differences are recognized in the profit and loss statement.

Negative goodwill – Any excess of the Bank’s interest in the fair values of the identifiable assets and liabilities of subsidiaries over the cost of acquisition as of the acquisition date is recognized as negative goodwill. To the extent that negative goodwill does not relate to identifiable expected future

losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognized as income in the profit and loss account as follows:

- The amount of negative goodwill not exceeding the fair values of the acquired identifiable non-monetary assets is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable assets and recorded in the profit and loss account as part of other income; and
- The amount of negative goodwill in excess of the fair value of the acquired identifiable non-monetary assets is recognized as income immediately.

Investments in other subsidiaries and associates – Investments in corporate shares where the Bank owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or non-consolidation of such companies does not significantly affect the financial statements of the Bank as a whole, or the Bank has an intention to resell such investments in the nearest future, as well as investments in corporate shares where the Bank owns less than 20% of share capital, are accounted for at fair value or at approximate fair value. Management periodically assesses realizability of the carrying values of such investments and provides valuation allowances, if necessary. Such investments are accounted for as securities available-for-sale.

Recognition and measurement of financial instruments – The Bank recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents – Cash and cash equivalents include cash, unrestricted balances on correspondent and time deposit accounts with central and national banks, loans and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”) with remaining maturity within 90 days, except for margin deposits for operations with plastic cards, as well as precious metals in vault and placed at nostro accounts with OECD banks, and government debt securities included in trading portfolio which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by central and national banks is not included as a cash equivalent due to restrictions on its availability (Note 11).

Loans and advances to banks – In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Amounts due from credit institutions are carried net of any allowance for losses.

Repurchase and reverse repurchase agreements – The Bank enters into sale and purchase back agreements (“repos”) and purchase and sale back agreements (“reverse repos”) in the normal course of its business. Repurchase and reverse repurchase agreements are utilized by the Bank as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repos are retained in the financial statements and consideration received under these agreements are recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the financial statements as cash placed on deposit which is collateralized by securities and other assets.

Trading securities – The trading securities represent debt and equity securities held for trading that are acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading securities are initially recorded at cost which approximates fair value of the consideration given and subsequently measured at fair value.

The Bank uses quoted market prices to determine fair value for the Bank's trading securities. When reliable information about market prices is not available or if liquidating the Bank's position would reasonably be expected to impact market prices, fair value is determined by reference to price quotations for similar instruments traded in different markets or management's estimates of the amounts that can be realized from an orderly disposition over a period of time, assuming current market conditions. Fair value adjustment on trading securities is recognized in profit and loss for the period.

Derivative financial instruments – The Bank enters into derivative financial instruments to manage currency and liquidity risks. However, such instruments are not qualified for hedging purposes. Derivatives entered into by the Bank for trading purposes include forwards, swaps as well as combinations of such instruments on foreign currency, precious metals and securities.

Derivative financial instruments are initially recorded at cost with their subsequent re-measurement to fair value. Fair values are obtained from interest rates' model. Most of derivatives the Bank enters into are of short-term and speculative nature. The results of the valuation of derivatives are reported in trading assets (aggregate of positive market values) or other liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognised in the profit and loss account for the year in which they arise under net (loss)/gain on foreign exchange operations for foreign currency, net gain on trading securities for derivatives on securities and net gain on precious metals operations for precious metals derivatives.

Derivative instruments embedded in other financial instruments are treated as a separate derivative as their risks and characteristics are not closely related to the host contracts and the host contracts are not carried at fair value with unrealized gains and losses reported in profit and loss account for a period. An embedded derivative is a component of a hybrid (combined) financial instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a similar way to a stand-alone derivative. Gains/(losses) arising from changes in the value of derivatives are included in the profit and loss account for the period as net gains/(losses) on respective underlying assets.

Originated loans – Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as trading investments.

Loans granted by the Bank are initially recognized in accordance with the policy stated above. The difference between nominal amount of consideration given and the amortized cost of loans issued at other than market terms is recognized in the period the loan is issued as initial recognition adjustment discounting using market rates at inception and included in the profit and loss account. Loans to customers with fixed maturities are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are carried at cost. Loans and advances to customers are carried net of any allowance for loan losses.

Write off of loans and receivables – Loans and receivables are written off against allowance for loan losses and losses on other assets in case of uncollectibility of loans and receivables, including through repossession of collateral. Loans and receivables are written off after being overdue for three years according to the legislation or under arbitrage decision.

Non-accrual loans – Loans are placed on non-accrual status when interest or principal is delinquent for a period in excess of 90 days, except when all amounts due are fully secured by cash or marketable securities and collection proceedings are in process. Interest income is not recognized if recovery is doubtful. Subsequent payments by borrowers are applied to either principal or delinquent interest based on individual arrangements with the borrower. A non-accrual loan is restored to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within a reasonable period.

Purchased loans and receivables – Loans and receivables acquired from another lender subsequently to the original date are either classified as trading, held to maturity or as available-for-sale investments. For purchased loans classified as available-for-sale investments, fair value is based on an active market or using an interest rates model. If market price is not available and the interest model is not practicable, the price for similar assets is used.

Allowance for losses – The Bank establishes an allowance for losses of financial assets when it is probable that the Bank will not be able to collect the principal and interest according to the contractual terms of financial assets, which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial asset. For financial assets that do not have fixed maturities, expected future cash flows are discounted using periods during which the Bank expects to realize the loan.

The determination of the allowance for loan losses is based on an analysis of the loan portfolio and reflects the amount which, in the judgment of management, is adequate to provide for losses inherent in the loan portfolio. Specific provisions are made as a result of a detailed appraisal of risk assets. In addition, provisions are carried to cover potential risks, which although not specifically identified, are present in the loan portfolio judging by the previous experience.

The change in the allowance for loan losses is charged to profit and the total of the allowance for loan losses is deducted in arriving at loans and advances to customers and banks. Management's evaluation of the allowance is based on the Bank's past loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions.

It should be understood that estimates of loan losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for loan losses, it is the judgment of management that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio.

Securities held-to-maturity – Securities held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in the interest income using the effective interest method over the period to maturity.

Securities available-for-sale – Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement included in the profit and loss account, plus accrued coupon income. The Bank uses quoted market prices to determine fair value for these securities available-for-sale. If such quotes do not exist, management estimation is used. Non-marketable securities that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and workable methods of reasonably estimating their fair value. The financial result of sales of securities available-for-sale that are valued at cost is calculated using the FIFO method.

Fixed and intangible assets – Fixed and intangible assets acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Fixed and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any accumulated impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use. Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight line basis at the following annual prescribed rates:

| | |
|--------------------------------------|--------------------------------|
| Buildings and leasehold improvements | 2% |
| Furniture and equipment | 20% |
| Intangible assets | Over useful life of 3-10 years |

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Impairment loss – If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the profit and loss account for the year in which it arises.

Finance leases – Leases that transfer substantially all the risks and rewards incident to ownership of an asset are classified as finance leases. Title to the assets may or may not eventually be transferred to the Bank. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. A lease is classified as a finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Bank, which acts as lessee under finance lease contracts, recognizes finance leases as assets and liabilities in the balance sheet at the inception of the lease at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it is practicable to determine; otherwise, the rate of interest on similar borrowings, which was effective at the inception of the lease, is used. Initial direct costs related to leased assets are included in the cost of leased assets. The lease payments under finance lease contracts are partially recognized as finance charge and also decrease the finance lease liabilities. 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.

Operating leases – Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases.

The Bank, which acts as lessee under operating lease contracts, includes relevant lease payments in operating expenses over the term of the lease contract.

Taxation – Taxes on income are computed in accordance with the laws of the Russian Federation and countries of domicile of the members of the Bank. Deferred taxes, if any, are provided on items recognized in different periods for financial reporting purposes and income tax purposes, using the balance sheet liability method at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. Deferred tax liabilities, if any, which result from temporary differences, are provided for in full. Deferred tax assets are recorded to the extent that there is a reasonable expectation that these assets will be realized.

Deferred income tax assets and liabilities are offset when:

- The Bank has a legally enforceable right to set off the recognized amounts of current tax assets and current tax liabilities;

- The Bank has an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously;
- The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same tax authority in the each future period in which significant amounts of deferred tax liabilities and assets are expected to be settled or recovered.

Russia also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the profit and loss account.

Deposits from banks and customers – Deposits from banks and customers are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts with fixed maturity are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method. Balances without fixed maturity are stated at cost.

Debt securities issued – Debt securities issued represent promissory notes, certificates of deposit, and bonds issued by the Bank to customers. They are accounted for using the same principles as for deposits from banks and customers.

Provisions – Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Share capital and share premium – Share capital and share premium are recognized at restated cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes. Preferred shares that are non-redeemable or redeemable only upon the occurrence of an event that is not likely to occur are classified as equity.

Dividends on ordinary shares are recognized in shareholders' equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under IAS 10 "Events After the Balance Sheet Date" and disclosed accordingly.

Retirement and other benefit obligations – The Bank does not have any pension arrangements separate from the state pension systems of countries of residence of the Bank and consolidated enterprises that require current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits or significant other compensated benefits requiring accrual.

Contingencies – Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Recognition of income and expense – Interest income and expense are recognized on an accrual basis calculated using the effective interest rate method. The recognition of interest income is suspended when loans become overdue by more than 90 days. Interest income includes also interest income earned on securities. Commission and other income is credited to income when the related transactions are completed. Non-interest expenses are recognized on an accrual basis.

Precious metals – Assets and liabilities denominated in precious metals are translated at the rate computed based on the second fixing of the London Metal Exchange on 31 December 2003, 2002 and 2001 using the RUR/USD exchange rate effective at the date.

Foreign currency translation – Monetary assets and liabilities denominated in foreign currencies are translated into Russian Roubles at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the

date of the transaction. Profits and losses arising from the translations are included in net loss/(gain) on foreign exchange operations.

Rates of exchange – The exchange rates at year-end used by the Bank in the preparation of the consolidated financial statements are as follows:

| | <i>31 Dec</i> <i>2003</i> | <i>31 Dec</i> <i>2002</i> | <i>31 Dec</i> <i>2001</i> |
|--------------------------|------------------------------|------------------------------|------------------------------|
| RUR/USD | 29.4545 | 31.7844 | 30.14 |
| RUR/EUR | 36.8240 | 33.1098 | 26.49 |
| RUR/CHF | 23.5995 | 22.7780 | 17.86 |
| RUR/gold (1 ounce) | 12,289.90 | 10,894.73 | 8,333.71 |
| RUR/ palladium (1 ounce) | 6,397.89 | 7,406.19 | 13,261.60 |
| RUR/ platinum (1 ounce) | 21,734.45 | 19,008.17 | 14,376.78 |

Offset of financial assets and liabilities – A financial asset and financial liability are offset and the net amount is recorded in the balance sheet if the Bank has a legally enforceable right to set off the amounts recognized in the balance sheet and it has an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Fiduciary activities – The Bank provides fiduciary services to its customers. Assets accepted and liabilities incurred under such activities are not included in the Bank’s consolidated financial statements. The Bank also provides depositary services to its customers that include transactions with securities on their depo accounts. The Bank accepts the operational risk on these activities, but does not bear credit or market risks related to these activities.

Reclassifications – Certain reclassifications have been made to the financial statements as of 31 December 2002 and 2001 to conform to the presentation as of 31 December 2003.

4. ACQUISITION OF THE SUBSIDIARY

In December 2003 the Bank acquired 50.00002% interest in CB Belrosbank in exchange for cash consideration. At the date of acquisition the Bank recognized identifiable assets and liabilities of the CB Belrosbank at its fair value and negative goodwill arising on the acquisition. Negative goodwill was calculated as difference between net assets of CB Belrosbank calculated based on market value or discounted cash flow (interest rate) model and the amount of cash paid.

Below is the calculation of negative goodwill recorded in the Bank’s consolidated financial statements with respect to the Bank’s acquisition of CB Belrosbank as of 31 December 2003 and computed as of the date of acquisition:

| | <i>CB</i> <i>Belrosbank</i> <i>16 Dec</i> <i>2003</i> |
|--|--|
| Assets | |
| Cash and cash equivalents | 112,031 |
| Other current assets | 365,008 |
| Non-current assets | 6,328 |
| Total assets | <u>483,367</u> |
| Liabilities | |
| Current liabilities | <u>298,577</u> |
| Net assets | <u>184,790</u> |
| Share in net assets acquired by the Bank | 50.00002% |
| Value of the consideration given | 84,054 |
| Negative goodwill | <u><u>8,341</u></u> |

Negative goodwill of RUR 8,341 thousand was recorded in the profit and loss account for the year ended 31 December 2003 as part of other income.

The acquisition of CB Belrosbank during the year ended 31 December 2003 resulted in minority interest amounting to RUR 92,395 thousand.

5. NET INTEREST INCOME

Net interest income comprises:

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|------------------|------------------|------------------|
| Interest income | | | |
| Interest on loans and advances to customers..... | 4,795,446 | 3,189,950 | 3,166,748 |
| Interest on debt securities..... | 1,860,641 | 1,457,589 | 463,299 |
| Interest on loans and advances to banks..... | 562,795 | 537,999 | 421,420 |
| Interest income on securities purchased under agreement to resell | 13,578 | 7,987 | — |
| Total interest income..... | <u>7,232,460</u> | <u>5,193,525</u> | <u>4,051,467</u> |
| Interest expense | | | |
| Interest on customer accounts..... | 2,685,858 | 1,738,399 | 1,204,939 |
| Interest on debt securities issued..... | 1,373,580 | 1,043,871 | 239,379 |
| Interest on deposits from banks..... | 417,017 | 390,056 | 840,307 |
| Interest expense on swap operations..... | — | — | 20,356 |
| Total interest expense..... | <u>4,476,455</u> | <u>3,172,326</u> | <u>2,304,981</u> |
| Net interest income before provision for loan losses | <u>2,756,005</u> | <u>2,021,199</u> | <u>1,746,486</u> |

6. ALLOWANCE FOR LOSSES, IMPAIRMENT AND PROVISIONS

The movements in allowance for loan losses were as follows:

| | <i>Loans and advances to banks</i> | <i>Loans and advances to customers</i> | <i>Total</i> |
|--|--|--|------------------|
| 31 December 2000..... | 114,629 | 4,433,554 | 4,548,183 |
| Recovery..... | (10,833) | (561,768) | (572,601) |
| Write-offs..... | — | (353,519) | (353,519) |
| Gain on net monetary position..... | (17,209) | (571,594) | (588,803) |
| 31 December 2001..... | <u>86,587</u> | <u>2,946,673</u> | <u>3,033,260</u> |
| Provision/(recovery)..... | 15,064 | (5,866) | 9,198 |
| Write-offs..... | — | (955,805) | (955,805) |
| Recovery of assets previously written off..... | — | 540,794 | 540,794 |
| Gain on net monetary position..... | (12,381) | (345,021) | (357,402) |
| 31 December 2002..... | <u>89,270</u> | <u>2,180,775</u> | <u>2,270,045</u> |
| (Recovery)/provision..... | (58,114) | 184,129 | 126,015 |
| Write-offs..... | — | (1,008) | (1,008) |
| Recovery of assets previously written off..... | — | 58,514 | 58,514 |
| 31 December 2003..... | <u>31,156</u> | <u>2,422,410</u> | <u>2,453,566</u> |

The movements in allowance for other losses were as follows:

| | <i>Investment securities</i> | <i>Other assets</i> | <i>Provisions for guarantees, claims and other commitments</i> | <i>Total</i> |
|-------------------------------------|------------------------------|---------------------|--|--------------|
| 31 December 2000 | 86,852 | 119,976 | 23,060 | 229,888 |
| Provision/(recovery)..... | 15,193 | (71,370) | 65,028 | 8,851 |
| Gain on net monetary position | (14,778) | (12,854) | (8,862) | (36,494) |
| 31 December 2001 | 87,267 | 35,752 | 79,226 | 202,245 |
| Provision..... | 15,515 | 15,644 | 160,576 | 191,735 |
| Write-offs..... | — | (31,390) | — | (31,390) |
| Gain on net monetary position | (12,616) | (1,634) | (21,547) | (35,797) |
| 31 December 2002 | 90,166 | 18,372 | 218,255 | 326,793 |
| Provision..... | 4,428 | 469 | 129,140 | 134,037 |
| 31 December 2003 | 94,594 | 18,841 | 347,395 | 460,830 |

Allowance for losses on assets is deducted from the related assets. Provisions for claims, guarantees and commitments are recorded in liabilities.

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|----------------|----------------|------------------|
| Fee and commission income: | | | |
| Settlements..... | 377,647 | 343,516 | 579,999 |
| Guarantees..... | 202,220 | 71,352 | 52,109 |
| Cash operations..... | 130,112 | 203,228 | 209,782 |
| Foreign exchange operations..... | 115,965 | 55,214 | 229,496 |
| Depository and securities operations..... | 107,158 | 124,952 | 2,976 |
| Documentary operations | 25,685 | 5,263 | 16,914 |
| Other operations..... | 24,651 | 27,659 | 21,504 |
| | <u>983,438</u> | <u>831,184</u> | <u>1,112,780</u> |
| Fee and commission expense: | | | |
| Settlements..... | 237,461 | 146,531 | 121,454 |
| Securities operations | 31,071 | 20,681 | 6,106 |
| Cash operations..... | 11,537 | 26,945 | 21,339 |
| Foreign exchange operations..... | 5,797 | 8,415 | 27,256 |
| | <u>285,866</u> | <u>202,572</u> | <u>176,155</u> |

8. OPERATING EXPENSES

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|--|------------------|------------------|------------------|
| Salary and bonuses | 2,079,415 | 1,157,292 | 1,386,786 |
| Operating lease expense | 423,049 | 406,134 | 402,847 |
| Taxes, other than income tax | 116,885 | 214,683 | 192,992 |
| Repairs and maintenance expense | 77,161 | 71,527 | 58,481 |
| Professional services fees | 66,533 | 48,969 | 78,803 |
| Advertising and marketing expenses | 49,999 | 28,622 | 29,380 |
| Security costs | 43,106 | 26,504 | 26,864 |
| Customs duties paid | 36,804 | 57,262 | 61,005 |
| Depreciation of fixed and intangible assets | 33,820 | 39,297 | 35,615 |
| Insurance | 26,058 | 16,328 | — |
| Business trip expenses | 21,400 | 15,364 | 14,318 |
| Telecommunication service expenses | 18,120 | 22,915 | 31,941 |
| Expenses on stationery and other office expenses | 17,172 | 31,605 | 21,390 |
| Charity expenses | 15,406 | 20,577 | 16,357 |
| Representation expenses | 14,911 | 12,559 | 16,868 |
| Penalties paid | 931 | 18,187 | 1,171 |
| Other | 66,791 | 51,105 | 73,291 |
| | <u>3,107,561</u> | <u>2,238,930</u> | <u>2,448,109</u> |

9. INCOME TAXES

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with statutory tax regulations which may differ from International Financial Reporting Standards. During the years ended 31 December 2003 and 2002, the Russian's tax rate for corporations' for profits other than on state securities was 7.5% to Federal budget and 16.5% to local budget (combined 24% rate). The tax rate for interest income on state securities was 15% to Federal budget. In 2001 taxable income of the Bank was subject to federal and local income tax at nominal rates of 11% and 32%, respectively.

As of 31 December 2003, 2002 and 2001 income tax liabilities of RUR 214,320 thousand, RUR 2,790 thousand and RUR 6,151 thousand, respectively, comprise current income tax liability.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of exchange losses and other expenses and tax-free regime under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2003, 2002 and 2001 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2003, 2002 and 2001 comprise:

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|------------------|------------------|------------------|
| Deferred assets: | | | |
| Loans to banks and customers | 2,559,632 | 1,272,583 | 1,014,466 |
| Deposits from banks and customer accounts | 25,135 | 77 | 229,220 |
| Other liabilities | 8,701 | — | 3,024 |
| Fixed assets | 1,083 | — | — |
| Trading assets | — | 52 | — |
| Securities available-for-sale | — | 51,154 | — |
| Debt securities issued | — | — | 47,195 |
| Other assets | — | — | 15,557 |
| Loss carry forward | — | — | 203,537 |
| | <u>2,594,551</u> | <u>1,323,866</u> | <u>1,512,999</u> |

| | 2003 | 2002 | 2001 |
|--|------------------|------------------|------------------|
| Deferred liabilities: | | | |
| Other assets..... | (150,063) | — | — |
| Trading assets..... | (121,076) | — | (32,943) |
| Investment securities..... | (7,494) | — | — |
| Fixed and intangible assets..... | — | (33,770) | (4,703) |
| Other liabilities..... | — | (26,181) | — |
| Customer accounts..... | — | (32,272) | — |
| Other assets..... | — | (83,603) | — |
| Securities available-for-sale..... | — | — | (95,578) |
| | <u>(278,633)</u> | <u>(175,826)</u> | <u>(133,224)</u> |
| Total deferred liabilities..... | | | |
| Net deferred assets..... | <u>2,315,918</u> | <u>1,148,040</u> | <u>1,379,775</u> |
| Deferred tax assets at the statutory rate of 24%..... | 557,619 | 263,572 | 331,146 |
| Deferred tax (liability)/asset at the statutory rate of 15%..... | (1,124) | 7,473 | — |
| | <u>556,495</u> | <u>271,045</u> | <u>331,146</u> |
| Total deferred tax assets..... | | | |
| Less: valuation allowance..... | (556,495) | (271,045) | (331,146) |
| | <u>—</u> | <u>—</u> | <u>—</u> |
| Net deferred tax asset..... | | | |

Relationships between tax expenses and accounting profit for the years ended 31 December 2003, 2002 and 2001 are explained as follows:

| | 2003 | 2002 | 2001 |
|--|------------------|----------------|----------------|
| Profit before income taxes, extraordinary losses and after loss on net monetary position..... | <u>1,173,289</u> | <u>241,455</u> | <u>736,593</u> |
| Statutory tax rate..... | 24% | 24% | 43% |
| Theoretical tax at the statutory tax rate..... | 281,589 | 57,949 | 316,735 |
| Tax effect of permanent differences..... | 199,281 | 49,363 | (236,887) |
| Change in valuation allowance..... | 285,450 | (60,101) | 32,409 |
| | <u>766,320</u> | <u>47,211</u> | <u>112,257</u> |
| Income tax expense..... | | | |
| Current income tax expense..... | 605,080 | 47,211 | 112,257 |
| Current income tax expense for prior year – additional charge .. | 161,240 | — | — |
| | <u>766,320</u> | <u>47,211</u> | <u>112,257</u> |
| Income tax expense..... | | | |

10. EXTRAORDINARY LOSSES

Extraordinary losses for the year ended 31 December 2001 are represented by the loss from selling of loans to customers. During 2001 the Bank exchanged part of its loan portfolio for cash, new loans and corporate shares. The exchange transaction losses reconciliation is as follows:

| | <i>2001</i> |
|--|------------------|
| Carrying value of loans exchanged out | 8,596,489 |
| Promissory notes received..... | (1,479,392) |
| Corporate shares received..... | (4,006,079) |
| Provision used to write off part of the exchanged loans..... | (347,820) |
| Cash received | (1,502,607) |
| Foreign exchange difference | (20,459) |
| | <u>1,240,132</u> |

11. CASH AND BALANCES WITH CENTRAL AND NATIONAL BANKS

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|--|-------------------|------------------|------------------|
| Cash in vault | 1,896,617 | 461,605 | 429,211 |
| Time deposit with the Central Bank of the Russian Federation . | 2,500,000 | — | — |
| Balance with Central and National banks | 13,759,104 | 5,602,587 | 5,782,905 |
| | <u>18,155,721</u> | <u>6,064,192</u> | <u>6,212,116</u> |

The balances with Central and National banks comprise of balances with the Central Bank of the Russian Federation, the National Bank of Switzerland and the National Bank of the Republic of Belarus as of 31 December 2003, 2002 and 2001 and include RUR 7,015,281 thousand, RUR 4,542,614 thousand and RUR 4,240,005 thousand, respectively, which represent the minimum reserve deposits required by Central and National banks. The Bank is required to maintain the reserve balance at Central and National banks at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise:

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|--|-------------------|-------------------|-------------------|
| Cash and balances with Central and National banks..... | 18,155,721 | 6,064,192 | 6,212,116 |
| Loans and advances to banks in OECD countries | 5,585,212 | 5,094,882 | 6,757,076 |
| Trading government debt securities..... | 179,776 | 1,288,594 | 1,586,706 |
| Precious metals in vault and at nostro accounts..... | 38,550 | 249,192 | 967,826 |
| | <u>23,959,259</u> | <u>12,696,860</u> | <u>15,523,724</u> |
| Less minimum reserve deposit with Central and National banks | (7,015,281) | (4,542,614) | (4,240,005) |
| | <u>16,943,978</u> | <u>8,154,246</u> | <u>11,283,719</u> |

During the year ended 31 December 2003 the Bank settled part of loans to customers for part of Adjustable Rate Guaranteed Bonds due in 2012 issued by the Bank at their nominal value of RUR 2,771,193 thousand, which was treated as a non-cash transaction while preparing the consolidated statement of cash flows.

12. LOANS AND ADVANCES TO BANKS

Loans and advances to banks comprise:

| | 2003 | 2002 | 2001 |
|---|-------------------------|-------------------------|-------------------------|
| Loans to banks..... | 2,306,845 | 1,520,253 | 6,668,524 |
| Advances to banks..... | 7,109,401 | 7,148,984 | 2,979,548 |
| Accrued interest income on loans and advances to banks..... | 43,404 | 9,137 | 4,446 |
| | <u>9,459,650</u> | <u>8,678,374</u> | <u>9,652,518</u> |
| Less allowance for loan losses..... | (31,156) | (89,270) | (86,587) |
| | <u><u>9,428,494</u></u> | <u><u>8,589,104</u></u> | <u><u>9,565,931</u></u> |

Movements in allowances for loan losses for the years ended 31 December 2003, 2002 and 2001 are disclosed in Note 6.

As of 31 December 2003, 2002 and 2001 the Bank had advances to one, two and four counterparties totalling RUR 5,669,067 thousand, RUR 6,141,866 thousand and RUR 5,944,483 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2002 and 2001 included in loans and advances to banks are guarantee deposits for plastic cards of RUR 56,988 thousand and RUR 156,831 thousand, respectively. Those guarantee deposits were subsequently repaid within a 90 day period and were treated as cash equivalents at the above dates.

As of 31 December 2001 included in loans and advances to banks are assets pledged to guarantee forward security transactions amounting to RUR 42,223 thousand.

13. TRADING ASSETS

| | 2003 | 2002 | 2001 |
|---------------------------------------|------------------|------------------|------------------|
| Trading securities..... | 8,135,326 | 6,700,852 | 4,134,042 |
| Derivative financial instruments..... | 91,829 | 99,945 | 922 |
| Precious metals..... | 38,550 | 249,192 | 657,617 |
| | <u>8,265,705</u> | <u>7,049,989</u> | <u>4,792,581</u> |

Trading securities comprise:

| | <i>% rate to nominal</i> | 2003 | <i>% rate to nominal</i> | 2002 | <i>% rate to nominal</i> | 2001 |
|------------------------------------|------------------------------|---------|------------------------------|---------|------------------------------|---------|
| Debt securities | | | | | | |
| Bonds of Krasnoyarsk Region | | | | | | |
| Authority..... | 14% | 881,904 | — | — | — | — |
| Eurobonds of JSC MMK Finance | 8-10% | 795,326 | — | — | — | — |
| Bonds of JSC Eastline..... | 14% | 600,805 | — | — | — | — |
| Bonds of Moscow authority | 10-15% | 587,593 | 15% | 103,826 | 15% | 243,453 |
| Bonds of JSC Uglemet-trading | 12% | 488,586 | — | — | — | — |
| Bonds of Novosibirsk Authority .. | 16% | 367,984 | — | — | — | — |
| Bonds of JSC IAPO..... | 12-17% | 254,250 | 19% | 122,858 | — | — |
| Eurobonds of Euraz Securities..... | 9% | 240,096 | — | — | — | — |
| Bonds of Krasnoyarsk authority .. | 11% | 239,404 | — | — | — | — |
| Bonds of JSC Vneshtorgbank..... | 15% | 218,241 | — | — | — | — |
| Eurobonds of JSC Sistema | 10-11% | 204,182 | — | — | — | — |
| Bonds of LLC Russsky Aluminy | | | | | | |
| Finance..... | 10% | 187,774 | 18% | 318,552 | — | — |
| Bonds of JSC UES..... | 15% | 167,590 | 15% | 111,434 | — | — |
| Eurobonds of JSC Rosneft | 13% | 137,202 | — | — | — | — |

| | <i>% rate to nominal</i> | <i>2003</i> | <i>% rate to nominal</i> | <i>2002</i> | <i>% rate to nominal</i> | <i>2001</i> |
|---|------------------------------|------------------|------------------------------|------------------|------------------------------|------------------|
| Bonds of JSC Alrosa..... | 16% | 113,301 | 16-20% | 91,765 | — | — |
| Bonds of Moscow region authority | 11-17% | 101,609 | 17% | 918,918 | — | — |
| Eurobonds of JSC MTS | 10% | 99,560 | — | — | — | — |
| Bonds of JSC Mikoyanovsky Myasokombinat | 15% | 81,644 | — | — | — | — |
| Bonds of St-Peterburg authority... | 9-15% | 81,640 | 14-17% | 73,299 | — | — |
| OVGVZ Bonds..... | 3% | 78,898 | 3% | 264,675 | 3% | 1,523,448 |
| Bonds of JSC Chelyabinsky Metallurgichesky Kombinat..... | 11% | 72,425 | — | — | — | — |
| Eurobonds of JSC Sibneft | 11-12% | 69,224 | — | — | — | — |
| Bonds of RITEK | 9% | 68,694 | 19% | 55,567 | — | — |
| Bonds of Khabarovsk region authority..... | 13% | 62,921 | — | — | — | — |
| RF Government Eurobonds | 5-10% | 55,214 | 5-8% | 17,374 | 5-13% | 63,258 |
| Bonds of JSC Severo-Zapadny Telecom | 14% | 50,886 | — | — | — | — |
| OFZ bonds..... | 11% | 45,664 | 10-15% | 1,107,183 | 10-15% | 170,053 |
| Eurobonds of JSC Alrosa..... | 8% | 40,283 | — | — | — | — |
| Bonds of Chuvashia Region Authority..... | 12% | 39,308 | — | — | — | — |
| Bonds of Yaroslavl region Authority..... | 14% | 28,204 | — | — | — | — |
| Bonds of Ufa authority..... | 10% | 24,049 | 14% | 90,355 | — | — |
| Bonds of JSC Centrtelecom | 12% | 16,264 | — | — | — | — |
| Promissory notes of JSC Gazprom | — | — | — | 581,326 | — | 303,733 |
| Bonds of JSC Severnaya Neft..... | — | — | 23% | 523,635 | — | — |
| Promissory notes of JSC Vneshtorgbank | — | — | — | 517,891 | — | — |
| Bonds of JSC RTK leasing..... | — | — | 18% | 244,026 | — | — |
| Promissory notes of JSC Sberbank | — | — | — | 241,199 | — | — |
| Bonds of TD Prodimex..... | — | — | 21% | 138,639 | — | — |
| Bonds of JSC LOMO | — | — | 20% | 103,510 | — | — |
| Promissory notes of JSC TNK | — | — | — | 80,645 | — | — |
| Bonds of JSC Vyksunsky Metallurgical Plant | — | — | 19% | 75,006 | — | — |
| Promissory notes of JSC Alrosa ... | — | — | — | 53,053 | — | — |
| Bonds of JSC Impexbank | — | — | 18% | 50,375 | — | — |
| Bonds of JSC VBRR | — | — | 10% | 47,543 | — | — |
| Bonds of Nizhny Novgorod authority..... | — | — | 19% | 40,908 | — | — |
| Bonds of JSC Aeroflot..... | — | — | 21% | 10,533 | 18% | 260,085 |
| Bonds of Magnitogorsky Metallurgy Combinat..... | — | — | — | — | 18% | 414,160 |
| Bonds of Bashkorstan Republic ... | — | — | — | — | 15% | 113,195 |
| Promissory notes of JSC Norilsky Nickel | — | — | — | — | — | 269,270 |
| Other | — | 99,609 | — | 71,229 | — | — |
| | | <u>6,600,334</u> | | <u>6,055,324</u> | | <u>3,360,655</u> |

| | 2003 | 2002 | 2001 |
|--|------------------|------------------|------------------|
| Equity securities | | | |
| Privileged shares of JSC Transneft..... | 615,515 | 38,225 | 87,694 |
| Ordinary shares of JSC UES..... | 420,241 | 208,480 | 278,197 |
| Ordinary shares of JSC Gazprom | 407,748 | 47,477 | — |
| Ordinary shares of JSC Avtovaz..... | 82,118 | — | — |
| Ordinary shares of JSC Krasnoyarskenergo | — | 105,325 | — |
| Ordinary shares of JSC Surgutneftgaz | — | 80,047 | 147,152 |
| Ordinary shares of JSC Rostelekom | — | 64,898 | 39,180 |
| Ordinary shares of JSC NK Lukoil | — | 24,488 | 145,135 |
| Ordinary shares of JSC Mosenergo | — | 24,224 | 65,401 |
| ADR on shares of JSC Mosenergo..... | — | 19,824 | — |
| ADR on shares of JSC UES..... | — | 8,560 | — |
| Privileged shares of JSC Krasnoyarskenergo | — | 6,651 | — |
| Other..... | 9,370 | 17,329 | 10,628 |
| | <u>1,534,992</u> | <u>645,528</u> | <u>773,387</u> |
| | <u>8,135,326</u> | <u>6,700,852</u> | <u>4,134,042</u> |

Corporate bonds and promissory notes represent medium and long term bonds of prime Russian corporations.

Russian State Bonds (OFZ Bonds) are Rouble denominated government securities issued at a discount to face value and guaranteed by the Ministry of Finance of the Russian Federation with a medium to long term maturities. Interest on OFZ Bonds is paid on a quarterly basis.

RF Government Eurobonds are securities issued by the Ministry of Finance of the Russian Federation, and are freely tradable internationally. The Bank's portfolio of Russian Eurobonds consists of 4 tranches that mature in 2007 – 2030. Interest on these bonds is paid semi-annually.

MinFin Bonds (OVGVZ Bonds) are securities issued by the Ministry of Finance of the Russian Federation, which are freely tradable internationally. The Bank's portfolio of the bonds consists of two tranches that mature in 2007-2008. Interest on these bonds is paid on an annual basis.

As of 31 December 2003, 2002 and 2001 included in trading securities is accrued interest income on debt securities amounting to RUR 118,498 thousand, RUR 103,951 thousand and RUR 64,592 thousand, respectively.

As of 31 December 2002 included in trading securities are OFZ bonds amounting to RUR 100,638 thousand that are pledged under general agreements on money market transactions. As of 31 December 2002 the Bank had no funds received under the above mentioned agreements.

As of 31 December 2001 included in trading securities are OFZ bonds amounting to RUR 170,053 thousand that were pledged under a deposit agreement (Note 19). Those securities were not included in calculation of cash equivalents.

Precious metals (bullion in vault) comprise:

| | 2003 | 2002 | 2001 |
|----------------|---------------|----------------|----------------|
| Silver..... | 21,738 | — | — |
| Platinum | 12,395 | 120,428 | — |
| Gold..... | 4,417 | 104,193 | 657,617 |
| Palladium..... | — | 24,571 | — |
| | <u>38,550</u> | <u>249,192</u> | <u>657,617</u> |

14. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers comprise:

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|--------------------------|--------------------------|--------------------------|
| Loans collateralized by pledge of equipment | 5,755,331 | 255,642 | — |
| Loans collateralized by corporate guarantees | 4,573,423 | 5,389,667 | 6,715,877 |
| Loans collateralized by pledge of goods in turnover | 3,696,142 | 3,471,149 | 3,632,020 |
| Loans collateralized by pledge of securities | 2,582,241 | 5,064,455 | 250,604 |
| Loans collateralized by pledge of real estate..... | 588,030 | 243,615 | 767,464 |
| Loans collateralized by others..... | 1,313,686 | 2,513,204 | 578,276 |
| Unsecured loans | 35,765,557 | 18,756,348 | 18,907,641 |
| Accrued interest income on loans and advances to customers | 492,311 | 220,867 | 96,444 |
| | <u>54,766,721</u> | <u>35,914,947</u> | <u>30,948,326</u> |
| Less allowance for loan losses..... | <u>(2,422,410)</u> | <u>(2,180,775)</u> | <u>(2,946,673)</u> |
| | <u><u>52,344,311</u></u> | <u><u>33,734,172</u></u> | <u><u>28,001,653</u></u> |

Movements in allowances for loan losses for the years ended 31 December 2003, 2002 and 2001 are disclosed in Note 6.

As of 31 December 2003, 2002 and 2001 the Bank had loans to ten, seven and seven customers totalling RUR 12,670,152 thousand, RUR 11,840,869 thousand and RUR 11,840,869 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As of 31 December 2003, 2002 and 2001 included in loans and advance to customers are non-accrual loans amounted to RUR 517,011 thousand, RUR 540,916 thousand and RUR 385,399 thousand, respectively.

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|--------------------------|--------------------------|--------------------------|
| Analysis by sector | | | |
| Trading | 8,347,963 | 5,331,249 | 4,937,646 |
| Finance | 6,420,555 | 7,948,861 | 8,288,244 |
| Government | 5,199,675 | 3,190,289 | 340,696 |
| Manufacturing | 4,843,035 | 734,482 | 346,911 |
| Transport | 4,322,145 | — | — |
| Aircraft engineering..... | 4,017,582 | 5,254,509 | — |
| Telecommunications | 2,706,987 | — | — |
| Oil and gas..... | 2,041,057 | 3,131,163 | 4,523,383 |
| Precious metals and diamond extraction and manufacturing..... | 2,000,206 | 1,253,341 | 420,435 |
| Ferrous metals manufacturing..... | 1,856,822 | 758,146 | 586,799 |
| Engineering | 1,822,878 | 40,214 | — |
| Food | 1,638,833 | 2,234,668 | 570,596 |
| Leasing | 1,498,354 | — | — |
| Individuals | 1,231,482 | 363,520 | 203,117 |
| Construction | 1,066,827 | 417,488 | 799,363 |
| Real estate | 812,096 | — | 1,170,148 |
| Agriculture..... | 697,663 | 985,126 | — |
| Chemical | 590,594 | 548,580 | — |
| Hotel business..... | 578,064 | 1,217,860 | — |
| Energy..... | 514,328 | 830,918 | 283,667 |
| Heavy industry | 398,665 | 467,587 | — |
| Non-ferrous metals manufacturing..... | 40,140 | 690,320 | 7,460,812 |
| Other..... | 1,628,450 | 295,759 | 920,065 |
| Accrued interest income on loans and advances to customers | 492,311 | 220,867 | 96,444 |
| | <u>54,766,721</u> | <u>35,914,947</u> | <u>30,948,326</u> |
| Less allowance for loan losses..... | <u>(2,422,410)</u> | <u>(2,180,775)</u> | <u>(2,946,673)</u> |
| | <u><u>52,344,311</u></u> | <u><u>33,734,172</u></u> | <u><u>28,001,653</u></u> |

As of 31 December 2003 and 2002 included in loans to customers are loans collateralized by pledge of securities purchased under agreement to resell amounting to RUR 80,408 thousand and RUR 62,832 thousand, respectively. The reverse repurchase agreements mature within one month. Securities purchased under the agreements to resell comprise:

| | 2003 | | 2002 | |
|--|-----------------------|-------------------|-----------------------|-------------------|
| | <i>Carrying value</i> | <i>Fair value</i> | <i>Carrying value</i> | <i>Fair value</i> |
| Bonds of Leningradsky Region Authority | 80,408 | 104,087 | — | — |
| Ordinary shares of JSC Aeroflot | — | — | 58,109 | 88,754 |
| OVGYZ (4th and 5th tranches) | — | — | 4,723 | 4,847 |
| | <u>80,408</u> | <u>104,087</u> | <u>62,832</u> | <u>93,601</u> |

15. INVESTMENT SECURITIES

| | 2003 | 2002 | 2001 |
|-------------------------------------|------------------|----------------|------------------|
| Securities available-for-sale | 2,865,540 | 987,594 | 4,498,260 |
| Securities held-to-maturity | 132,378 | — | — |
| | <u>2,997,918</u> | <u>987,594</u> | <u>4,498,260</u> |
| Less allowance for impairment | (94,594) | (90,166) | (87,267) |
| | <u>2,903,324</u> | <u>897,428</u> | <u>4,410,993</u> |

Movements in allowance for impairment for the years ended 31 December 2003, 2002 and 2001 are disclosed in Note 6.

Available-for-sale securities comprise:

| | 2003 | 2002 | 2001 |
|--|------------------|----------------|------------------|
| Promissory notes of JSC Sberbank | 790,448 | — | — |
| OFZ Bonds | 435,768 | 195,236 | 323,346 |
| Promissory notes of JSC Alfa-Bank | 411,668 | — | — |
| Promissory notes of JSC Gazprombank | 272,100 | — | — |
| Ordinary shares of JSC Kamaz | 176,661 | 90,224 | — |
| Non-consolidated subsidiaries and associates | 135,270 | 145,081 | 171,400 |
| Common shares of JSC Silovie Mashini-ZTL | 133,598 | — | — |
| MMK Finance bonds | 103,390 | 417,720 | — |
| Promissory notes of JSC MDM-Bank | 101,719 | — | — |
| Ordinary shares of JSC Krasnoyarskenergo | 100,925 | — | — |
| Promissory notes of Impexbank | 70,029 | — | — |
| Ordinary shares of JSC Sibirtelecom | 37,853 | 35,963 | — |
| Promissory notes of JSC Uralo-Sibirsky Bank | 28,431 | 55,186 | — |
| Promissory notes of JSC Vneshtorgbank | 28,382 | — | — |
| Privileged shares of JSC Sibirtelecom | 11,730 | — | — |
| OVGYZ Bonds | — | 19,791 | 13,322 |
| Privileged shares of JSC Transneft | — | — | 3,990,192 |
| Other | 27,568 | 28,393 | — |
| | <u>2,865,540</u> | <u>987,594</u> | <u>4,498,260</u> |
| Less allowance for impairment | (94,594) | (90,166) | (87,267) |
| | <u>2,770,946</u> | <u>897,428</u> | <u>4,410,993</u> |

As of 31 December 2003, 2002 and 2001 included in securities available-for-sale was accrued interest income on debt securities amounting to RUR 13,866 thousand, RUR 36,933 thousand and RUR 6,221 thousand, respectively.

As of 31 December 2003 included in securities available-for-sale are OFZ bonds amounting to RUR 327,190 thousand that are pledged under general agreements on money market transactions. As of 31 December 2003 the Bank had no funds received under the above mentioned agreements.

As of 31 December 2001 included in securities available-for-sale are OFZ bonds amounting to RUR 62,688 thousand which were pledged under deposit agreement (Note 19).

Corporate bonds and promissory notes represent medium and long term bonds of prime Russian corporations.

Russian State Bonds (OFZ Bonds) are Rouble denominated government securities issued at a discount to face value and guaranteed by the Ministry of Finance of the Russian Federation with a medium to long-term maturities. Interest on OFZ Bonds is paid on a quarterly basis.

Non-consolidated subsidiaries and associates and other investments comprise:

| | 2003 | 2002 | 2001 |
|------------------------------------|----------------------|----------------------|----------------------|
| Subsidiaries | 560 | 550 | 289 |
| Associates | 21,565 | 22,065 | 26,805 |
| Other..... | 113,145 | 122,466 | 144,306 |
| | <u>135,270</u> | <u>145,081</u> | <u>171,400</u> |
| Less allowance for impairment..... | (42,159) | (51,061) | (87,267) |
| | <u><u>93,111</u></u> | <u><u>94,020</u></u> | <u><u>84,133</u></u> |

Investments in non-consolidated subsidiaries and associates comprise:

| | Country | industry | Share of ownership | 2003 | Share of ownership | 2002 | Share of ownership | 2001 |
|----------------------------|------------|------------------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| Subsidiaries | | | | | | | | |
| LLC Security Agency | | | | | | | | |
| Shield Plus | Russia | Security | 100% | 300 | 100% | 300 | — | — |
| LLC OP Regional | | | | | | | | |
| detective agency..... | Russia | Security | 100% | 110 | 100% | 110 | 100% | 127 |
| LLC PMD-Shield..... | Russia | Services | 100% | 80 | 100% | 80 | 100% | 92 |
| LLC Trapeznaya | Russia | Catering | 100% | 50 | 100% | 50 | 100% | 58 |
| LLC Processing | | | | | | | | |
| company Nickel..... | Russia | Plastic cards and processing | 100% | 10 | 100% | 10 | 100% | 12 |
| CJC RB Finance | Russia | Finance | 100% | 10 | — | — | | |
| | | | | <u>560</u> | | <u>550</u> | | <u>289</u> |
| Associates | | | | | | | | |
| JSC National | | | | | | | | |
| Registration | | | | | | | | |
| Company | Russia | Finance | 20% | 9,394 | 20% | 9,394 | 20% | 10,812 |
| LLC Interbank Loan | | | | | | | | |
| Union..... | Russia | Finance | 31% | 8,466 | 31% | 8,466 | 31% | 9,744 |
| JSC DCC..... | Russia | Finance | 27% | 3,692 | 27% | 3,692 | 27% | 4,249 |
| JSC Rosinspektorat..... | Russia | Other | 28% | 13 | 28% | 13 | — | — |
| NPF Interros | | | | | | | | |
| Dostoinstvo | Russia | NPF | — | — | 38% | 500 | 50% | 576 |
| JSC “Belstrakhinvest” | Belarussia | Finance | — | — | — | — | 49% | 1,424 |
| | | | | <u>21,565</u> | | <u>22,065</u> | | <u>26,805</u> |

Currently, it is not possible to reasonably estimate the fair value of the investments listed above, therefore these investments are stated at cost less allowance for impairment.

As of 31 December 2003 securities held-to-maturity comprise of OFZ Bonds amounting to RUR 18,189 thousand and promissory notes of prime Russian corporations totaling RUR 114,189 thousand. Included in securities held-to-maturity is accrued interest income of RUR 7,494 thousand. Maturity of the securities held-to-maturity range from January to March 2004.

In 2002 JSC “Belstrakhinvest” increased its share capital. As a result the Bank’s share in the share capital of JSC “Belstrakhinvest” decreased to 0.4% as of 31 December 2002.

In 2002 NPF “Interros Dostoinstvo” increased its share capital. As a result the Bank’s share in the share capital of NPF “Interros Dostoinstvo” decreased to 38.46% as of 31 December 2002.

16. FIXED AND INTANGIBLE ASSETS

| | <i>Buildings and leasehold improvements</i> | <i>Furniture and equipment</i> | <i>Intangible assets</i> | <i>Total</i> |
|---------------------------------|---|------------------------------------|------------------------------|--------------|
| At inflated cost | | | | |
| 31 December 2001 | 70,371 | 91,681 | 100,777 | 262,829 |
| Additions | 6,098 | 24,832 | 17,097 | 48,027 |
| Disposals..... | (1,693) | (7,754) | (3,727) | (13,174) |
| 31 December 2002 | 74,776 | 108,759 | 114,147 | 297,682 |
| Additions | 9,939 | 34,468 | 4,679 | 49,086 |
| Disposals..... | (7,488) | (18,211) | — | (25,699) |
| 31 December 2003 | 77,227 | 125,016 | 118,826 | 321,069 |
| Accumulated depreciation | | | | |
| 31 December 2001 | 27,507 | 58,236 | 45,133 | 130,876 |
| Charge for the period | 4,148 | 21,707 | 13,442 | 39,297 |
| Disposals..... | (84) | (4,109) | (1,669) | (5,862) |
| 31 December 2002 | 31,571 | 75,834 | 56,906 | 164,311 |
| Charge for the period | 852 | 18,214 | 14,754 | 33,820 |
| Disposals..... | (1,092) | (5,500) | — | (6,592) |
| 31 December 2003 | 31,331 | 88,548 | 71,660 | 191,539 |
| Net book value | | | | |
| 31 December 2003 | 45,896 | 36,468 | 47,166 | 129,530 |
| Net book value | | | | |
| 31 December 2002 | 43,205 | 32,925 | 57,241 | 133,371 |
| 31 December 2001 | 42,864 | 33,445 | 55,644 | 131,953 |

17. OTHER ASSETS

Other assets comprise:

| | 2003 | 2002 | 2001 |
|---|----------------|----------------|----------------|
| Accrued commissions on fiduciary operations | 174,694 | — | 15,585 |
| Debtors on plastic cards settlements | 104,987 | 91,668 | — |
| Due from suppliers and other contractors..... | 84,264 | 30,612 | 48,129 |
| Taxes, other than income tax, recoverable..... | 459 | 16,451 | 9,004 |
| Penalties on VAT recoverable | — | 169,865 | — |
| Nostro in gold bullion | — | — | 310,209 |
| Due on restructuring..... | — | — | 35,752 |
| Other | 99,403 | 83,483 | 74,655 |
| | <u>463,807</u> | <u>392,079</u> | <u>493,334</u> |
| Less allowance for losses on other assets | (18,841) | (18,372) | (35,752) |
| | <u>444,966</u> | <u>373,707</u> | <u>457,582</u> |

Movements in allowances for losses for the years ended 31 December 2003, 2002 and 2001 are disclosed in Note 6.

18. DEPOSITS FROM BANKS

Deposits from banks comprise:

| | 2003 | 2002 | 2001 |
|--|------------------|------------------|------------------|
| Time deposits | 6,572,276 | 2,423,571 | 1,038,528 |
| Demand deposits..... | 959,609 | 2,301,481 | 1,455,085 |
| Accrued interest expense on deposits from banks..... | 28,504 | 12,408 | 58,455 |
| | <u>7,560,389</u> | <u>4,737,460</u> | <u>2,552,068</u> |

As of 31 December 2003, 2002 and 2001 included in deposits from banks are time and demand deposits denominated in gold bullion of RUR 397,354 thousand, RUR 6,646 thousand and RUR 20,068 thousand, respectively.

As of 31 December 2003 and 2002 included in deposits from banks are time deposits from one non-OECD counterparty amounting to RUR 2,127,963 thousand and RUR 1,088,310 thousand, respectively, that represents significant concentration.

As of 31 December 2001 included in deposits from banks are demand deposits amounting to RUR 338,049 thousand that are collateralised by OFZ bonds reported as trading securities and securities available-for-sale at fair value totalling RUR 232,741 thousand (Notes 13, 15).

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

| | 2003 | 2002 | 2001 |
|--|-------------------|-------------------|-------------------|
| Time deposits | 34,732,647 | 25,324,924 | 17,351,516 |
| Repayable on demand | 23,828,278 | 8,176,147 | 14,634,432 |
| Accrued interest expense on customer accounts..... | 244,133 | 175,239 | 123,071 |
| | <u>58,805,058</u> | <u>33,676,310</u> | <u>32,109,019</u> |

As of 31 December 2003, 2002 and 2001 included in customer accounts are time and demand deposits denominated in precious metals of RUR 326,390 thousand, RUR 297,952 thousand and RUR 931,410 thousand, respectively.

As of 31 December 2003, 2002 and 2001, customer accounts of RUR 1,945,095 thousand, RUR 84,569 thousand and RUR 439,045 thousand were held as security against letters of credit and guarantees issued by the Bank.

Analysis of customer accounts by industry:

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|--|-------------------|-------------------|-------------------|
| Individuals..... | 19,029,581 | 11,899,641 | 6,544,215 |
| Finance..... | 13,606,173 | 6,361,757 | 6,220,040 |
| Non-ferrous metallurgy..... | 8,617,516 | 6,067,679 | 15,341,941 |
| Ferrous metallurgy..... | 5,598,109 | 1,000,898 | 854 |
| Housing..... | 2,325,067 | 929,193 | 215,040 |
| Oil and gas..... | 1,983,672 | 275,001 | 156,497 |
| Trading..... | 1,635,581 | 779,543 | 522,937 |
| Geology..... | 844,518 | — | 38,937 |
| Real estate dealership..... | 601,956 | 137,158 | 61,782 |
| Professional services..... | 525,456 | 573,891 | 719,199 |
| Building construction..... | 466,992 | 116,816 | 120,831 |
| Public health and tourism..... | 456,447 | — | 26,777 |
| Leasing..... | 442,321 | — | 22,052 |
| Communications..... | 376,682 | 50,995 | 6,726 |
| Precious metals and diamond extraction and manufacturing | 369,857 | 1,671,990 | 3,417 |
| Hotel business..... | 334,733 | 50,491 | 43,837 |
| Defence industry..... | 328,019 | 244,680 | 12,256 |
| Mechanical engineering..... | 255,852 | 594,066 | 72,352 |
| Electric power..... | 158,228 | 1,295,539 | 4,727 |
| Social organizations..... | 144,067 | 161,430 | 79,529 |
| Aircraft industry..... | 96,495 | 501,544 | 334,395 |
| Food industry..... | 82,805 | 8,700 | 85,454 |
| Insurance..... | 78,713 | 72,476 | 457,353 |
| Publishing..... | 44,721 | 9,853 | 37,527 |
| Supply and production distribution..... | 32,140 | — | 84,171 |
| Culture and art..... | 27,116 | 2,158 | 90,928 |
| Agriculture..... | 1,682 | 78,699 | 26,813 |
| Computer service..... | — | 299,297 | 8,444 |
| Government and municipalities..... | — | — | 539,048 |
| Other..... | 96,426 | 317,577 | 107,869 |
| Accrued interest expense on customer accounts..... | 244,133 | 175,238 | 123,071 |
| | <u>58,805,058</u> | <u>33,676,310</u> | <u>32,109,019</u> |

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|-------------------|------------------|------------------|
| Certificates of deposit..... | 6,834,666 | — | — |
| Discount bearing promissory notes..... | 6,284,947 | 5,170,832 | 1,806,597 |
| Discount/interest free promissory notes..... | 1,455,089 | 694,524 | 1,035,659 |
| Adjustable Rate Guaranteed Bonds due in 2012..... | 1,162,667 | 4,131,972 | 4,509,848 |
| Interest bearing promissory notes..... | 34,595 | 568 | 89,621 |
| Accrued interest expense on debt securities issued..... | 56,525 | 880 | 640 |
| | <u>15,828,489</u> | <u>9,998,776</u> | <u>7,442,365</u> |

As of 31 December 2003 interest rates on certificates of deposit denominated in Roubles range from 6.2% to 12% per annum.

Discount on the promissory notes is amortized over the life of the note and is recorded in interest expense on debt securities issued using the effective interest rate method.

Adjustable Rate Guaranteed Bonds due in 2012 bear interest rate at 7% which is subject to subsequent scheduled correction.

21. PROVISIONS

Provisions comprised of the following:

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|---|----------------|----------------|---------------|
| Provisions for guarantees and credit related commitments... | 139,786 | 218,255 | 79,226 |
| Provisions for legal claims | 207,609 | — | — |
| | <u>347,395</u> | <u>218,255</u> | <u>79,226</u> |

Movements in provisions for the years ended 31 December 2003, 2002 and 2001 are disclosed in Note 6.

Provision for legal claims represents payments accrued according to a court decision with regard to lending operations of the Bank.

22. OTHER LIABILITIES

| | <i>2003</i> | <i>2002</i> | <i>2001</i> |
|--|----------------|----------------|----------------|
| Accrued bonuses | 225,000 | — | — |
| Creditors on plastic cards settlements | 86,003 | 28,390 | 21,663 |
| Creditors on operations with securities | 85,255 | 128,579 | 141,892 |
| Negative replacement value of derivatives..... | 8,701 | 26,181 | 38,583 |
| Accrued expenses | 8,091 | — | — |
| Taxes, other than income tax, payable..... | 790 | 28,366 | 25,560 |
| Suspense amounts subsequently paid back..... | — | — | 101,839 |
| Other | 73,825 | 44,569 | 18,581 |
| | <u>487,665</u> | <u>256,085</u> | <u>348,118</u> |

23. SHARE CAPITAL AND SHARE PREMIUM

As of 31 December 2003, 2002 and 2001 share capital authorized, issued and fully paid comprised 340,528,420 ordinary shares with par value of RUR 10 each. All shares are ranked equally and carry one vote.

Share premium of RUR 3,672,190 thousand represents the excess of contributions received in share capital over the nominal value of shares issued.

The Bank's reserves distributable among shareholders are limited to the amount of its reserves as disclosed in statutory accounts of ROSBANK. As of 31 December 2003, 2002 and 2001, the statutory accounts of ROSBANK disclosed distributable reserves of RUR 4,972,779 thousand, RUR 4,133,657 thousand and RUR 2,598,370 thousand, respectively, and the amount of non-distributable reserves was RUR 510,793 thousand as of the mentioned reporting dates. Non-distributable reserves are represented by a general reserve fund, which is created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. The reserve has been created in accordance with ROSBANK's statutes that provide for the creation of a reserve for these purposes.

During the year ended 31 December 2003 the Bank declared and paid dividends of RUR 115,780 thousand.

24. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As of 31 December 2003, 2002 and 2001 the nominal or contract amounts and the risk weighted credit equivalents of instruments with off-balance sheet risks were:

| | 2003 | | 2002 | | 2001 | |
|---|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> |
| Contingent liabilities and credit commitments | | | | | | |
| Guarantees issued and similar commitments..... | 9,568,390 | 8,130,555 | 2,565,587 | 2,565,587 | 2,100,515 | 2,100,515 |
| Letters of credit and other transaction related contingent obligations..... | 949,178 | 208,684 | 370,701 | 143,066 | 442,151 | 1,553 |
| Commitments on credits and unused credit lines..... | 16,881,354 | 3,326,165 | 10,342,266 | 1,690,935 | 4,800,409 | 350,745 |
| | <u>27,398,922</u> | <u>11,665,404</u> | <u>13,278,554</u> | <u>4,399,588</u> | <u>7,343,075</u> | <u>2,452,813</u> |

As of 31 December 2003, 2002 and 2001 letters of credit issued by the Bank of RUR 531,810 thousand, RUR 84,569 thousand and RUR 439,045 thousand, respectively, were collateralised by cash deposited with the Bank.

As of 31 December 2003 and 2002 a provision of RUR 7,908 thousand and RUR 925 thousand was created with respect to losses on issued letters of credit.

As of 31 December 2003 guarantees issued by the Bank of RUR 1,413,285 thousand were collateralized by cash deposited with the Bank. The Bank has made a provision against commitments on guarantees issued of RUR 131,878 thousand, RUR 217,330 thousand and RUR 79,226 thousand as of 31 December 2003, 2002 and 2001, respectively.

The Bank enters into derivative financial instruments for trading purposes. As of 31 December 2003, 2002 and 2001 the nominal or contract amounts and the risk weighted credit equivalents of derivative financial instruments were:

| | 2003 | | 2002 | | 2001 | |
|--|-----------------------|-----------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|
| | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> | <i>Nominal Amount</i> | <i>Risk Weighted Amount</i> |
| Forward and swap contracts (amounts payable): | | | | | | |
| Forward foreign exchange contracts..... | 1,559,759 | 62,390 | 529,929 | 21,197 | 609,869 | 24,394 |
| Swap foreign exchange contracts..... | 1,418,240 | 56,730 | 1,493,042 | 59,722 | 1,470,894 | 58,836 |
| Forward contracts on precious metals..... | 715,897 | 28,636 | 675,593 | 27,024 | 14,013 | 561 |
| Forward contracts on securities | — | — | 208,398 | 8,336 | — | — |
| | <u>3,693,896</u> | <u>147,756</u> | <u>2,906,962</u> | <u>116,279</u> | <u>2,094,776</u> | <u>83,791</u> |

The Bank's position and fair value of derivatives outstanding as of 31 December 2003, 2002 and 2001 comprise:

| | <i>Notional principal</i> | <i>2003 Fair values</i> | | <i>Net fair value</i> | <i>Notional principal</i> | <i>2002 Fair value</i> | | <i>Net fair value</i> |
|---|---------------------------|-------------------------|--------------------|-----------------------|---------------------------|------------------------|--------------------|-----------------------|
| | | <i>Asset</i> | <i>Liability</i> | | | <i>Asset</i> | <i>Liability</i> | |
| Foreign exchange contracts | | | | | | | | |
| Forwards | | | | | | | | |
| Positive replacement value | 421,995 | 431,668 | (421,995) | 9,673 | 278,849 | 282,964 | (278,849) | 4,115 |
| Negative replacement value..... | 1,137,764 | 1,132,559 | (1,137,764) | (5,205) | 251,080 | 247,152 | (251,080) | (3,928) |
| Swaps | | | | | | | | |
| Positive replacement value | 1,381,416 | 1,463,259 | (1,381,416) | 81,843 | 1,493,042 | 1,570,716 | (1,493,042) | 77,674 |
| Negative replacement value.... | 36,824 | 36,508 | (36,824) | (316) | — | — | — | — |
| Total foreign exchange contracts asset/(liabilities) ... | 2,977,999 | 3,063,994 | (2,977,999) | 85,995 | 2,022,971 | 2,100,832 | (2,022,971) | 77,861 |
| Contracts on precious metals | | | | | | | | |
| Forwards | | | | | | | | |
| Positive replacement value | 397,102 | 397,415 | (397,102) | 313 | 208,093 | 224,877 | (208,093) | 16,784 |
| Negative replacement value.... | 318,795 | 315,615 | (318,795) | (3,180) | 467,500 | 448,850 | (467,500) | (18,650) |
| Total contracts on precious metals asset/(liabilities) | 715,897 | 713,030 | (715,897) | (2,867) | 675,593 | 673,727 | (675,593) | (1,866) |
| Contracts on securities | | | | | | | | |
| Forwards | | | | | | | | |
| Positive replacement value | — | — | — | — | 51,693 | 53,065 | (51,963) | 1,372 |
| Negative replacement value.... | — | — | — | — | 156,705 | 153,102 | (156,705) | (3,603) |
| Total contracts on securities asset/(liabilities) | — | — | — | — | 208,398 | 206,167 | (208,668) | (2,231) |

| | <i>Notional principal</i> | <i>2001 Fair values</i> | | <i>Net fair value</i> |
|--|---------------------------|-------------------------|--------------------|-----------------------|
| | | <i>Asset</i> | <i>Liability</i> | |
| Foreign exchange contracts | | | | |
| Forwards | | | | |
| Positive replacement value..... | 603,812 | 603,842 | (603,812) | 30 |
| Negative replacement value..... | 6,057 | 6,004 | (6,057) | (53) |
| Swaps | | | | |
| Negative replacement value..... | 1,470,894 | 1,432,364 | (1,470,894) | (38,530) |
| Total foreign exchange contracts asset/(liabilities) | 2,080,763 | 2,042,210 | (2,080,763) | (38,553) |
| Contracts on precious metals | | | | |
| Forwards | | | | |
| Positive replacement value..... | 14,013 | 14,800 | (14,013) | 787 |
| Total contracts on precious metals asset/ (liabilities) | 14,013 | 14,800 | (14,013) | 787 |

Capital commitments – The Bank had no material commitments for capital expenditures outstanding as of 31 December 2003.

Operating leases – The Bank’s future minimum rental payments under non-cancelable operating leases of buildings and equipment in effect as of 31 December 2003, 2002 and 2001 are presented in the table below.

| | 2003 | 2002 | 2001 |
|---|----------------|----------------|----------------|
| Not later than 1 year..... | 198,216 | 431,609 | 292,569 |
| Later than 1 year but not later than 5 years..... | 322,840 | 148,537 | 106,106 |
| Later than 5 years | 16,368 | — | — |
| | <u>537,424</u> | <u>580,146</u> | <u>398,675</u> |

Fiduciary activities – In the normal course of its business the Bank enters into agreements with a limited right on decision making with clients for their assets management in accordance with specific criteria established by clients. The Bank may be liable for losses or actions aimed at appropriation of the clients’ funds until such funds or securities are not returned to the client. The maximum potential financial risk of the Bank at any given moment is equal to the volume of the clients’ funds plus/minus any unrealized income/loss on the client’s position. In the judgment of management, as of 31 December 2003 and 2002 the maximum potential financial risk on securities accepted by the Bank on behalf of its clients does not exceed RUR 290,757 thousand and RUR 558,096 thousand, respectively. These amounts are the balance of the clients’ funds under the management of the Bank as of 31 December 2003, 2002 and 2001, respectively.

The Bank also provides depositary services to its customers. As of 31 December 2003, 2002 and 2001 the Bank held the clients’ securities on its accounts for nominal holding totaling 7,626,416,272 securities, 2,536,448,671 and 1,520,640,163 securities, respectively.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers. Management is of the opinion that no material unaccrued losses will be incurred except for those recorded in the financial statements.

Taxes – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed in a generally unstable environment by the tax authorities of making arbitrary judgment of business activities, if a particular treatment based on Management’s judgment of the Bank’s business activities was to be challenged by the tax authorities, the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

Pensions and retirement plans – Employees receive pension benefits from the Russian Federation in accordance with the laws and regulations of the country. As of 31 December 2003, 2002 and 2001 the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment – The Bank’s principal business activities are within the Russian Federation. Laws and regulations affecting businesses operating in the Russian Federation are subject to rapid changes and the Bank’s assets and operations could be at risk due to negative changes in the political and business environment.

25. TRANSACTIONS WITH RELATED PARTIES

Related parties, as defined by IAS 24 “Related Party Disclosures”, are those counterparties that represent:

- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) Associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

- (c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;
- (d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank and close members of the families of such individuals; and
- (e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

| | 2003 | | 2002 | | 2001 | |
|---|-----------------------------------|---|-----------------------------------|---|-----------------------------------|---|
| | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> |
| Loans and advances to banks, gross | 509,116 | 9,459,650 | 103 | 8,678,374 | — | 9,652,518 |
| Allowance for loans and advances to banks..... | (10,182) | (31,156) | (2) | (89,270) | — | (86,587) |
| Trading securities | 351,164 | 8,135,326 | 347,723 | 6,700,852 | 147,152 | 4,134,042 |
| Loans and advances to customers, gross..... | 4,525,139 | 54,766,721 | 2,972,763 | 35,914,947 | 1,275,001 | 30,948,326 |
| Allowance for loans to customers | (196,236) | (2,422,410) | (58,821) | (2,180,775) | (29,752) | (2,946,673) |
| Securities available-for-sale | 22,125 | 2,865,540 | 22,615 | 987,594 | 27,094 | 4,498,260 |
| Allowance for impairment losses..... | (11,063) | (94,594) | (11,308) | (90,166) | (13,547) | (87,267) |
| Deposits from banks | 200,703 | 7,560,389 | 26,518 | 4,737,460 | — | 2,552,068 |
| Customer accounts | 5,581,093 | 58,805,058 | 1,122,553 | 33,676,310 | 5,762,857 | 32,109,019 |
| Derivative financial instruments – negative replacement value | 4,169 | 8,701 | — | 26,181 | — | 38,583 |
| Provisions for guarantees and credit related commitments..... | 6,412 | 139,786 | 34,006 | 218,255 | 2,354 | 79,226 |
| Unused loan commitments..... | 7,778 | 16,881,354 | 604,803 | 10,342,266 | 387,395 | 4,800,409 |
| Letters of credit..... | — | 949,178 | 43,612 | 370,701 | — | 442,151 |
| Guarantees given..... | 396,848 | 9,568,390 | 186,165 | 2,565,587 | 122,342 | 2,100,515 |

During the years ended 31 December 2003, 2002 and 2001 the Bank originated loans and advances to banks and customers-related parties amounting to RUR 30,182,484 thousand, RUR 4,187,155 thousand and RUR 1,381,868 thousand, respectively, and received loans and advances repaid of RUR 28,121,095 thousand, RUR 2,489,290 thousand and RUR 1,256,627 thousand, respectively. The Bank has interest income accrued with respect to loans and advances granted to related parties totalling RUR 52,965 thousand and RUR 10,576 thousand, respectively, as of 31 December 2003 and 2002.

During the years ended 31 December 2003, 2002 and 2001 the Bank received advances from banks and customers-related parties of RUR 229,720,820 thousand, RUR 94,790,410 thousand and RUR 120,900,903 thousand, respectively, and repaid deposits and advances totalling RUR 225,088,095 thousand, RUR 99,404,196 thousand and RUR 118,367,483 thousand, respectively. The Bank has interest expense accrued with respect to deposits and advances received from related parties, totalling RUR 42,793 thousand and RUR 49,994 thousand as of 31 December 2003 and 2002, respectively.

Included in the profit and loss account for the years ended 31 December 2003 and 2002 are the following amounts which arose due to transactions with related parties:

| | 2003 | | 2002 | | 2001 | |
|--------------------------|-----------------------------------|---|-----------------------------------|---|-----------------------------------|---|
| | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> | <i>Related party transactions</i> | <i>Total category as per financial statements caption</i> |
| Interest income | 423,437 | 7,232,460 | 99,499 | 5,193,525 | 25,864 | 4,051,467 |
| Interest expense | (290,766) | (4,476,455) | (11,224) | (3,172,326) | (301,542) | (2,304,981) |
| Commission income | 34,332 | 983,438 | 16,142 | 831,184 | 27,196 | 1,112,780 |
| Operating expenses | (102,630) | (3,107,561) | (101,840) | (2,238,930) | — | (2,448,109) |

Transactions with related parties entered into by the Bank during the years ended 31 December 2003, 2002 and 2001 and outstanding as of that dates were made in the normal course of business and mostly under arm-length conditions.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in a forced or liquidation sale. As no readily available market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2003, 2002 and 2001 the following methods and assumptions were used by the Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and balances with Central and National banks – For these short-term instruments the carrying amount is a reasonable estimate of fair value.

Loans and advances to banks – For these short-term instruments the carrying amounts are a reasonable estimate of their fair value that was determined based on an interest rates model using interest rates on loans with similar credit risk level and maturity period current at the reporting dates.

Securities purchased under agreements to resell – The fair value of securities purchased under agreements to resell is determined based on market value of backed securities and other assets with reference to an active market.

Trading securities – Trading securities are stated at fair value that was determined with reference to an active market.

Derivative financial instruments – Derivative financial instruments are stated at fair value. Fair values of derivative financial instruments are determined based on quoted market prices (if available) and interest rates models.

Loans and advances to customers – The fair value of the loan portfolio is based on the credit and interest rate characteristics of the individual loans within each sector of the portfolio. The estimation of the provision for loan losses includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which each borrower operates, the economic situation of each borrower and guarantees obtained. Accordingly, the provision for loan losses is considered a reasonable estimate of the discount required to reflect the impact of credit risk.

Securities available-for-sale – As of 31 December 2003, 2002 and 2001 marketable securities available-for-sale are stated at fair value amounting to RUR 2,526,041 thousand, RUR 723,896 thousand and RUR 4,326,860 thousand, respectively. Fair value of securities available-for-sale was

determined with reference to an active market for those securities quoted publicly or at over-the-counter market. As of 31 December 2003, 2002 and 2001 non-marketable securities of RUR 339,499 thousand, RUR 263,698 thousand and RUR 171,400 thousand before allowance for impairment that do not have fixed maturities are stated at cost, less allowance for impairment unless there are other appropriate and workable methods of reasonably estimating their fair value.

Securities held-to-maturity – Securities held-to-maturity are stated at cost and adjusted for accretion and amortization of premiums and discounts, respectively, which approximates the fair value.

Deposits from banks – The carrying amount of deposits from banks is a reasonable estimate of their fair value that was determined based on an interest rates model using interest rates on deposits with similar credit risk level and maturity period current at the reporting dates.

Customer accounts – The carrying amount of customer accounts is a reasonable estimate of their fair value that was determined based on an interest rates model using interest rates on deposits with similar credit risk level and maturity period current at the reporting dates.

Debt securities issued – Debt securities issued by the Bank are stated at cost, adjusted for amortization of premium and discounts, which approximates their fair value.

27. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total and tier 1 capital to risk weighted assets.

The capital is calculated as the amount of restricted and free components of the shareholders' capital plus minority interest and the Bank's provisions for the principal risks on condition that the general provision for losses does not exceed 1.25% of the risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for losses:

| <i>Estimate</i> | <i>Description of position</i> |
|-----------------|---|
| 0% | Cash and balances with the Central Bank of the Russian Federation |
| 0% | State debt securities in Roubles |
| 20% | Loans and advances to banks for up to 1 year |
| 100% | Loans and advances to customers |
| 100% | Other assets |
| 0% | Standby letters of credit secured by customer funds |
| 50% | Other standby letters of credit and other transaction related contingent obligations and commitments on unused loans with the initial maturity of over 1 year |
| 100% | Guarantees issued and similar commitments |

The Bank's actual capital amounts and ratios are presented in the following table:

| <i>Capital amounts and ratios</i> | <i>Actual Amount in RUR thousand</i> | <i>For Capital Adequacy purposes Amount in RUR thousand</i> | <i>Ratio For Capital Adequacy purposes</i> | <i>Minimum Required Ratio</i> |
|-----------------------------------|--------------------------------------|---|--|-------------------------------|
| As of 31 December 2003 | | | | |
| Total capital | 8,336,340 | 9,391,949 | 12.05% | 8% |
| Tier 1 capital | 8,428,735 | 8,428,735 | 10.81% | 4% |
| As of 31 December 2002 | | | | |
| Total capital | 7,952,287 | 8,416,455 | 18.20% | 8% |
| Tier 1 capital | 7,952,287 | 7,952,287 | 17.20% | 4% |
| As of 31 December 2001 | | | | |
| Total capital | 7,913,659 | 8,294,472 | 19.60% | 8% |
| Tier 1 capital | 7,913,659 | 7,913,659 | 18.70% | 4% |

28. SUBSEQUENT EVENTS

On 27 April 2004 the Shareholders' meeting of the Bank approved payment of dividends of RUR 0.88 per share.

In February 2004 the Bank has successfully placed RUR 3,000,000 thousand of bonds due February 2009. Interest on the bonds is payable semiannually at 9.91% per annum and is subject to subsequent adjustment.

29. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

The Bank manages the following risks:

Liquidity risk

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

Liquidity and cash flow risks are managed by the Treasury department. Strategic decisions and overall risk monitoring is provided by the Management Board and Credit Committee.

The following tables present an analysis of interest rate risk and liquidity risk on balance sheet. Interest bearing assets and liabilities generally have relatively short maturities and interest rates are reprised only at maturity.

| | <i>Up to 1 month</i> | <i>1 month to 3 months</i> | <i>3 month to 1 year</i> | <i>1 year to 5 years</i> | <i>Over 5 years</i> | <i>Overdue</i> | <i>Maturity undefined (incl. allowance for losses and impairment)</i> | <i>2003 RUR thousand Total</i> |
|--|--------------------------|--------------------------------|------------------------------|------------------------------|-------------------------|----------------|---|--|
| ASSETS | | | | | | | | |
| Interest rate bearing assets | | | | | | | | |
| Time deposits with the CBR | 2,500,000 | — | — | — | — | — | — | 2,500,000 |
| Loans and advances to banks, less allowance for loan losses | 922,615 | 815,639 | 376,925 | 214,591 | 16,936 | — | (30,324) | 2,316,382 |
| Trading assets | 6,600,334 | — | — | — | — | — | — | 6,600,334 |
| Loans and advances to customers, less allowance for loan losses | 7,809,299 | 4,873,942 | 25,017,783 | 15,158,204 | — | — | (1,994,776) | 50,914,452 |
| Investment securities, less allowance for impairment | 311,010 | 243,950 | 678,512 | 1,027,372 | 102,197 | — | (2,614) | 2,360,427 |
| Total interest rate bearing assets | 18,143,258 | 5,933,531 | 26,073,220 | 16,400,167 | 119,133 | — | (1,977,714) | 64,691,595 |
| Cash and balances with Central and National banks | 8,640,440 | — | — | — | — | — | 7,015,281 | 15,655,721 |
| Loans and advances to banks, less allowance for loan losses | 7,112,744 | — | — | — | — | 200 | (832) | 7,112,112 |
| Trading assets | 1,665,371 | — | — | — | — | — | — | 1,665,371 |
| Loans and advances to customers, less allowance for loan losses | — | — | 1,390,482 | — | — | 517,011 | (477,634) | 1,429,859 |
| Investment securities, less allowance for impairment | — | 13,886 | 485,720 | 135,271 | — | — | (91,980) | 542,897 |
| Fixed and intangible assets, less accumulated depreciation | — | — | — | 83,634 | 45,896 | — | — | 129,530 |
| Other assets, less allowance for losses | 108,806 | 274,589 | 80,412 | — | — | — | (18,841) | 444,966 |
| TOTAL ASSETS | 35,670,619 | 6,222,006 | 28,029,834 | 16,619,072 | 165,029 | 517,211 | 4,448,280 | 91,672,051 |
| LIABILITIES | | | | | | | | |
| Interest rate bearing liabilities | | | | | | | | |
| Deposits from banks | 2,419,478 | 869,670 | 2,441,736 | 869,896 | — | — | — | 6,600,780 |
| Customer accounts | 16,094,438 | 13,130,565 | 2,578,228 | 483,689 | 2,689,860 | — | — | 34,976,780 |
| Debt securities issued | 1,575,722 | 889,640 | 3,215,770 | 7,529,600 | 1,162,668 | — | — | 14,373,400 |
| Total interest rate bearing liabilities | 20,089,638 | 14,889,875 | 8,235,734 | 8,883,185 | 3,852,528 | — | — | 55,950,960 |
| Deposits from banks | 959,609 | — | — | — | — | — | — | 959,609 |
| Customer accounts | 23,828,278 | — | — | — | — | — | — | 23,828,278 |
| Debt securities issued | 1,206,208 | 210,001 | 38,880 | — | — | — | — | 1,455,089 |
| Provisions | — | 207,609 | — | — | — | — | 139,786 | 347,395 |
| Income tax liabilities | — | 214,320 | — | — | — | — | — | 214,320 |
| Other liabilities | 197,066 | 65,599 | 225,000 | — | — | — | — | 487,665 |
| TOTAL LIABILITIES | 46,280,799 | 15,587,404 | 8,499,614 | 8,883,185 | 3,852,528 | — | 139,786 | 83,243,316 |
| Liquidity gap | (10,610,180) | (9,365,398) | 19,530,220 | 7,735,887 | (3,687,499) | 517,211 | — | — |
| Interest sensitivity gap | (1,946,380) | (8,956,344) | 17,837,486 | 7,516,982 | (3,733,395) | — | — | — |
| Cumulative interest sensitivity gap | (1,946,380) | (10,902,724) | 6,934,762 | 14,451,744 | 10,718,349 | 10,718,349 | — | — |
| Cumulative interest sensitivity gap as a percentage of total assets | (2%) | (12%) | 8% | 16% | 12% | 12% | — | — |

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2003 is presented in the table below.

| | <i>Up to 1 month</i> | <i>1 month to 3 months</i> | <i>3 months to 1 year</i> | <i>1 year to 5 years</i> | <i>Over 5 years</i> | <i>Maturity undefined</i> | <i>2003 RUR thousand Total</i> | |
|---|--------------------------|--------------------------------|-------------------------------|------------------------------|-------------------------|---|--|-------------------|
| Payable under forward and swap contracts | (2,993,698) | (690,185) | (10,013) | — | — | — | (3,693,896) | |
| Receivables under forward and swap contracts | 3,050,977 | 716,028 | 10,019 | — | — | — | 3,777,024 | |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS | 57,279 | 25,843 | 6 | — | — | — | 83,128 | |
| | | | | | | <i>Maturity undefined (incl. allowance for losses and impairment)</i> | <i>2002 RUR thousand Total</i> | |
| ASSETS | <i>Up to 1 month</i> | <i>1 month to 3 months</i> | <i>3 month to 1 year</i> | <i>1 year to 5 years</i> | <i>Over 5 years</i> | <i>Overdue</i> | | |
| Interest rate bearing assets | | | | | | | | |
| Loans and advances to banks, less allowance for loan losses | 4,858,420 | 512,696 | 55,240 | 877,944 | — | — | (48,147) | 6,256,153 |
| Trading assets | 6,055,324 | — | — | — | — | — | — | 6,055,324 |
| Loans and advances to customers, less allowance for loan losses | 3,046,743 | 6,892,894 | 20,480,447 | 4,551,438 | 402,509 | — | (1,746,383) | 33,627,648 |
| Investment securities, less allowance for impairment | 34,507 | 57,611 | 593,142 | 2,614 | 59 | — | (2,614) | 685,319 |
| Total interest rate bearing assets | 13,994,994 | 7,463,201 | 21,128,829 | 5,431,996 | 402,568 | — | (1,797,144) | 46,624,444 |
| Cash and balances with Central and National banks | 1,521,578 | — | — | — | — | — | 4,542,614 | 6,064,192 |
| Loans and advances to banks, less allowance for loan losses | 2,374,074 | — | — | — | — | — | (41,123) | 2,332,951 |
| Trading assets | 994,665 | — | — | — | — | — | — | 994,665 |
| Loans and advances to customers, less allowance for loan losses | — | — | — | — | — | 540,916 | (434,392) | 106,524 |
| Investment securities, less allowance for impairment | — | — | 154,580 | 145,081 | — | — | (87,552) | 212,109 |
| Fixed and intangible assets, less accumulated depreciation | — | — | — | 90,166 | 43,205 | — | — | 133,371 |
| Other assets, less allowance for losses | 249,249 | 126,806 | 16,024 | — | — | — | (18,372) | 373,707 |
| TOTAL ASSETS | 19,134,560 | 7,590,007 | 21,299,433 | 5,667,243 | 445,773 | 540,916 | 2,164,031 | 56,841,963 |
| LIABILITIES | | | | | | | | |
| Interest rate bearing liabilities | | | | | | | | |
| Deposits from banks | 299,650 | 22,810 | 65,369 | — | — | — | — | 387,829 |
| Customer accounts | 5,930,794 | 12,381,070 | 8,361,497 | 162,739 | — | — | — | 26,836,100 |
| Debt securities issued | 848,978 | 1,049,460 | 2,705,906 | 567,936 | 4,131,972 | — | — | 9,304,252 |
| Total interest rate bearing liabilities | 7,079,422 | 13,453,340 | 11,132,772 | 730,675 | 4,131,972 | — | — | 36,528,181 |
| Deposits from banks | 2,521,132 | 139,615 | 816,289 | 872,595 | — | — | — | 4,349,631 |
| Customer accounts | 6,840,210 | — | — | — | — | — | — | 6,840,210 |
| Debt securities issued | 432,344 | 92,118 | 96,368 | 73,694 | — | — | — | 694,524 |
| Provisions | — | — | — | — | — | — | 218,255 | 218,255 |
| Income tax liabilities | — | 2,790 | — | — | — | — | — | 2,790 |
| Other liabilities | 67,603 | 161,941 | 26,541 | — | — | — | — | 256,085 |
| TOTAL LIABILITIES | 16,940,711 | 13,849,804 | 12,071,970 | 1,676,964 | 4,131,972 | — | 218,255 | 48,889,676 |
| Liquidity gap | 2,193,849 | (6,259,797) | 9,227,463 | 3,990,279 | (3,686,199) | 540,916 | — | — |
| Interest sensitivity gap | 6,915,572 | (5,990,139) | 9,996,057 | 4,701,321 | (3,729,404) | — | — | — |
| Cumulative interest sensitivity gap | 6,951,572 | 925,433 | 10,921,490 | 15,622,811 | 11,893,407 | 11,893,407 | — | — |
| Cumulative interest sensitivity gap as a percentage of total assets | 12% | 2% | 19% | 28% | 21% | 21% | — | — |

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2002 is presented in the table below.

| | <i>Up to 1 month</i> | <i>1 month to 3 months</i> | <i>3 months to 1 year</i> | <i>1 year to 5 years</i> | <i>Over 5 years</i> | <i>Maturity undefined</i> | <i>2002 RUR thousand</i> |
|--|--------------------------|--------------------------------|-------------------------------|------------------------------|-------------------------|--|--|
| Payable under forward and swap contracts..... | (2,739,996) | (166,966) | — | — | — | — | (2,906,962) |
| Receivables under forward and swap contracts. | 2,804,761 | 175,965 | — | — | — | — | 2,980,726 |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS | 64,765 | 8,999 | — | — | — | — | 73,764 |
| | | | | | | <i>Maturity undefined (incl. for losses)</i> | <i>2001 RUR thousand Total</i> |
| ASSETS | | | | | | | |
| Loans and advances to banks, less allowance for loan losses..... | 8,034,742 | 1,352,328 | 161,904 | 58,244 | 45,300 | (86,587) | 9,565,931 |
| Trading assets | 3,849,141 | — | — | — | — | 170,053 | 4,019,194 |
| Loans and advances to customers, less allowance for loan losses..... | 3,582,561 | 10,373,148 | 10,384,026 | 5,205,547 | 439,321 | (2,929,327) | 27,055,276 |
| Investment securities, less allowance for impairment | 2,965 | 2,861 | 395 | — | — | 330,446 | 336,667 |
| Total interest bearing assets..... | 15,469,409 | 11,728,337 | 10,546,325 | 5,263,791 | 484,621 | (2,515,415) | 40,977,068 |
| Cash and balances with the Central and National banks..... | 1,972,111 | — | — | — | — | 4,240,005 | 6,212,116 |
| Trading assets | 773,387 | — | — | — | — | — | 773,387 |
| Loans and advances to customers, less allowance for loan losses..... | 963,723 | — | — | — | — | (17,346) | 946,377 |
| Investment securities, less allowance for impairment | — | — | — | — | — | 4,074,326 | 4,074,326 |
| Fixed and intangible assets, less accumulated depreciation | — | — | — | 89,089 | 42,864 | — | 131,953 |
| Other assets, less allowance for losses | 474,260 | — | — | — | 19,074 | (35,752) | 457,582 |
| TOTAL ASSETS..... | 19,652,890 | 11,728,337 | 10,546,325 | 5,352,880 | 546,559 | 5,745,818 | 53,572,809 |
| LIABILITIES | | | | | | | |
| Deposits from the Central Bank of the Russian Federation | 3,122,203 | — | — | — | — | — | 3,122,203 |
| Deposits from banks..... | 997,674 | 142,963 | — | 355,029 | — | — | 1,495,666 |
| Deposits from customers | 17,667,730 | 5,250,507 | 389,777 | 570,097 | — | — | 23,878,111 |
| Debt securities issued..... | 1,273,896 | 352,641 | 266,074 | 4,247 | 4,509,848 | — | 6,406,706 |
| Total interest bearing liabilities..... | 23,061,503 | 5,746,111 | 655,851 | 929,373 | 4,509,848 | — | 34,902,686 |
| Deposits from banks..... | 1,056,402 | — | — | — | — | — | 1,056,402 |
| Deposits from customers | 8,230,908 | — | — | — | — | — | 8,230,908 |
| Debt securities issued..... | 589,107 | 429,505 | 17,047 | — | — | — | 1,035,659 |
| Provisions, income tax liabilities and other liabilities | 306,237 | — | 48,032 | — | — | 79,226 | 433,495 |
| TOTAL LIABILITIES | 33,244,157 | 6,175,616 | 720,930 | 929,373 | 4,509,848 | 79,226 | 45,659,150 |
| Liquidity gap..... | (13,591,267) | 5,552,721 | 9,825,395 | 4,423,507 | (3,963,289) | | |
| Interest sensitivity gap | (7,592,094) | 5,982,226 | 9,890,474 | 4,334,418 | (4,025,227) | | |
| Cumulative interest sensitivity gap | (7,592,094) | (1,609,868) | 8,280,606 | 12,615,024 | 8,589,797 | | |
| Cumulative interest sensitivity gap as a percentage of total assets | (14%) | (3%) | 15% | 24% | 16% | | |

Liquidity risk of derivative financial instruments

Net fair values of derivative financial instrument are included in liquidity analysis above and further analysis by types of derivatives' contracts as of 31 December 2001 is presented in the table below.

| | <i>Up to 1 month</i> | <i>1 month to 3 months</i> | <i>3 months to 1 year</i> | <i>1 year to 5 years</i> | <i>Over 5 years</i> | <i>Maturity undefined</i> | <i>2001 RUR thousand Total</i> |
|---|--------------------------|--------------------------------|-------------------------------|------------------------------|-------------------------|-------------------------------|--|
| Payable under forward and swap contracts | (715,413) | (1,379,363) | — | — | — | — | (2,094,776) |
| Receivables under forward and swap contracts | 714,816 | 1,342,194 | — | — | — | — | 2,057,010 |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS | (597) | (37,169) | — | — | — | — | (37,766) |

Substantially all of the Bank's interest earning assets and interest bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuation of interest rates and exchange rate.

Currently, a considerable part of customer deposits are repayable on demand. However, the fact that these deposits are diversified by the number and type of customers and the Bank's previous experience indicate that these deposits are a stable and long-term source of finance for the Bank.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments.

Interest rate and market risks are managed within the limit framework as established in accordance with the standards set by the Bank. Interest rate risks are controlled via regular interest rate gap reporting. The Bank does not perform hedging activities thus no risk management policy for hedging transactions has been developed.

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

| | 2003 | | | 2002 | | | | 2001 | | | |
|--|-------|-------|-------|-------|-------|-----------------|-------|-------|-------|-----------------|-------|
| | RUR | USD | Other | RUR | USD | Gold bullion | Other | RUR | USD | Gold bullion | Other |
| ASSETS | | | | | | | | | | | |
| Cash and balances with Central and National banks | 1.3% | — | — | — | — | — | — | — | — | — | — |
| Loans and advances to banks | 8.5% | 2.7% | 0.7% | 11.3% | 3.0% | — | 3.1% | 18.4% | 3.8% | — | 3.0% |
| Trading assets..... | 13.0% | 9.2% | 9.1% | 20.8% | 18.4% | — | 18.0% | 31.0% | 12.8% | — | — |
| Loans and advances to customers..... | 16.2% | 11.4% | 10.3% | 16.7% | 12.8% | — | 8.3% | 17.6% | 10.1% | — | 8.4% |
| Investment securities | 10.0% | — | 10.0% | 14.7% | 7.0% | — | 12.1% | 15.5% | 12.8% | — | — |
| LIABILITIES | | | | | | | | | | | |
| Deposits from the Central Bank of the Russian Federation | — | — | — | — | — | — | — | 22.0% | 6.9% | — | — |
| Deposits from banks..... | 2.5% | 4.2% | 2.0% | 5.4% | 5.4% | — | 4.4% | 6.3% | 5.6% | — | 7.0% |
| Customer accounts..... | 6.9% | 5.4% | 5.2% | 11.3% | 5.8% | 4.0% | 3.0% | 3.0% | 5.6% | 1.5% | 3.1% |
| Debt securities issued | 13.6% | 5.1% | — | 16.7% | 6.3% | — | — | 5.9% | 7.4% | — | — |

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currencies (primarily US Dollar), by branches and in total. These limits also comply with the minimum requirements of the Central Bank of the Russian Federation.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

| | USD 1 USD = RUR 29.4545 | | EUR 1 EUR = RUR 36.8240 | | Gold bullion 1 ounce = 12,289.90 RUR | Other currency | Currency undefined (incl. allowance for losses and impairment) | 2003 RUR thousand Total |
|--|-------------------------------|-------------------|-------------------------------|------------------|---|-------------------|---|-------------------------------|
| ASSETS | | | | | | | | |
| Cash and balances with Central and National banks | 16,802,438 | 1,099,242 | 229,866 | — | — | 24,175 | — | 18,155,721 |
| Loans and advances to banks, less allowance for loan losses | 1,311,893 | 7,104,983 | 821,736 | — | — | 221,038 | (31,156) | 9,428,494 |
| Trading assets | 6,272,578 | 1,446,240 | 398,919 | 4,417 | — | 143,551 | — | 8,265,705 |
| Loans and advances to customers, less allowance for loan losses | 21,276,487 | 33,071,201 | 251,189 | — | — | 167,844 | (2,422,410) | 52,344,311 |
| Investment securities, less allowance for impairment | 2,892,815 | 1,208 | 103,821 | — | — | 74 | (94,594) | 2,903,324 |
| Fixed and intangible assets, less accumulated depreciation | 117,002 | — | — | — | — | 12,528 | — | 129,530 |
| Other assets, less allowance for losses .. | 248,915 | 174,511 | 6,043 | — | — | 34,338 | (18,841) | 444,966 |
| TOTAL ASSETS | 48,922,128 | 42,897,385 | 1,811,574 | 4,417 | — | 603,548 | (2,567,001) | 91,672,051 |
| LIABILITIES | | | | | | | | |
| Deposits from banks ... | 1,924,943 | 5,107,433 | 130,150 | 397,354 | — | 509 | — | 7,560,389 |
| Customer accounts | 26,315,331 | 30,698,524 | 1,363,690 | 37,643 | — | 389,870 | — | 58,805,058 |
| Debt securities issued .. | 13,000,691 | 2,799,101 | — | — | — | 28,697 | — | 15,828,489 |
| Provisions | 207,609 | — | — | — | — | — | 139,786 | 347,395 |
| Income tax liabilities ... | 214,320 | — | — | — | — | — | — | 214,320 |
| Other liabilities | 296,616 | 143,110 | 28,244 | — | — | 19,695 | — | 487,665 |
| TOTAL LIABILITIES | 41,959,510 | 38,748,168 | 1,522,084 | 434,997 | — | 438,771 | 139,786 | 83,243,316 |
| OPEN BALANCE SHEET POSITION | 6,962,618 | 4,149,217 | 289,490 | (430,580) | — | 164,777 | — | — |

Derivative financial instruments

Fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types derivative contracts as of 31 December 2003:

| | USD 1 USD = RUR 29.4545 | | EUR 1 EUR = RUR 36.8240 | | Gold bullion 1 ounce = RUR 12,260.44 | Other currency | Currency undefined | 2003 RUR thousand Total |
|---|-------------------------------|-------------------------------|-------------------------------|--|--|---|-------------------------------|-------------------------------|
| Payable under forward and swap contracts... | (1,030,750) | (1,135,779) | (14,707) | (21,831) | (1,490,829) | — | (3,693,896) | |
| Receivables under forward and swap contracts | 404,350 | 2,547,369 | 128,090 | 691,433 | 5,782 | — | 3,777,024 | |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS..... | (626,400) | 1,411,590 | 113,383 | 669,602 | (1,485,047) | — | 83,128 | |
| TOTAL OPEN POSITION..... | 6,336,218 | 5,560,807 | 402,873 | 239,022 | (1,320,270) | | | |
| | | USD 1 USD = RUR 31.7844 | EUR 1 EUR = RUR 33.1098 | Gold bullion 1 ounce = RUR 10,894.73 | Other currency | Currency undefined (incl. allowance for losses and impairment) | 2002 RUR thousand Total | |
| ASSETS | | | | | | | | |
| Cash and balances with Central and National banks | 5,728,672 | 288,586 | 35,479 | — | 11,455 | — | 6,064,192 | |
| Loans and advances to banks, less allowance for loan losses | 572,814 | 7,563,196 | 315,676 | — | 226,688 | (89,270) | 8,589,104 | |
| Trading assets | 6,496,671 | 303,238 | 888 | 104,193 | 144,999 | — | 7,049,989 | |
| Loans and advances to customers, less allowance for loan losses | 10,663,456 | 25,204,227 | 47,264 | — | — | (2,180,775) | 33,734,172 | |
| Investment securities, less allowance for impairment losses..... | 550,155 | 19,719 | 417,720 | — | — | (90,166) | 897,428 | |
| Fixed and intangible assets, less accumulated depreciation..... | 124,347 | — | — | — | 9,024 | — | 133,371 | |
| Other assets, less allowance for losses..... | 267,913 | 44,730 | 380 | — | 79,056 | (18,372) | 373,707 | |
| TOTAL ASSETS..... | 24,404,028 | 33,423,696 | 817,407 | 104,193 | 471,222 | (2,378,583) | 56,841,963 | |
| LIABILITIES | | | | | | | | |
| Deposits from banks..... | 1,262,638 | 3,353,309 | 113,098 | 6,646 | 1,769 | — | 4,737,460 | |
| Customer accounts..... | 9,210,717 | 23,538,456 | 614,067 | 297,952 | 15,118 | — | 33,676,310 | |
| Debt securities issued..... | 4,803,884 | 5,194,892 | — | — | — | — | 9,998,776 | |
| Provisions..... | — | — | — | — | — | 218,255 | 218,255 | |
| Income tax liabilities..... | 2,790 | — | — | — | — | — | 2,790 | |
| Other liabilities..... | 233,556 | 11,637 | 1,860 | — | 9,032 | — | 256,085 | |
| TOTAL LIABILITIES..... | 15,513,585 | 32,098,294 | 729,025 | 304,598 | 25,919 | 218,255 | 48,889,676 | |
| OPEN BALANCE SHEET POSITION..... | 8,890,443 | 1,325,402 | 88,382 | (200,405) | 445,303 | | | |

Derivative financial instruments

Fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2002:

| | <i>USD</i> <i>1 USD =</i> <i>RUR 31.7844</i> | <i>EUR</i> <i>1 EUR =</i> <i>RUR 33.1098</i> | <i>Gold bullion</i> <i>1 ounce =</i> <i>RUR 10,894.73</i> | <i>Other</i> <i>currency</i> | <i>Currency</i> <i>undefined</i> | <i>2002 RUR</i> <i>thousand</i> <i>Total</i> | |
|--|--|--|---|---------------------------------|-------------------------------------|--|---------------|
| Payable under forward and swap contracts.. | (207,077) | (1,908,446) | (292,431) | (467,500) | (31,508) | — | (2,906,962) |
| Receivables under forward and swap contracts | 204,815 | 728,041 | 252,700 | 226,302 | 1,568,868 | — | 2,980,726 |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS..... | (2,262) | (1,180,405) | (39,731) | (241,198) | 1,537,360 | — | 73,764 |
| TOTAL OPEN POSITION..... | 8,888,181 | 144,997 | 48,651 | (441,603) | 1,982,663 | | |

| | USD | | EUR | | CHF | | Gold bullion | Currency | 2001 RUR |
|--|-------------------|-------------------|-----------------|---------------|----------------|----------------|--------------------|-------------------|----------|
| | 1 USD = | 1 EUR = | 1 CHF = | 1 ounce = | | | undefined | thousand | |
| | RUR 30.14 | RUR 26.49 | RUR 17.86 | RUR | | | (incl. | Total | |
| | | | | | | Other | allowance | | |
| | | | | | | currency | for losses | | |
| | | | | | | | and | | |
| | | | | | | | impairment | | |
| ASSETS | | | | | | | | | |
| Cash and balances with Central and National banks..... | 5,907,001 | 246,387 | 376 | 6,478 | — | 51,874 | — | 6,212,116 | |
| Loans and advances to banks, less allowance for loan losses..... | 917,176 | 8,181,080 | 412,251 | 47,123 | — | 94,888 | (86,587) | 9,565,931 | |
| Trading assets..... | 2,538,501 | 1,595,189 | 1,274 | — | 657,617 | — | — | 4,792,581 | |
| Loans and advances to customers, less allowance for loan losses..... | 11,663,476 | 19,254,179 | 30,671 | — | — | — | (2,946,673) | 28,001,653 | |
| Investment securities, less allowance for impairment losses..... | 493,887 | 4,004,365 | 8 | — | — | — | (87,267) | 4,410,993 | |
| Fixed and intangible assets, less accumulated depreciation..... | 123,222 | — | — | 8,731 | — | — | — | 131,953 | |
| Other assets, less allowance for losses..... | 119,933 | 61,441 | 711 | 1,007 | 310,209 | 33 | (35,752) | 457,582 | |
| TOTAL ASSETS..... | 21,763,196 | 33,342,641 | 445,291 | 63,339 | 967,826 | 146,795 | (3,156,279) | 53,572,809 | |
| LIABILITIES | | | | | | | | | |
| Deposits from the Central Bank of the Russian Federation..... | — | 3,122,203 | — | — | — | — | — | 3,122,203 | |
| Deposits from banks..... | 1,888,176 | 546,921 | 96,897 | 6 | 20,068 | — | — | 2,552,068 | |
| Customer accounts..... | 12,889,764 | 17,879,608 | 410,839 | 6,980 | 921,271 | 557 | — | 32,109,019 | |
| Debt securities issued..... | 957,995 | 6,484,370 | — | — | — | — | — | 7,442,365 | |
| Provisions, income tax liabilities and other liabilities..... | 253,623 | 46,253 | 7,288 | 47,005 | — | — | 79,226 | 433,495 | |
| TOTAL LIABILITIES..... | 15,989,558 | 28,079,455 | 515,024 | 53,991 | 941,339 | 557 | 79,226 | 45,659,150 | |
| OPEN BALANCE SHEET POSITION..... | 5,773,638 | 5,263,186 | (69,733) | 9,348 | 26,487 | 146,238 | | | |

Derivative financial instruments

Fair value of the derivatives are included in the currency analysis presented above and the following table presents further analysis of currency risk to types of derivative contracts as of 31 December 2001:

| | USD | | EUR | | CHF | | Gold bullion | | Currency | | RUR |
|---|------------------|------------------|------------------|------------------|---------------|----------------|--------------|-----|------------|------------|-------------|
| | 1 USD = | | 1 EUR = | | 1 CHF = | | 1 ounce = | | undefined | | thousand |
| | RUR | RUR 30.14 | RUR 26.49 | RUR 17.86 | RUR | RUR | RUR | RUR | Other | allowance | Total |
| | | | | | | | | | currency | for losses | |
| | | | | | | | | | impairment | and | |
| Payable under forward and swap foreign exchange contracts..... | — | (1,731,082) | (349,681) | — | (14,013) | — | — | — | — | — | (2,094,776) |
| Receivable under forward and swap foreign exchange contracts..... | — | 314,639 | 304,003 | 1,438,368 | — | — | — | — | — | — | 2,057,010 |
| OFF-BALANCE SHEET COMMITMENTS, NET. | — | (1,416,443) | (45,678) | 1,438,368 | (14,013) | — | — | — | — | — | (37,766) |
| NET POSITION..... | 5,773,638 | 3,846,743 | (115,411) | 1,447,716 | 12,474 | 146,238 | | | | | |

Credit risk

Credit activities are conducted in accordance with the regulatory framework set by the Central Bank of the Russian Federation as well as internationally accepted criteria. Credit Policy is defined by the Bank's Management Board and the Credit Committee. Credit Risk is taken based on the principles of risk adequacy, adequacy of profitability and strategic rationale. Credit operations conducted by the Bank include term loans, credit lines, overdraft facilities, syndications, documentary operations and other operations involving credit risk. The credit procedure is structured in line with a strict segregation of duties, based on the approved Credit Manual of the Bank.

The Bank performs the following activities to manage credit risk:

- Rating of credits;
- Performance of uncovered documentary operations;
- Purchase of debt bonds for issuers of which no credit risk limits have been established;
- Participation of the Bank in funding the corporate clients investment projects;
- Rendering of other services, equivalent to credit operations, by the Bank, its affiliates and branches;
- Approval of credit risk limits for counterparties;
- Approval of limits and check amounts for credit operations of the branches;
- Approval of the quotas of the Bank's branches in the limits for financial institutions, approval of the criteria for classification of loans in the Bank's loan portfolio for the creation of relevant loan loss allowance, formulation of proposals for the Board regarding the identification and modification of risk groups for specific loans;
- Approval of terms of credit for individuals;
- Approval of standard credit facilities; and
- Approval of the procedures for evaluating various types of credit risk coverage.

The Credit Committee is a standing body of the Bank, authorized to take decisions on all issues relating to the credit operations of the Bank. Its task is to ensure formulation and implementation of the single credit policy of the Bank and its branches.

The Credit Committee consider issues regarding the assumption of credit risks for transactions for which the price does not exceed the relevant limit (there are separate limits for corporate clients,

financial institutions and individuals) established and revised on an annual basis by the Board and/or for which the period does not exceed 12 months.

The assumption of credit risks for transactions which price exceeds the relevant limit established by the Board and/or for which the period exceeds 12 months is considered by the Board.

Geographical concentration

Market risk is assessed by the Bank using value at risk (VAR) methodology. VAR is calculated based on internationally accepted approach. The Bank performs back testing of the adequacy of the methodology at least every 3 months with reference to current market terms to ensure that deviations for all statistics parameters included in the calculation are within expected values. Based on statistics for preceding six months and maturities of debt securities, the Bank produces a model securities portfolio, calculates a proportion of different types of securities in the portfolio and the overall risk of the portfolio which is viewed as a standard portfolio proportion in current terms. A stop-loss instrument is also used to prevent unexpected significant losses resulted from fluctuations in the securities portfolio. The stop-loss limits are set for accumulated losses for a day and for a month as a percentage of investments. The month stop-loss limit is set at 3/2 of a daily limit. No operations are allowed after the loss reaches the stop-limit. Daily limit utilization is determined from realized and unrealized loss mark-to-market adjustment. Market prices used are based on quotations in REUTERS and by brokers of Tradition, ADIX, Eurobroker, Garban.

The geographical concentration of assets and liabilities is set out below:

| | <i>Russia</i> | <i>Other CIS countries</i> | <i>OECD countries</i> | <i>Other non-OECD countries</i> | <i>Undefined (incl. allowance for losses and impairment)</i> | <i>2003 RUR thousand Total</i> |
|---|-------------------|----------------------------|-----------------------|---------------------------------|--|--------------------------------|
| ASSETS | | | | | | |
| Cash and balances with Central and National banks | 18,030,836 | 119,175 | 5,710 | — | — | 18,155,721 |
| Loans and advances to banks, less allowance for loan losses | 2,734,840 | 175,501 | 6,549,290 | 19 | (31,156) | 9,428,494 |
| Trading assets | 8,184,178 | — | 81,527 | — | — | 8,265,705 |
| Loans and advances to customers, less allowance for loan losses | 48,437,940 | 1,204,962 | 1,885,529 | 3,238,290 | (2,422,410) | 52,344,311 |
| Investment securities, less allowance for impairment | 2,996,206 | 1,281 | 431 | — | (94,594) | 2,903,324 |
| Fixed and intangible assets, less accumulated depreciation | 117,002 | 6,328 | 6,200 | — | — | 129,530 |
| Other assets, less allowance for losses | 451,477 | 8,526 | 3,804 | — | (18,841) | 444,966 |
| TOTAL ASSETS | 80,925,479 | 1,515,773 | 8,532,491 | 3,238,309 | (2,567,001) | 91,672,051 |
| LIABILITIES | | | | | | |
| Deposits from banks | 3,891,864 | 2,428,760 | 503,402 | 736,363 | — | 7,560,389 |
| Customer accounts | 45,239,896 | 67,100 | 3,565,537 | 9,932,525 | — | 58,805,058 |
| Debt securities issued | 15,828,489 | — | — | — | — | 15,828,489 |
| Provisions | 207,609 | — | — | — | 139,786 | 347,395 |
| Income tax liabilities | 214,320 | — | — | — | — | 214,320 |
| Other liabilities | 467,438 | 5,767 | 14,460 | — | — | 487,665 |
| TOTAL LIABILITIES | 65,849,616 | 2,501,627 | 4,083,399 | 10,668,888 | 139,786 | 83,243,316 |
| NET BALANCE SHEET POSITION | 15,102,863 | (985,844) | 4,449,092 | (7,430,579) | | |

Geographical concentration of derivative financial instruments

| | <i>Russia</i> | <i>Other CIS countries</i> | <i>OECD countries</i> | <i>non-OECD countries</i> | <i>Undefined (incl. allowance for losses and impairment)</i> | <i>2003 RUR thousand Total</i> |
|--|-------------------|----------------------------|-----------------------|---------------------------|--|--------------------------------|
| Payable under forward and swap contracts. | (1,493,640) | — | (1,803,916) | (396,340) | — | (3,693,896) |
| Receivables under forward and swap contracts..... | 1,498,177 | — | 1,882,299 | 396,548 | — | 3,777,024 |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS..... | 4,537 | — | 78,383 | 208 | — | 83,128 |
| TOTAL OPEN POSITION..... | 15,107,400 | (985,854) | 4,527,475 | (7,430,371) | | |

| | <i>Russia</i> | <i>Other CIS countries</i> | <i>OECD countries</i> | <i>Undefined (incl. allowance for losses and impairment)</i> | <i>2002 RUR thousand Total</i> |
|--|-------------------|----------------------------|-----------------------|--|--------------------------------|
| ASSETS | | | | | |
| Cash and balances with Central and National banks | 6,058,576 | — | 5,616 | — | 6,064,192 |
| Loans and advances to banks, less allowance for loan losses | 3,496,589 | 231 | 5,181,554 | (89,270) | 8,589,104 |
| Trading assets..... | 7,047,709 | 1,392 | 888 | — | 7,049,989 |
| Loans and advances to customers, less allowance for loan losses..... | 34,795,261 | — | 1,119,686 | (2,180,775) | 33,734,172 |
| Investment securities, less allowance for impairment losses | 987,594 | — | — | (90,166) | 897,428 |
| Fixed and intangible assets, less accumulated depreciation. | 124,347 | — | 9,024 | — | 133,371 |
| Other assets, less allowance for losses | 314,251 | — | 77,828 | (18,372) | 373,707 |
| TOTAL ASSETS..... | 52,824,327 | 1,623 | 6,394,596 | (2,378,583) | 56,841,963 |
| LIABILITIES | | | | | |
| Deposits from banks | 3,510,016 | 1,088,342 | 139,102 | — | 4,737,460 |
| Customer accounts..... | 33,358,430 | — | 317,880 | — | 33,676,310 |
| Debt securities issued..... | 9,998,776 | — | — | — | 9,998,776 |
| Provisions..... | — | — | — | 218,255 | 218,255 |
| Income tax liabilities | 2,790 | — | — | — | 2,790 |
| Other liabilities..... | 245,282 | — | 10,803 | — | 256,083 |
| TOTAL LIABILITIES..... | 47,115,294 | 1,088,342 | 467,785 | 218,255 | 48,889,676 |
| NET BALANCE SHEET POSITION..... | 5,709,033 | (1,086,719) | 5,926,811 | | |

Geographical concentration of derivative financial instruments

| | <i>Russia</i> | <i>Other CIS countries</i> | <i>OECD countries</i> | <i>Undefined</i> | <i>2002 RUR thousand Total</i> |
|--|------------------|----------------------------|-----------------------|------------------|--------------------------------|
| ASSETS | | | | | |
| Payable under forward and swap contracts..... | (1,414,190) | — | (1,492,772) | — | (2,906,962) |
| Receivables under forward and swap contracts..... | 1,410,280 | — | 1,570,446 | — | 2,980,726 |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS..... | (3,910) | — | 77,674 | — | 73,764 |
| TOTAL OPEN POSITION..... | 5,705,123 | (1,086,719) | 6,004,485 | | |

| | <i>OECD countries</i> | <i>Non-OECD countries</i> | <i>Undefined (incl. allowance for losses)</i> | <i>2001 RUR thousand Total</i> |
|---|---------------------------|-------------------------------|---|--|
| ASSETS | | | | |
| Cash and balances with Central and National banks | 6,316 | 6,205,800 | — | 6,212,116 |
| Loans and advances to banks, less allowance for loan losses..... | 6,802,763 | 2,849,755 | (86,587) | 9,565,931 |
| Trading assets | 3,940 | 4,788,641 | — | 4,792,581 |
| Loans and advances to customers, less allowance for loan losses | 2,480,023 | 28,468,303 | (2,946,673) | 28,001,653 |
| Investment securities, less allowance for impairment losses..... | 8 | 4,498,252 | (87,267) | 4,410,993 |
| Fixed and intangible assets, less accumulated depreciation | 8,731 | 123,222 | — | 131,953 |
| Other assets, less allowance for losses | 6,207 | 487,127 | (35,752) | 457,582 |
| TOTAL ASSETS | 9,307,988 | 47,421,100 | (3,156,279) | 53,572,809 |
| LIABILITIES | | | | |
| Deposits from the Central Bank of the Russian Federation | — | 3,122,203 | — | 3,122,203 |
| Deposits from banks..... | 104,062 | 2,448,006 | — | 2,552,068 |
| Customer accounts | 95,802 | 32,013,217 | — | 32,109,019 |
| Debt securities issued..... | — | 7,442,365 | — | 7,442,365 |
| Provisions, income tax liabilities and other liabilities | 46,712 | 307,557 | 79,226 | 433,495 |
| TOTAL LIABILITIES | 246,576 | 45,333,348 | 79,226 | 45,659,150 |
| NET BALANCE SHEET POSITION | 9,061,412 | 2,087,752 | | |

Geographical concentration of derivative financial instruments

| | <i>OECD countries</i> | <i>Non-OECD countries</i> | <i>Undefined (incl. allowance for losses)</i> | <i>2001 RUR thousand Total</i> |
|---|---------------------------|-------------------------------|---|--|
| Payable under forward and swap contracts | (1,476,951) | (617,825) | — | (2,094,776) |
| Receivable under forward and swap contracts..... | 1,438,368 | 618,642 | — | 2,057,010 |
| NET POSITION ON DERIVATIVE FINANCIAL INSTRUMENTS | (38,583) | 817 | — | (37,766) |
| TOTAL OPEN POSITION | 9,022,829 | 2,088,569 | | |

INDEX OF DEFINED TERMS

| | |
|---|--------------|
| \$..... | 5, 77 |
| €..... | 5, 77 |
| 2004 Advance | 1, 72 |
| 2004 Collateral Sub-account | 13, 72 |
| 2004 Debt Service Reserve Account..... | 72 |
| 2004 Debt Service Reserve LC..... | 13, 72 |
| 2004 Drawdown Date | 47 |
| 2004 Interest Rate | 9, 61, 72 |
| 2004 MCM Consent and Agreement | 72 |
| 2004 MCM Notice and Consent | 72 |
| 2004 MCM Notice of Assignment | 72 |
| 2004 Redemption Amount | 11, 63 |
| 2004 Repayment Date | 32, 47 |
| 2004 Required Reserve Amount | 73 |
| 2004 VISA Consent and Agreement | 73 |
| 2004 VISA Notice and Consent..... | 73 |
| 2004 VISA Notice of Assignment | 73 |
| 2005 Advance | 1, 72 |
| Account Bank..... | 50 |
| Additional Amounts..... | 11, 73 |
| Administrative Expenses | 73 |
| Administrator | 74 |
| Affiliate..... | 47 |
| Agency Agreement | 50 |
| Alternative Clearing System | 87 |
| Amicable settlement agreement..... | 172 |
| AMEX..... | 92 |
| Amortisation Amount | 74 |
| Applicable Cash Sharing Percentage..... | 74 |
| Applicable Law..... | 47 |
| Assumed Interest Rate | 74 |
| Authorised Officer | 74 |
| Available Funds | 75 |
| Bank Card Regulation | 104 |
| Bank Insolvency Law | 158, 173 |
| Banking Law | 25, 159, 173 |
| Bankruptcy Event..... | 48 |
| Bankruptcy Law | 173 |
| Borrower..... | 8, 33, 50 |
| Business Day | 75 |
| Calculation Agent..... | 8, 50 |
| Calculation Date | 75 |
| Calculation Period..... | 75 |
| Card Programmes..... | 75 |
| CBR..... | 2 |
| Central Bank | 75 |
| Central Bank Law | 161 |
| Cirrus..... | 120 |
| CJSC Interros Estate..... | 48 |
| Class | 75 |
| Class 2004 Noteholders | 75 |
| Class 2004 Rate..... | 1 |
| Clearing System..... | 75 |

| | |
|--|------------|
| Clearstream, Luxembourg | 1, 75 |
| Closing Date | 75 |
| Collateral Account | 75 |
| Collateral Sub-accounts | 75 |
| Collateral Sub-account Priority of Payment | 60 |
| Collection Period | 75 |
| Collections | 75 |
| Combined Base Amount | 76 |
| CONSOB | 184 |
| Controlling Class | 76 |
| Corporate Administrator | 8 |
| Custodian | 8 |
| Debt Service Coverage Base Ratio | 76 |
| Debt Service Coverage Ratio | 76 |
| Debt Service Coverage Test | 76 |
| Debt Service Reserve LC | 13, 76 |
| Deposits Insurance Law | 25 |
| Dollar | 5, 77 |
| Early Amortisation Amount | 77 |
| Early Amortisation Event | 41, 77 |
| Early Amortisation Payment Date | 77 |
| Early Amortisation Period | 77 |
| Eligible Investments | 77 |
| Eligible Shareholders | 45 |
| Enhanced Terms | 72, 77 |
| EU | 182 |
| EUR | 77 |
| euro | 5, 77 |
| Eurocard | 120 |
| Euroclear | 1, 77 |
| Euro Collateral Account | 77 |
| Euro Collections | 13, 59 |
| Europay | 120 |
| Event of Default | 77 |
| Expected Maturity Date | 1, 77 |
| Expense Amount | 77 |
| Extraordinary Resolution | 77 |
| FATF | 158 |
| Final Maturity Date | 1, 77 |
| Fitch | 1, 77 |
| FSFM | 161 |
| FSMA | 184 |
| Further Advances | 13, 77 |
| Further Class 2004 Notes | 1, 50 |
| Further Notes | 50 |
| GDP | 159 |
| Global Note Certificate | 1, 51 |
| Global Stop List | 104 |
| Governmental Authority | 77 |
| Group | 2 |
| Holder | 77 |
| HSBC Account | 77 |
| ICA | 120 |
| IFRS | 5, 78, 197 |
| IFRS Financial Statements | 5 |
| Illegality Event | 78 |

| | |
|---|------------|
| Incidental Charges..... | 78, 85 |
| Incipient Early Amortisation Event..... | 78 |
| Indebtedness..... | 78 |
| Indemnified Party..... | 37 |
| Individual Note Certificates..... | 1, 51, 87 |
| Inkahran..... | 131 |
| Inpass..... | 92 |
| Interest Amount..... | 61, 78 |
| interested party..... | 24 |
| Interest Period..... | 9, 78 |
| Interest Rate..... | 78 |
| international transactions..... | 91 |
| Investment Company Act..... | 78 |
| Issuance Date..... | 48 |
| Issuer..... | 1, 50 |
| Issuing Bank..... | 48 |
| Issuer Management Account..... | 78 |
| Issuer Secured Obligations..... | 78 |
| Issuer Security Agreement..... | 78 |
| KM Invest..... | 7, 8, 78 |
| LCIA..... | 4, 168 |
| Licence Agreements..... | 78 |
| Lien..... | 48 |
| Loan Agreement..... | 13, 33, 50 |
| Loan Collateral..... | 48 |
| Loan Event of Default..... | 38, 78 |
| Luxembourg Paying Agent..... | 8, 50 |
| M&A..... | 130 |
| Maestro..... | 14, 78 |
| Maestro Agreement..... | 78 |
| Maestro Card Operating Regulations..... | 79 |
| Maestro Card Programme..... | 79 |
| Maestro Regional Licensor..... | 79 |
| Make-whole Premium..... | 11, 79 |
| Management Agreement..... | 79 |
| Managers..... | 2, 183 |
| Master Definitions Schedule..... | 79 |
| MasterCard..... | 14, 79 |
| MasterCard Agreement..... | 79, 95 |
| MasterCard Board of Directors..... | 121 |
| MasterCard Certificate of Incorporation..... | 121 |
| MasterCard By-Laws..... | 79, 121 |
| MasterCard Credit Card Programme..... | 79 |
| MasterCard Debit Switch Operation Manual..... | 80 |
| MasterCard Europe..... | 80 |
| MasterCard Incidental Charges..... | 80 |
| MasterCard Operating Regulations..... | 80, 96 |
| MasterCard Rules..... | 80, 121 |
| MasterCard Settlement System..... | 80 |
| Material Adverse Effect..... | 80 |
| MCM Notices and Consents..... | 80 |
| Merchant Stop List..... | 104 |
| Money Laundering Law..... | 159 |
| Monthly Compliance Report..... | 48, 80 |
| Moody's..... | 1, 80 |
| New Reserves Regulation..... | 166 |

| | |
|---------------------------------------|--------|
| non-resident holder..... | 180 |
| Note Collateral..... | 80 |
| Note Event of Default..... | 66, 80 |
| Noteholders | 77 |
| Notes | 50, 80 |
| New Currency Control Law..... | 161 |
| new settlement bank..... | 45 |
| Notice Parties | 48 |
| Obligor Notices and Consents..... | 14, 80 |
| Offering Circular | 2, 80 |
| Offering..... | 2 |
| Officers' Certificate | 48, 81 |
| Old Reserves Regulation | 166 |
| Optional Redemption..... | 81 |
| Optional Redemption Date..... | 81 |
| Original Class 2004 Notes | 1, 50 |
| Outstanding | 81 |
| Outstanding Principal Amount | 81 |
| Paper..... | 81 |
| paper draft..... | 81 |
| Parent Default | 48 |
| Pari Passu Notes | 71, 82 |
| Payment Date..... | 78, 82 |
| Permanent Establishment | 181 |
| Person | 82 |
| Pledged Shares..... | 46 |
| Potential Note Event of Default | 82 |
| Presentation Date | 82 |
| Principal Paying Agent..... | 8, 50 |
| Priority of Payments..... | 48, 58 |
| Qualified Bank..... | 82 |
| Quarterly Calculation Date..... | 82 |
| Quarterly Required Amount | 59, 83 |
| RAR | 24 |
| Rating Agencies..... | 83 |
| Rating Agency | 1, 83 |
| Rating Agency Confirmation | 83 |
| RBL/rouble..... | 5 |
| Receivables | 83 |
| Receivables Files..... | 49 |
| Receivables Obligor..... | 83 |
| Redemption Amount..... | 83 |
| Registrar | 8, 50 |
| Regulation S | 1 |
| Relationship Agreement | 95 |
| Related Advance | 83 |
| Relevant Jurisdiction | 83 |
| Replacement Agreement..... | 83 |
| Replacement Rating Agency | 83 |
| Required Reserve Amount | 83 |
| Reserve Fund..... | 83 |
| Reserve Fund Amount..... | 84 |
| Resident Holders | 181 |
| Responsible Officer..... | 84 |
| Rosbank Security Agreement..... | 42 |
| Russia | 84 |

| | |
|---|------------|
| S&P..... | 28 |
| Scheduled Amortisation Amount..... | 84 |
| Scheduled Amortisation Period..... | 84 |
| Scheduled Payment Date..... | 84 |
| Secured Creditors | 84 |
| Securities Act..... | 84 |
| Security Documents..... | 84 |
| Servicer | 8, 51 |
| Servicer Annual Fee | 84 |
| Servicer Default..... | 44, 84 |
| Servicing Agreement..... | 51, 84 |
| Specified Office | 50 |
| Stabilising Manager..... | 3 |
| Subscription Agreement | 183 |
| Successor Company..... | 34 |
| SWIFT..... | 124 |
| Taxes..... | 49 |
| Tax Event | 84 |
| Termination Amount..... | 84 |
| Transaction Documents | 84 |
| Transfer Agent | 8, 50 |
| Travellers Cheque Issuers..... | 116 |
| Trust Deed..... | 1, 50 |
| Trustee | 1, 8, 50 |
| UCS Parent Undertaking..... | 14, 51 |
| UCS Parent Pledge..... | 15, 46, 51 |
| UCS Parent | 8, 45 |
| UCS..... | 2, 8, 51 |
| US dollar | 5, 77 |
| US\$..... | 5, 77 |
| USD Collateral Account | 84 |
| VAT..... | 19 |
| VISA..... | 14, 85 |
| VISA Agreement | 85 |
| VISA Base II Regulations..... | 85 |
| VISA By-Laws..... | 85, 117 |
| VISA Card Programme..... | 85 |
| VISA Certificate of Incorporation | 117 |
| VISA Incidental Charges..... | 85 |
| VISA Membership Agreement | 96 |
| VISA Notices and Consents..... | 85 |
| VISA Operating Regulations..... | 85, 117 |
| VISA Regulations..... | 96 |
| VISA Settlement System | 85 |

REGISTERED OFFICE OF THE ISSUER

Russia International Card Finance S.A.
33 Boulevard du Prince Henri
L-1724 Luxembourg

REGISTERED OFFICE OF ROSBANK

11, Masha Poryvaeva Street
P.O. Box 200, Moscow 107078
Russian Federation

LEAD MANAGERS

Credit Suisse First Boston (Europe) Limited

One Cabot Square
London E14 4QJ
United Kingdom

Merrill Lynch International

Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ
United Kingdom

LEGAL ADVISERS

To ROSBANK as to English law:

Freshfields Bruckhaus Deringer

Seilergasse 16
1010 Vienna
Austria

To ROSBANK as to English and Russian law:

Freshfields Bruckhaus Deringer

Kadashevskaya nab. 14/2
Moscow 119017
Russian Federation

To ROSBANK as to New York law:

Freshfields Bruckhaus Deringer LLP

520 Madison Avenue, 34th Floor
New York, New York 10022
United States of America

To the Managers as to English law:

White & Case

5 Old Broad Street
London EC2N 1DW
United Kingdom

To the Managers as to Russian law:

White & Case LLC

4 Romanov Pereulok
Moscow 125009
Russian Federation

To the Managers as to New York law:

White & Case LLP

1155 Avenue of the Americas
New York, New York 10036
United States of America

To the Trustee as to English law:

Lovells

Atlantic House
Holborn Viaduct
London EC1A 2FG
United Kingdom

TRUSTEE
The Bank of New York
One Canada Square
London E14 5AL
United Kingdom

LUXEMBOURG PAYING AND TRANSFER AGENT
The Bank of New York (Luxembourg) S.A.
Aerogolf Center
1A Hogenhof
L-1736 Senningerberg
Luxembourg

PRINCIPAL PAYING AGENT
The Bank of New York
One Canada Square
London E14 5AL
United Kingdom

LUXEMBOURG LISTING AGENT
The Bank of New York Europe Limited
One Canada Square
London E14 5AL
United Kingdom

REGISTRAR AND TRANSFER AGENT
The Bank of New York
101 Barclay Street
New York, New York 10286
United States of America

AUDITORS OF ROSBANK
ZAO Deloitte & Touche
4/7-2 Vozdvizhenka St.
Moscow 125009
Russian Federation